

25 February 2021

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

***The Construction & Regeneration Group***

*This announcement contains information that qualified, or may have qualified, as inside information for the purposes of Article 17 of the Market Abuse Regulations (EU) 596/2014 (MAR). The person responsible for making this announcement is Steve Crummett, Finance Director.*

**RESULTS FOR THE FULL YEAR (FY) ENDED 31 DECEMBER 2020**

	<b>FY 2020</b>	<b>FY 2019</b>	<b>Change</b>
Revenue	£3,034m	£3,071m	-1%
Operating profit – adjusted <sup>1</sup>	£68.5m	£93.1m	-26%
Profit before tax – adjusted <sup>1</sup>	£63.9m	£90.4m	-29%
Earnings per share – adjusted <sup>1</sup>	108.6p	161.2p	-33%
Year end net cash <sup>2</sup>	£333m	£193m	+\$140m
Total dividend per share	61.0p	21.0p	+190%
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Operating profit - reported	£65.4m	£91.3m	-28%
Profit before tax – reported	£60.8m	£88.6m	-31%
Basic earnings per share – reported	99.8p	157.9p	-37%

<sup>1</sup> 'Adjusted' is defined as before intangible amortisation of £3.1m and (in the case of earnings per share) deferred tax charge of £1.5m (FY 2019: before intangible amortisation of £1.8m)

<sup>2</sup> Note 10

**FY 2020 summary:**

- Results demonstrate resilience of the Group against backdrop of COVID-19 pandemic
  - Revenue of £3.0bn, down 1%
  - Adjusted profit before tax down 29% to £63.9m
- Very strong cash performance. Balance sheet further strengthened
  - Net cash of £333m (FY 2019: £193m)
  - Average daily net cash increased significantly to £181m (FY 2019: £109m)
- No continuing support from Government schemes; all furlough amounts repaid and previously deferred taxes fully up to date
- Well set for strong growth in 2021
  - High quality and growing order book, with secured workload up 9% to £8.3bn

- Well positioned to benefit from attractive UK investment trends given key market positions in UK national and social infrastructure together with affordable housing and regeneration
- Positive momentum across the Group with result expected to be materially ahead of previous expectations and slightly ahead of that delivered in 2019
- Reinstating medium-term targets
- Final dividend of 40p per share resulting in total dividend for the year of 61p per share (FY 2019: 21.0p) following reinstatement of dividend in November
- Divisional highlights
  - Strong performance in *Construction & Infrastructure* driven by Infrastructure; operating profit up 11% to £35.7m (FY 2019: £32.3m), with operating margin maintained at 2.2%
  - Resilient performance in *Fit Out* with result reflecting the high quality of its business; improved operating margin to 4.6% (FY 2019: 4.4%) and operating profit of £32.1m (FY 2019: £36.9m)
  - *Property Services'* volumes return to more normalised levels in the second half; full year operating profit of £1.0m (FY 2019: £4.3m)
  - Continued strategic and operational progress made in *Partnership Housing* positioning it for future growth; margin improved slightly to 3.7% (FY 2019: 3.6%), with operating profit of £16.1m (FY 2019: £18.3m)
  - Steady progress across *Urban Regeneration's* long-term regeneration schemes, although operating profit lower at £9.2m (FY 2019: £19.4m)

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

“Whilst the year has been dominated by the COVID-19 pandemic, these results reflect the resilience across the Group and the benefits of actions taken in recent years to maintain contract selectivity, further improve payments to our supply chain and maintain a strong cash position at all times.

Throughout the year, the business has had to adapt quickly and decisively to the continually changing external environment. I would like to sincerely thank all our employees for their commitment and dedication throughout. I am extremely proud of the way our people have stepped up in these adverse circumstances.

Despite the differing challenges each division faced, the Group has continued to make strategic and operational progress. Again, we have an improved cash position and have further strengthened our balance sheet, allowing us to make the right decisions and actions for the long-term benefit of the business. Our strategy remains the same, based on organic growth and operational improvement in markets geared towards future demand for affordable housing, urban regeneration and infrastructure and construction investment. We welcome the Government's continued support for our activities and the recognition of the industry as a key driver for economic stability and recovery.

The size and quality of our growing secured workload at well over £8bn leaves us well-positioned for the future and we are on track to deliver a result which is materially ahead of our previous expectations and slightly ahead of that delivered in 2019.”

<b>Enquiries</b>
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**Morgan Sindall Group**

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**Tel: 020 7457 2020****Presentation**

- There will be an analyst and investor presentation followed by a Q&A, held virtually on Thursday 25th February at 09:00
- A copy of these results is available at: [www.morgansindall.com](http://www.morgansindall.com)
- The presentation will be available via playback on our website in the afternoon.

**Note to Editors****Morgan Sindall Group**

Morgan Sindall Group plc is a leading UK Construction & Regeneration group with annual revenue of £3.0bn, employing around 6,600 employees and operating in the public, regulated and private sectors. It reports through six divisions of Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments.

## Group Strategy

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

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. The Group also has an operation in Property Services which is focused on response and planned maintenance activities provided to the social housing and the wider public sector.

## Group Structure

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

**Construction** activities comprise the following operations:

- **Construction & Infrastructure:** Focused on the education, healthcare, commercial, defence, industrial, leisure and retail markets in Construction; and on the highways, rail, aviation, energy, water and nuclear markets in Infrastructure. Also includes the Baker Hicks design activities based out of the UK and Switzerland
- **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

The results for the full year ended 31 December 2020 also include **Investments** as a separate reporting segment.

As from 1 January 2021, the activities of the **Investments** division were reorganised with it no longer operating as a separate division from that date. The operational management of the joint venture property partnerships and Later Living business formerly reported within Investments were transferred to Partnership Housing and Urban Regeneration.

The results for future periods commencing 1 January 2021 will reflect this divisional reorganisation in the segmental reporting (see Section 8 of Other Financial Information).

## Environment & Social Summary

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 have been in place since 2008 and 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.

The Group is a leader in its sector in addressing climate change and has been independently recognised as such. In 2020, the Group was awarded an A score for the first time for its leadership on climate change from CDP, the international non-profit organisation focused on driving environmental disclosure to manage environmental impacts. The Group is one of just 270 companies globally to receive the grade and this is the fifth year its leadership in this area has been acknowledged by CDP. In 2021, CDP also named it a Supplier Engagement Leader for its work to drive action on climate change along its supply chain.

The Group has set science-based targets for reducing carbon emissions and is one of the first construction companies globally to have its science-based emission targets officially accredited. These targets are based on the 2015 International Treaty on Climate Change, known as the Paris Agreement, which seeks to limit global warming to well below 2 degrees Celsius, preferably 1.5 degrees Celsius, compared to pre-industrial levels. The targets are currently being revised to re-align to the lower range of the agreement, and the specific accepted norm of no more than 1.5 degrees Celsius.

The Group is committed to minimising its impact on the environment, both now and in the longer term and has a goal of achieving 'net zero' by 2030. 'Net Zero' in this context is defined as the sum of the Group's Scope 1<sup>1</sup>, Scope 2<sup>2</sup> and operational Scope 3<sup>3</sup> emissions (as measured by The Carbon Reduce Scheme (formerly CEMARS<sup>4</sup>)), less the impact of specific, identified and measurable carbon removal actions (approved offsetting measures) in the UK.

Other highlights and performance measures from the year in this area include:

- 22% reduction in Scope 1<sup>1</sup> and 2<sup>2</sup> carbon emissions compared to 2016 baseline emissions
- Carbon intensity reduced to 7.5 (from 8.9 in 2019)
- Introduction of internal carbon levy from 2021 onwards
- 65% of electricity purchased from renewable sources
- 96% of waste diverted from landfill

The Group's activities affect its employees, supply chain and the communities where it works. It is critical to the Group's success that its employees, suppliers and subcontractors all have the tools they need to deliver for its clients and partners; this includes a safe working environment, the right skills and an in-depth understanding of the Group's values. The Group was a founder member of, and continues to support, the Supply Chain Sustainability School (SCSS) which provides free training in topics such as waste management, energy management, biodiversity, modern slavery, fairness, inclusion and respect, mental health and wellbeing and community liaison.

The scale of its major construction and regeneration schemes means the Group can remain working within some communities for many years, enabling it to contribute to these communities by offering employment opportunities and procuring where possible from local suppliers.

Some highlights and performance measures in this area include:

- 540 people sponsored to complete national vocational qualifications and professional qualifications
- 28% reduction in lost time incidents<sup>5</sup> against 2018 baseline of 156
- Employee voluntary turnover rate of 7.8%
- 98% of invoices paid within 60 days in Construction & Infrastructure for the second half of the year

The Group considers diversity in its broadest sense, including age, gender, ethnicity, culture, socio-economic background, disability and sexuality. It values and encourages diversity of thought, perspective and experience and recognises that the new ideas and innovations that a diverse and inclusive team of people brings are critical to its future.

While some progress has been made and the representation of people from a BAME background has increased from 13.6% to 15%, female representation has remained at 24%. The Group's 2020 median gender pay gap is 29.10%<sup>6</sup> (2019: 31.2%). This remains high and reflects a higher number of senior male employees in the Group. Women make up 10% (2019: 9%) of the upper pay quartile compared to 40% (2019: 37%) in the lower quartile.

See the responsibility section of the 2020 annual report which will be published on 25 March 2020 for further information.

<sup>1</sup> Direct emissions from owned or controlled sources

<sup>2</sup> Indirect emissions generated from purchased energy

<sup>3</sup> All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by The Carbon Reduce Scheme (formerly) CEMARS

Note: Vehicle carbon emissions are included in the calculation of Scope 1 emissions but are reported separately as they are a significant source of the Group's emissions.

<sup>4</sup> The Carbon Reduce Scheme (formerly the Carbon & Energy Management And Reduction Scheme (CEMARS))

<sup>5</sup> Incidents resulting in absence from work for a minimum of one working day, excluding the day the incident occurred.

<sup>6</sup> This figure has been calculated using the methodology set out in the Gender Pay Gap Regulations, however it is based on our November payroll data rather than our April payroll data, which is the payroll period we are required to report on under the Regulations. Based on the Group's payroll data as at April 2020, the 2020 median gender pay was 33.56%, however the April data was impacted by the number of people across the Group who had agreed to reduce their salaries for three months to 30 June 2020 and the number of people on furlough. The November payroll data was not distorted by Covid-related measures and therefore paints a more accurate picture.

## 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 Financial 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 as more useful in assessing the performance of the business on a comparable basis and are used by management to monitor the performance of the Group.

In all cases the term 'adjusted' excludes the impact of intangible amortisation of £3.1m (FY 2019: £1.8m) and (in the case of earnings per share) a deferred tax charge of £1.5m (FY 2019: nil).

## Group Operating Review

### Overview

The year has seen unprecedented challenges arising from the COVID-19 pandemic ('C-19') and the health and wellbeing of its people, partners and the public has remained the Group's overriding priority throughout. At all times, activity across the Group only continued where it was safe to do so, with strict adherence to Government advice and that of the devolved administrations and public health authorities across the UK.

The Group had a strong start to the year, building on the significant positive momentum carried through from 2019, with first quarter revenue up 17% on the prior year. However, with the onset of C-19 and the subsequent lockdown restrictions imposed across the UK in late March, trading across all divisions was significantly impacted. Revenue in the second quarter of the year was down 23% on the prior year as a result.

With the gradual lifting of the initial lockdown restrictions in the first half and then through the subsequent tier system and further national lockdown restrictions in the second half, there was no further material impact on the Group's operations. Revenue in the second half of the year recovered well and was 1% up on the prior year, resulting in revenue for the year of £3,034m, a reduction of 1% (FY 2019: £3,071m).

The impact of additional costs incurred from site closures, lower productivity on sites, and from implementing new safety processes and procedures, impacted profitability in the year. In addition, construction delays on many of the development schemes in the regeneration activities, further reduced profit in the year.

As a result, the adjusted operating profit for the year was down 26% to £68.5m (FY 2019: £93.1m), with adjusted operating profit down 52% in the first half and down only 9% in the second half. The full year adjusted operating margin was 2.3%, down from 3.0% in the prior year. The operating margin improved in the second half of the year, up from 1.3% in the first half (H1 2019: 2.6%) to 3.0% in the second half (H2 2019: 3.4%), approaching margin levels achieved pre-C-19.

Consequently, the adjusted profit before tax was £63.9m, down 29% (FY 2019: £90.4m). The statutory profit before tax was £60.8m (FY 2019: £88.6m).

The tax charge for the year was £15.4m (FY 2019: £17.4m), an effective tax rate of 25.3% on profit before tax. This was higher than the UK statutory rate due to the non-deductible repayment of furlough receipts (see below) and the effect on the deferred tax balances of the Government decision in the year to cancel the previously planned future reduction in UK corporation tax rates.

The adjusted earnings per share of 108.6p was 33% lower than the prior year (FY 2019: 161.2p) and the statutory basic earnings per share was 99.8p, 37% lower than the prior year (FY 2019: 157.9p).

The Group's relationships with its supply chain partners are of strategic importance and its actions and behaviours towards them during these challenging times are viewed as key to the Group's future success. Consequently, the prompt payment of its suppliers has remained a major area of focus throughout the year and even more so against the current backdrop of C-19.

For the formal Payment Practices Reporting period of 1 July 2020 to 31 December 2020, Construction & Infrastructure, the largest operating division by revenue, maintained its average time taken to pay invoices at 27 days and this reflected a reduction of 5 days compared to the corresponding period in the prior year. 98% of its invoices were paid within 60 days. Fit Out reported its average time taken to pay invoices at 21 days, with 97% of invoices paid within 60 days, while Partnership Housing reported 35 days as its average time to pay and 95% of its invoices paid within 60 days. Property Services reported an average of 36 days to pay invoices, a deterioration from previous reporting periods, however this was impacted by process changes as a result of C-19 and is expected to reverse in due course as conditions normalise.

The future success of the Group is also determined by the quality of the secured workload and the discipline across the Group to maintain contract selectivity irrespective of economic conditions. Looking ahead, preserving the appropriate risk balance within the order book is critical to future success. Despite certain delays to decision-making in progressing projects across some clients, both public and private sector, the Group had a successful period of winning new work, with the total secured workload at the year end of £8,290m, up 9% from the previous year.

### **Specific actions in response to C-19**

Operationally, the Group's decentralised approach allowed significant flexibility of response and enabled each division to adopt its own specific approach to suit their employees, clients and supply chain partners' requirements in the changing circumstances throughout the year.

In the first half of the year, the Group placed a number of its employees on furlough and accessed the Government's Coronavirus Job Retention Scheme ('CJRS') which facilitated the safeguarding of many jobs during the period of maximum impact of C-19. At the peak, c1,900 employees were furloughed across the Group. As the Group's financial position remained robust and resilient throughout the year, the total amount of cash received under the scheme of £9.5m was repaid in the second half of the year. The repayment was structured such that £7.7m was repaid directly and was charged through Central costs, with the remaining £1.8m paid as additional corporation tax as the repayment through Central costs was not tax deductible.

Other measures taken in the second quarter to improve cash flow included the agreement of permissions to defer VAT, PAYE and other tax payments (see Balance sheet & Cash section below) and the cancellation of the 2019 final dividend. In addition, the Chair, Non-Executive Directors, Executive Directors and Senior Management Team all volunteered salary reductions of 20% for the 3 months to 30 June.

### **Balance sheet & Cash**

The Group maintained a strong financial position throughout the year.

Net cash at the year end increased significantly to £333m, an increase of £140m on the prior year end. Of this total, £58m was held in jointly controlled operations or held for future payment to designated suppliers (JVs/PBAs).

The average daily net cash for the period was £181m (including £61m in JVs/PBAs), up from £109m in the prior year period. For the second half of the year, the average daily net cash was £208m (including £61m in JVs/PBAs).

During the period, the Group took advantage of permissions to defer VAT, PAYE and other tax payments which together increased the average daily net cash position in the year by c£20m.



At the year end, all these deferred amounts had been paid and were fully up to date.

During October, the Group secured a new £150m committed revolving credit facility, replacing the previous £150m facility which was due to expire in early 2022. The new facility initially extends until late 2023 and includes two further one-year extension options, with the agreement of the lending banks. This facility is in addition to the existing £30m loan facility, which together provide the Group with a total of £180m of committed facilities as before. Together with the ongoing net cash balances, this provides the Group with a significant amount of total available liquidity.

In addition, and as precautionary measure at the start of the pandemic, the Group was also confirmed by the Bank of England as an eligible issuer for the Covid Corporate Financing Facility (CCFF). However, no drawings were made on this facility.

Looking ahead, based upon the current anticipated cash flows and investment plans in the regeneration activities, the Group expects that the average daily net cash for 2021 will be in excess of £100m.

### **Dividend**

In light of the economic uncertainty brought about by C-19, the Board announced in March that it had decided to cancel the final dividend for 2019. In November, based upon the performance of the business, the outlook for the year at that time and the strong cash position, the Board declared an interim dividend of 21.0p per share, which was paid in December.

A final dividend of 40.0p per share is now proposed, resulting in a total dividend for the year of 61.0p per share (FY 2019: 21.0p). This reflects the result for the year, the strong balance sheet and the Board's confidence in the future prospects of the Group.

<b>Outlook</b>
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The size and quality of the Group's growing secured workload at well over £8bn leaves it well-positioned for the future and is on track to deliver a result which is materially ahead of its previous expectations and slightly ahead of that delivered in 2019.

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 2021.

All the targets remain the same as were previously announced in February 2020 with the exception of Infrastructure, where its target operating margin has been increased to 3.5% (previous target of 3.0%).

The targets relate to either operating margin, return on capital employed and/or profit and are referenced in the Business review.

	<b>Medium-term target</b>
<b>Construction</b>	Operating margin of between 2.5% and 3% per annum
<b>Infrastructure</b>	Operating margin of 3.5%
<b>Fit Out</b>	Operating profit at or around c£35m per annum
<b>Property Services</b>	Operating profit of at least £10m
<b>Partnership Housing</b>	Operating margin of 6% / return on capital in excess of 20%
<b>Urban Regeneration</b>	3-year rolling average return on capital up towards 20%

## 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	1,637	+10%	35.7	+11%	2.2%	-
Fit Out	700	-17%	32.1	-13%	4.6%	+20bps
Property Services	112	-3%	1.0	-77%	0.9%	-280bps
Partnership Housing	441	-14%	16.1	-12%	3.7%	+10bps
Urban Regeneration	123	+3%	9.2	-53%	n/a	n/a
Investments	34	n/a	(6.9)	n/a	n/a	n/a
Central/Eliminations	(13)		(18.7)			
<b>Total</b>	<b>3,034</b>	<b>-1%</b>	<b>68.5</b>	<b>-26%</b>	<b>2.3%</b>	<b>-70bps</b>

### Group secured workload<sup>1</sup> by division

The Group's secured workload<sup>1</sup> at 31 December 2020 was £8,290m, an increase of 9% from the previous year end. The divisional split is shown below.

	FY 2020	FY 2019	Change
	£m	£m	
Construction & Infrastructure	2,537	2,271	+12%
Fit Out	410	480	-15%
Property Services	970	904	+7%
<b>'Construction' secured order book<sup>2</sup></b>	<b>3,917</b>	<b>3,655</b>	<b>+7%</b>
Partnership Housing	1,267	1,093	+16%
Urban Regeneration	2,434	2,278	+7%
Investments	673	581	+16%
<b>'Regeneration' secured order book<sup>2</sup></b>	<b>4,374</b>	<b>3,952</b>	<b>+11%</b>
Inter-divisional eliminations	(1)	(14)	
<b>Group secured workload<sup>1</sup></b>	<b>8,290</b>	<b>7,593</b>	<b>+9%</b>

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

<sup>2</sup> 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 2020	FY 2019	Change
	£m	£m	
Revenue	1,637	1,486	+10%
Operating profit	35.7	32.3	+11%
Operating margin	2.2%	2.2%	-

Construction & Infrastructure delivered a strong result in the year despite C-19, with revenue up 10% to £1,637m and operating profit up 11% to £35.7m. The operating margin of 2.2% was level with the prior year.

The result was driven by strong revenue and profit growth in **Infrastructure** (including *Design*)<sup>1</sup>, while **Construction's** profit and margin were significantly lower, impacted by additional costs incurred associated with C-19.

For both **Construction** and **Infrastructure**, operational disruption related to C-19 was mainly restricted to the first half, with most sites fully open and active throughout the second half.

Of the divisional revenue split by type of activity, **Construction** accounted for 41% of divisional revenue at £670m, with 59% (£967m) being **Infrastructure**.

The division also performed well in terms of winning work and growing its future workload. The secured order book at the year end was £2,537m, up 12% compared to the prior year.

### (i) Construction

Construction's revenue increased 8% to £670m, with second half revenue growth of 13% compared to 2% in the first half as sites reopened and productivity levels were restored following the initial lockdown restrictions imposed in March.

At the 'peak' impact of the lockdown measures in the second quarter of the year, c31% of sites were closed completely (c15% by value), with the remainder impacted by significant productivity constraints. The operational impact on projects was broadly determined by the stage of construction, with a relatively low impact on projects at an earlier stage of construction (groundwork, piling, demolition etc), while those most impacted were projects at the final stages of construction.

For approximately 50% of the division's projects, there was no contractual entitlement to recover costs associated with C-19, and this was in addition to the additional costs incurred as a result of delays to commencing new work. Consequently, the operating margin reduced significantly, down to 1.2% (FY 2019: 2.8%), with operating profit down to £8.2m (FY 2019: £17.1m). As activity increased, the second half margin improved to 1.8%, compared to 0.4% in the first half.

Construction's order book at the year end was broadly level with the prior year at £512m (FY 2019: £514m), with £432m (84% by value) secured for 2021. c100% of the order book value is derived through either negotiated, framework or two-stage bidding procurement processes, in line with the preferred risk profile of work undertaken. In addition to this, Construction also had c£730m of work at preferred bidder stage at the year end, up 8% compared to the same time last year (FY 2019: £675m in preferred bidder).

In education, Construction's largest sector, project wins included: a £50m Science, Engineering and Environmental building for the University of Salford; a £37m school for Urban&Civic in Rugby; two schools for the City of Edinburgh totalling £24m; and the £14.6m expansion and refurbishment of Cromwell Community College in Chatteris, Cambridgeshire. Work started on all these projects during the year, with the new build works at Cromwell Community College handed over in January 2021. In addition, the division secured a contract via the Pagabo framework to build St Marks school in Southampton and a contract via the Department for Education framework to refurbish and upgrade a 1930s building to house Hujjat Primary School in Harrow.

Construction also achieved preferred bidder on a number of projects: the £29m Glebe Farm school in Wavendon, Milton Keynes, via the Pagabo framework for major construction works; the £15m expansion and renovation of the University of Oxford's Grade II-listed Radcliffe Science Library to house the new Reuben College, via the University's capital works partner framework; and the University of Salford's £13m project to build a Robotics Innovation Centre, where work is due to start in early 2021. In addition, Construction was selected as preferred bidder and awarded a pre-construction services agreement for phase 1 of the £36m Alconbury Education Hub project, in Alconbury Weald, Cambridgeshire, which will include a secondary school, sixth form and special needs school.

During the year, work progressed on the £27m Cefn Saeson Comprehensive School in Neath, Wales and the £15.1m educational campus in Renton, West Dumbartonshire, consisting of Renton Primary School, a language and communication unit, and the Riverside Early Learning and Childcare Centre. Completions included the £10.2m Vandyke Upper School and the £6.5m Gilbert Ingelfield Academy in Leighton Buzzard, Bedfordshire; and the Vita Student Nottingham project, a £24m student accommodation scheme in the city centre. In addition, the division handed over the £5.3m Highfields Spencer Academy in Derby in September 2020, two weeks early; offsite construction methods had been used to significantly reduce the construction programme.

In healthcare, the £3.3m extension and refurbishment of South Molton Medical Care Centre in Devon was completed in August; and work began on a new clinical and education facility for the Evelina London Children's Hospital, awarded through the Southern Construction Framework.

In other sectors, the division secured a £46m residential development for Urban Regeneration, through its joint venture, as part of the New Bailey development in Manchester. Completions included The Spine, the 70,000 sq ft headquarters in Liverpool of the Royal College of Physicians, a £6.3m leisure centre in Market Rasen, Lincolnshire, and two residential projects for Brighton & Hove City Council: Buckley Close in Hangleton, delivered under the New Homes for Neighbourhood scheme, and an £8m apartment building in Moulsecoomb, completed five weeks ahead of programme.

Framework appointments included: reappointment to Pagabo's £10bn, six-year major construction works framework on all lots and regions throughout the UK; Lot 1 (£10m-£30m) and Lot 2 (£30m plus) of the £1.5bn YORbuild major works contractors framework for projects in the Yorkshire and Humber region; two lots on the University of Birmingham's capital estates framework for projects valued £2.5m-£10m and £10m plus respectively; and all three lots of the University of Glasgow's new £250m capital estates framework, for projects valued over £3m, £250,000-£3m and below £250,000. The division re-secured its place on the £0.5bn hub South West Scotland framework.

## **(ii) Infrastructure<sup>1</sup>**

**Infrastructure's** revenue increased 12% to £967m, with 26% growth in the first half and revenue 1% lower in the second half, driven primarily by the mix of work across the year.

At the 'peak' impact of the lockdown measures in the second quarter of the year, c61% of sites were closed completely (59% by value), however in many cases, the period of closure for a reassessment of safety procedures was relatively short, allowing many sites to reopen and maintain reasonable activity levels.

Most of the business's contracts allowed for full entitlement to 'time and costs' as a result of the closures and delays to programmes.

Operating profit increased 81% to £27.5m with an operating margin of 2.8%, up a significant 100bps from the prior year and driven by the higher revenue, the type of work and improved operational delivery on site. The first half margin was 2.1%, while this increased to 3.7% in the second half, benefitting from work mix, efficiencies and final account settlements on a number of projects.

**Infrastructure's** order book grew strongly, up 15% to £2,025m (80% of the total by value). In excess of 90% of the value of the order book is derived through frameworks, consistent with the strategic focus on long-term workstreams from its clients.

The focus for the division remained on its key sectors of highways, rail, nuclear, energy and water. In aviation, ongoing projects at Heathrow were curtailed due to C-19 and workload in this sector in 2021, the final year of the framework, is likely to be minimal.

In highways, the division was appointed through joint venture by Highways England as one of six partners on the £4.5bn Smart Motorway Alliance, set up to improve motorway journeys through increased capacity and safety improvements. Mobilisation work has begun, with the project due to start on site in the early part of 2021. Infrastructure was also appointed by Transport for West Midlands to deliver the main construction works for the Sprint corridor on the A45 between Bordesley Circus and Brays Road in Yardley, Birmingham. Completions included the M62 scheme and the M5 Oldbury viaduct, the largest concrete project, by value, carried out to date in the UK.

In rail, work progressed on two enhancement schemes for Network Rail: the Werrington Grade Separation project and the remodelling of London King's Cross station, both due to complete in 2021. In addition, the division is working with Network Rail to develop enhancement schemes as part of the CP6 framework for the Western region. Following some disruption owing to travel restrictions relating to C-19, work resumed on the Barking Riverside Extension in joint venture for Transport for London, with the scheme due to complete in 2022.

In nuclear, progress was made with the first four projects of Sellafield's 20-year Programme and Project Partners framework, and the Infrastructure Strategic Alliance framework achieved a significant milestone with the commissioning of a major project. Work also continued on the multi-million pound D58/59 submarine building facility in Cumbria for BAE Systems.

In energy, Infrastructure completed two overhead line and cabling projects in 2020 for Scottish and Southern Electricity Networks and secured, under framework, a further c£50m of cabling and overhead line work. In addition, cable installation began during the year on National Grid's c£80m Dorset Visual Impact Provision (VIP) project, with jointing works commencing in January 2021.

In water, work started on schemes under the AMP7 framework with Welsh Water; and progress was made on the west section of the Thames Tideway Tunnel 'super sewer', with the joint venture's tunnel boring machine completing the 7km journey from Fulham to Acton.

In Design, work continued on Public Health England's new headquarters in Harlow, Essex ahead of its relocation from Porton Down in Wiltshire. On other major projects, the design of the Medicines

Manufacturing Innovation Centre in Glasgow was completed; and work continued on the reconfiguration of the Fort Halstead site in Kent for QinetiQ and GW Pharmaceutical's new facility in Kent.

### **Divisional outlook**

The strategy for Construction & Infrastructure remains focused on contract selectivity and risk management, operational delivery and developing long term relationships with its clients.

The medium-term target for **Construction** remains to deliver a consistent operating margin within the range of 2.5%-3.0%. **Infrastructure's** medium-term target is to achieve an operating margin of 3.5%, reflecting an increase on its previous target from 3.0%. Progress towards these targets is expected in 2021.

<sup>1</sup> Design results are reported within *Infrastructure*

### **Fit Out**

	<b>FY 2020</b>	<b>FY 2019</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	
Revenue	700	839	-17%
Operating profit	32.1	36.9	-13%
Operating margin	4.6%	4.4%	+20bps

Fit Out's performance in the year demonstrated the overall resilience and high quality of the business, improving its operating margin by 20bps to 4.6% despite a reduction in revenue of 17% to £700m. Operating profit was 13% lower at £32.1m.

At the 'peak' impact of the C-19 lockdown measures in the second quarter of the year, 53% of sites were closed (40% by value). However, activity was restored relatively quickly, benefiting from many sites being contained within vacated buildings. In addition, the established and preferred relationships built up with its supply chain over many years enabled prompt and efficient remobilisation of teams at short notice and with immediate responsiveness.

With all Fit Out sites fully active and productive throughout the second half, revenue improved and was down 11% on the prior year compared to a reduction of 22% in the first half.

As with previous years, there was a second half weighting to the operating margin (H1 2020: 3.4%, H2 2020: 5.5%) and was driven by strong project delivery as volumes normalised and by the successful completion of a number of contracts falling towards the end of the year.

By sector, although the commercial office market remained the largest served by Fit Out, contributing 66% of revenue (FY 2019: 85%), the proportion was significantly lower than in previous years. Work in the public sector and for local authorities increased to 25% of total revenue (FY 2019: 6%), providing resilience through the year, with higher education and retail banking making up the remainder.

Geographically, the London region was the division's largest market, accounting for 69% of revenue, with no significant change from the prior year (FY 2019: 70%). Other regions accounted for 31% of revenue.

There was a slight shift in type of work towards traditional fit out work at 86% of revenue (FY 2019: 81%), with 'design and build' reducing to 14% of the total (FY 2019: 19%).

The proportion of revenue generated from the fit out of existing office space remained broadly level with the prior year at 72% (FY 2019: 73%) with the remaining 28% relating to new office fit out (FY 2019: 27%).

At the year end, the secured order book was £410m, a reduction of 15% on the prior year end and a reduction of 12% from the position at the half year. Of the year-end total of £410m, £387m (94%) relates to 2021 and this level of orders for the next 12 months is 8% lower than it was at the same time last year. However, in addition to these secured orders, the division had c£450m of potential work 'pending decision' at the year end, as well as in excess of £350m of tender opportunities identified for the first quarter of 2021. The average value of enquiries received through the year was around £3m.

Projects won and started on site in the year included: a 123,000 sq ft of office space for the Boston Consulting Group in London; a 170,000 sq ft Category A fit out for Lexo Ltd in Peterborough; and the fit out of BT's new 284,000 sq ft office at Three Snowhill, Birmingham which represents the city's largest letting ever in a single building. BT's first phase was started and completed in the year, with phase two on track to be handed over in the second quarter of 2021.

Projects won and delivered included: multiple projects under The Mayor's Office for Policing and Crime (MOPAC) framework totalling £41m (a further £54m of MOPAC projects have been secured for 2021); the design and fit out of 25,000 sq ft of office space for WaterAid in Canary Wharf; and 14,000 sq ft of office space at London Wall for software company, R3.

Other notable projects that remained on track in 2020 were a Category A completion of the 274,000 sq ft HMRC Government Hub at the landmark India Building in Liverpool; and the 75,000 sq ft headquarters of the Royal College of Physicians at the Paddington Village development in Liverpool, where Fit Out has been working in collaboration with Construction & Infrastructure.

In higher education, Fit Out won a £5m project to fit out and refurbish a health and social care training centre at the University of Wolverhampton. Projects completed in the sector in 2020 included a teaching, hospitality and administrative space for the University of Chicago Booth School of Business at St Bartholomew's Square, London and teaching and lecture facilities at King's College London's Macadam Building.

### ***Divisional outlook***

The medium-term target for Fit Out remains to deliver a profit at or around £35m per annum. For 2021, based upon the current market conditions, the year-end order book and the level of identified prospects, Fit Out is expected to meet this target.

### **Property Services**

	<b>FY 2020</b>	<b>FY 2019</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	
Revenue	112	115	-3%
Operating profit <sup>1</sup>	1.0	4.3	-77%
Operating margin <sup>1</sup>	0.9%	3.7%	-280bps

Property Services was significantly impacted by C-19, with operating profit down to £1.0m (FY 2019: £4.3m) from revenue of £112m, down 3%. The operating margin was down to 0.9% (FY 2019: 3.7%).

After a strong start to the year in January and February, the services provided by the division were restricted to mainly 'essential' repairs and external planned works during the first national lockdown in March. The resulting lower volume was insufficient to cover the overheads in the division and the division reported a loss of £0.5m in the first half. The maximum number of employees on furlough at any one time during the second quarter was 415 (57% of total).

Activity improved throughout the second half and a more normalised level of operations had been restored by the fourth quarter of the year. The second half operating profit of £1.5m more than offset the first half loss, resulting in an operating profit for the year of £1.0m.

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. Notwithstanding the operational disruption, the division has continued to enhance its IT platform to provide data insight and improve customer experience.

At the year end, the secured order book was up 7% to £970m. Bidding remains selective, targeting long term contracts of 10-15 years, with a current pipeline of opportunities of £1.6bn already bid for and pending a decision, or identified for bidding in the next 12 months.

During the year, the division entered into three new contracts with a combined order book value of £171m. Two contracts are for Hammersmith and Fulham Council for housing repairs and domestic and communal gas; each is for an initial five years with the potential to extend for a further two years. The third contract is with Home Group housing association to maintain 4,500 properties for an initial seven years with a potential to extend for a further seven years thereafter; it includes responsive repairs, void refurbishments, heating services and planned improvement works such as kitchen and bathroom replacement and heating system upgrades.

### ***Divisional outlook***

Although all response maintenance contracts are currently operational, it is expected that planned maintenance activity will be lower in the first half of 2021.

With the current order book and the division's operating model, the medium-term target for Property Services remains to generate a minimum £10m operating profit per annum. This target will be delivered through both revenue growth and continued margin improvement and progress will be made towards this in 2021.

<sup>1</sup> before intangible amortisation of £1.2m (FY 2019: £1.2m)



## Partnership Housing

	FY 2020 £m	FY 2019 £m	Change
Revenue	441	513	-14%
Operating profit	16.1	18.3	-12%
Operating margin	3.7%	3.6%	+10bps
Average capital employed <sup>1</sup> (last 12 months)	150.9	151.6	-£0.7m
Capital employed <sup>1</sup> at year end	122.2	132.3	-£10.1m
ROCE <sup>2</sup> (last 12 months)	11%	12%	
ROCE <sup>2</sup> (average last 3 years)	11%	12%	

Partnership Housing revenue for the year was 14% lower than the prior year at £441m. Split by type of activity, **Mixed-tenure** revenue was up 3% to £278m (63% of divisional revenue) while **Contracting** revenue (including planned maintenance and refurbishment) was down 33% in the year to £163m (37% of divisional total).

At the 'peak' impact of the C-19 lockdown measures in the second quarter of the year, 93% of sites were closed (91% by value). The effective closure of the UK housebuilding industry and its associated supply chain at that time resulted in an inability to maintain operations. However from early May, sites started to remobilise, with the limited availability of certain building materials on site easing through the month as manufacturers recommenced their own production. Following this and through the second half, the division experienced higher levels of construction activity, driven by mixed-tenure, and higher levels of demand for its open market product across all its sites.

Operating profit of £16.1m was 12% down on prior year, with the operating margin up slightly to 3.7% supported by the higher mixed-tenure revenue. The second half operating margin was 4.7% compared to the prior year second half margin of 4.3% demonstrating the progress made in the division.

Besides from the additional construction costs incurred as a result of the C-19 lockdown, the operating result also includes the £2.0m non-cash impairment of the division's investment in a small joint venture developer of supported independent living accommodation, which reduces the carrying value of the investment to zero.

The secured order book at the year end was £1,267m, an increase of 16% on the prior year and further demonstrated the positive strategic progress made and the market opportunity available to the division.

Of this total, the order book relating to the **Mixed-tenure** activities increased 11% to £821m (FY 2019: £740m). In addition, 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 £650m at the year end. The **Contracting** secured order book increased 26% to £446m (FY 2019: £353m), of which £151m is for 2021.

The average capital employed<sup>1</sup> for the last 12-month period was £150.9m, a reduction of £0.7m on the prior year. This was lower than anticipated at the start of the year and was driven by the choice in a number of situations to forward fund certain developments to de-risk the portfolio in the wake of C-19 and was not indicative of a slowing in the strategic investment programme.

The capital employed<sup>1</sup> at year end was £122.2m, a reduction of £10.1m from the prior year end and was driven by the higher level of sales towards the end of the year. As a result of the lower profit in the year, the overall ROCE<sup>2</sup> reduced to 11%.

Based upon the current schedule and type of mixed-tenure development currently anticipated, together with the timing of the forecast contracting activities, average capital employed<sup>1</sup> is expected to increase up to c£180m in 2021 (which includes c£10m capital from Investments' Later Living and property development JV's with local authorities – see Investments section below and Section 8 Other Financial Information).

### ***Mixed-tenure***

In mixed tenure, 1,216 units were completed across open market sales and social housing, slightly higher than in the prior year (FY 2019: 1,144 units). The average sales price of £229k compared to the prior year average of £238k.

The division currently has a total of 39 mixed-tenure sites at various stages of construction and sales, with an average of 101 open market units per site. Average site duration is 45 months, providing long-term visibility of activity.

Key project wins for Partnership Housing included deals worth £140m with Homes England to provide 532 new homes at two former Ministry of Defence sites: 119 at Thorp Arch near Wetherby, Yorkshire where construction is underway, and 413 homes at Drummond Park in Luggershall, Wiltshire, due to start on site in mid-2021. In addition, the division exchanged on two sites in South Wales at Coed Darcy and Llanwern which have a combined development value of £130m and will deliver more than 660 units; and was selected by Newark and Sherwood District Council for a £50m regeneration project to build c310 homes on the Yorke Drive estate in Newark, through the division's Compendium Living joint venture with The Riverside Group.

Project starts in the year included an £80m scheme in joint venture with Flagship Group to build 335 new homes at Williams Park in Wymondham; and a £45m project to provide 252 new homes in Walsall, via the Anthem Lovell joint venture with Walsall Housing Group. Work progressed on the division's ongoing regeneration scheme at Trinity Walk, Woolwich, with enabling works for further phases also commencing in the year.

Lovell Together, the division's newly formed joint venture with Together Housing Group, secured planning approval to build 127 new homes in Pendleton, Salford, of which 17 will be affordable; the £25m scheme will be the first phase of a project to deliver 1,000 homes in the area.

### ***Contracting***

In ***Contracting***, the total number of equivalent units built was 978, down from 1,489 in the prior year.

The division was selected by Telford and Wrekin Council as preferred contractor on a £53m contract to deliver 335 new homes at a brownfield site in Donnington Wood, Telford. This includes 70 homes for Nuplace, the council's wholly-owned housing company, and will be the division's 11th scheme with Nuplace in the last five years. In addition, the division won an £8m contract with LiveWest housing association to build 60 new affordable homes in Exeter; and a £9m contract for planned maintenance work with social landlord Midland Heart to refurbish 6,000 bathrooms and kitchens over a five-year period. The division's £251m project for the Defence Infrastructure Organisation at Salisbury Plain substantially completed in August ahead of schedule, enabling army personnel to move into their new homes early.

## Divisional outlook

The market opportunity for Partnership Housing remains strong and its medium-term targets remain as previous; firstly, to generate a return on average capital employed<sup>2</sup> of over 20% and secondly, to deliver an operating margin of 6%.

Looking ahead to 2021, it is expected that continued operational improvements and the benefit of higher revenue will drive margin and profit growth, supported by the high quality secured order book.

<sup>1</sup> 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).

<sup>2</sup> Return On Average Capital Employed = Adjusted operating profit divided by average capital employed.

## Urban Regeneration

	FY 2020	FY 2019	Change
	£m	£m	
Revenue	123	119	+3%
Operating profit	9.2	19.4	-53%
Average capital employed <sup>1</sup> (last 12 months)	109.7	101.8	+£7.9m
Capital employed <sup>1</sup> at year end	85.1	107.7	-£22.6m
ROCE <sup>2</sup> (last 12 months)	8%	19%	
ROCE <sup>2</sup> (average last 3 years)	14%	15%	

Urban Regeneration delivered an operating profit of £9.2m in the year, a reduction of 53% on the prior year (FY 2019: £19.4m). The lower profit impacted the ROCE, which was down to 8% based on the average capital employed in the year of £109.7m. The average ROCE over the last three years was 14%.

The impact of C-19 was felt across all stages of the development process. During the first national lockdown in March, construction activity on most of the active development schemes either ceased for a period or activity was significantly reduced, resulting in lower development management fees and delayed residential sales scheduled for later in the year. Delays were also experienced in progressing schemes, with decision-making by partners remaining cautious over future costs, viability and returns.

Capital employed<sup>1</sup> at the year end was £22.6m lower at £85.1m, driven by the timing of completions towards the year end and the choice of funding options for existing schemes. Based upon the current profile and type of scheme activity across the portfolio, the average capital employed<sup>1</sup> for 2021 is expected to increase to c£120m (which includes c£20m capital from Investments' property development JV's with local authorities – see Investments section below and Section 8 Other Financial Information).

The main contributors to performance were profit and development fees generated from the Salford Central regeneration scheme, being delivered by the English Cities Fund joint venture with Legal & General and Homes England; profit from the pre-let and forward sale of three warehouse and distribution buildings totalling over 400,000 sq ft at Logic Leeds; and two separate land sales at Eurocentral in Lanarkshire, Scotland.

In addition, development management fees were generated from Time Square in Warrington and a second office building at Stockport Exchange. Profits were also earned from the sale of new homes at

Wapping Wharf, Bristol; Griffon Fields, Hucknall; Brentford Lock West; Hale Wharf, Tottenham Hale; Northshore, Stockton-on-Tees and Millbay, Plymouth. Other significant completions included the new 196,000 sq ft distribution centre at Harrier Park in Hucknall and 26,100 sq ft of commercial and research and development space at Cheadle Royal.

Two significant forward funding deals were agreed in the year, which are both on site and generating regular profits. The first was a £252m deal signed with Get Living plc to deliver the second and final phase of Lewisham Gateway. Due to complete in 2023, the scheme will provide 649 homes for rent, 10,000 sq ft of offices, c25,000 sq ft of retail space, c15,000 sq ft of food and beverage space, a gym, and Lewisham's first major multiplex cinema which has been pre-let. The second was a £130m deal agreed with Pension Insurance Corporation to deliver the first phase of the 'New Victoria' scheme in Manchester city centre, in partnership with Network Rail with support from Manchester City Council and Homes England. The first phase consists of 520 homes for rent and is expected to complete in 2023. In addition, regular profits are being received from active developments in Basingstoke and Blackpool.

The English Cities Fund made progress in the year on existing schemes. At Salford Central, five new developments are currently under construction at Atelier, Valette Square, Novella, Three New Bailey and a 175,000 sq ft pre-let office to BT at Four New Bailey. The Fund has also completed the latest phase of 137 quayside homes at Quadrant Wharf, Millbay and secured two deals with occupiers at Merchant Gate, Wakefield.

Urban Regeneration's Waterside Places joint venture with the Canal & River Trust made significant progress on a number of schemes in the year. At Islington Wharf, Manchester, planning consent was achieved on the fourth and final phase of 106 homes over two blocks, which is due to start on site in the first half of 2021; the first phase of development at Hale Wharf, Tottenham Hale is due to complete in Summer 2021, with 108 of 249 homes forward funded by Grainger plc; and the third and final phase of Brentford Lock West, to deliver 425 mixed-use homes, is scheduled to start on site in 2021. Waterside Places has also submitted planning for its residential-led development at Stoke Wharf in joint venture with Slough Urban Renewal, to deliver over 300 new homes along a revitalised canal side.

Urban Regeneration submitted a series of planning applications during the year, including 1.4m sq ft of mixed-use development in Birkenhead town centre, through the division's Wirral Growth Company joint venture with Wirral Borough Council; and Stroudley Walk, London which will bring forward 274 homes (50% affordable) in partnership with Poplar HARCA (Housing and Regeneration Community Association). Planning consent was received for new developments at South Shields; Logic Leeds; Rotherham in South Yorkshire; and Manor Road in Canning Town, where 804 homes (50% affordable) will be delivered.

Urban Regeneration's development portfolio continues to be both active and diverse, with 14 projects on site at the year end across 10 developments, totalling £950m gross development value, and a further 11 projects expected to start on site in 2021.

At the year end, the division's regeneration order book amounted to £2.4bn, an increase of 7% on the prior year end, and within this there is a diverse geographic and sector split:

- by value, 45% is in the North West, 41% in London and the South East, 12% in Yorkshire and the North East and 2% in the rest of the UK; and
- by sector, 52% by value relates to residential, 31% to offices, and the remainder is broadly split between retail, leisure, and industrial.

The order book includes c£230m relating to the division's share of JV gross development value and development management fees from the appointment in the year through the English Cities Fund as development partner for the Salford Crescent masterplan to create a new 240-acre urban district in Salford over the next 10 to 15 years; the programme will deliver up to 3,000 homes, commercial, innovation and education space, sustainable transport facilities and large areas of green space.

### ***Divisional outlook***

The medium-term target for Urban Regeneration is to increase its rolling three-year average ROCE<sup>2</sup> up towards 20%. The lower profit result for 2020 reduced the three-year average to 14%, however the medium-term outlook for the division has not changed, but only modest progress towards its target ROCE<sup>2</sup> is expected in 2021.

<sup>1</sup> 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)

<sup>2</sup> Return On Average Capital Employed = (Adjusted operating) divided by (average capital employed)

### **Investments**

	<b>FY 2020</b>	<b>FY 2019</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	
Operating loss <sup>1</sup>	(6.9)	(2.4)	n/a

Investments reported a loss of £6.9m in the year, with many of the division's existing schemes experiencing delays to construction activity as a result of C-19 and delays to achieving financial close on new schemes as investment decisions were deferred. While on-site construction activity recovered to normal levels relatively quickly, clients continued to be cautious and defer investment decisions throughout the year.

The division has four property development joint ventures with local authorities and a Later Living development business, focusing on the extra-care sector.

In the joint venture with Slough Borough Council, work continued in the year on the £55m scheme to build two Marriott hotels and 64 apartments on the site of the city's former library, being delivered by Construction & Infrastructure. The hotels were completed and handed over in early 2021. Other highlights were the submission of planning applications for the development of 212 new homes in Montem Lane and a mixed-use development including 312 new homes at Stoke Wharf.

In The Bournemouth Development Company joint venture with BCP Council, work started on site on a development of 44 homes in Durley Road and construction continued on 46 homes for market rent in St Stephens Road. Winter Gardens, a mixed-use scheme with a gross development value of £164m, concluded its section 106 planning agreement and is progressing towards a start on site, now anticipated to be during 2021.

In The Brentwood Development Partnership, the division's joint venture with Brentwood Borough Council, work is ongoing to prepare planning applications for the joint venture's first four schemes.

In Chalkdene Developments, the joint venture with Hertfordshire County Council, two developments are on site which together will deliver over 100 new homes. Both projects are being delivered by Partnership Housing.

In the Later Living business, six projects were on site across the UK which together will provide over 400 extra care apartments. Three schemes were completed and handed over, bringing high quality, purpose-built new homes to those local communities. Good progress was made on new projects, with planning consents secured for a 64-apartment extra care scheme in Leeds, a 60-apartment extra care scheme in Gosport, Hampshire and a 50-apartment extra care scheme in New Milton, Hampshire.

The division also disposed of its interests in the Priority Schools Building Programme North West Batch joint venture (joint venture with Equitix and the Department for Education) in the year, delivering a profit of £2.7m.

Capital Employed<sup>2</sup> in the division at the year end was £21.9m (FY 2019: £30.9m).

In order to address the increasing overlap between the market propositions of the regeneration businesses and the duplication of capabilities and resources, the operational management of the joint venture property partnerships and Later Living business was transferred to Partnership Housing and Urban Regeneration at the end of the year. Reorganisation costs of c£1m were incurred, mainly relating to redundancies and were included in the division's results. From 1<sup>st</sup> January 2021, Investments will no longer operate as a separate reporting segment (see section 8 of Other Financial Information).

<sup>1</sup> before intangible amortisation of £1.9m (FY 2019:£0.6m)

<sup>2</sup> 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 £4.6m, a £1.9m increase versus FY 2019. Included in this is £1.3m of interest payable as a result of drawing down on the committed bank facilities as a precautionary measure in March, during the early stages of C-19.

The net finance expense is broken down as follows:

	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Interest payable on drawings on bank facilities	(1.3)	(0.1)	(1.2)
Amortisation of bank fees & non-utilisation fees	(1.7)	(1.6)	(0.1)
Interest expense on lease liabilities	(1.7)	(1.7)	-
Interest from JVs	0.6	1.0	(0.4)
Other	(0.5)	(0.3)	(0.2)
<b>Total net finance expense</b>	<b>(4.6)</b>	<b>(2.7)</b>	<b>(1.9)</b>

**2. Tax.** A tax charge of £15.4m is shown for the year (FY 2019: £17.4m). This equates to an effective tax rate of 25.3% on profit before tax. The adjusted tax charge is £14.5m (FY 2019: £17.7m)

	<b>2020</b>	<b>2019</b>
	<b>£m</b>	<b>£m</b>
Profit before tax	60.8	88.6
Less: share of net profit in joint ventures	(2.3)	(6.5)
<b>Profit before tax excluding joint ventures</b>	<b>58.5</b>	<b>82.1</b>
Statutory tax rate	19.00%	19.00%
<b>Current tax charge at statutory rate</b>	<b>(11.1)</b>	<b>(15.6)</b>
Tax on joint venture profits <sup>1</sup>	(0.6)	(1.3)
Prior year adjustments	(0.2)	0.5
Effect of change in tax rate used to calculate deferred tax	(1.5)	-
Other adjustments (including CJRS furlough repayment <sup>2</sup> )	(2.0)	(1.0)
<b>Tax charge as reported</b>	<b>(15.4)</b>	<b>(17.4)</b>
Tax on amortisation	(0.6)	(0.3)
Effect of change in tax rate used to calculate deferred tax	1.5	-
<b>Adjusted tax charge</b>	<b>(14.5)</b>	<b>(17.7)</b>

<sup>1</sup> Most of the Group's joint ventures are partnerships where profits are taxed within the Group rather than the joint venture

<sup>2</sup> During 2020 the Group claimed £9.5m from HMRC under the UK Government's CJRS furlough scheme, upon which corporation tax of £1.8m was paid. Later in 2020 the Group voluntarily repaid the CJRS furlough claims. The repayment was structured such that £7.7m was repaid directly (being 81% of the total received), recognised in central Group costs, with the remaining £1.8m repaid (as above) to HMRC in additional corporation tax, as the repayment through central Group costs is not tax deductible.

**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.

	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Inventories	294.2	338.1	(43.9)
Trade & Other Receivables <sup>1</sup>	405.1	461.7	(56.6)
Trade & Other Payables <sup>2</sup>	(894.9)	(891.7)	(3.2)
<b>Net working capital</b>	<b>(195.6)</b>	<b>(91.9)</b>	<b>(103.7)</b>

<sup>1</sup> Adjusted to exclude capitalised arrangement fees of £1.3m (2019: £0.6m) and accrued interest receivable of £nil (2019: £0.2m)

<sup>2</sup> Adjusted to exclude accrued interest of £0.4m (2019: £0.3m) and deferred consideration payable of £nil (2019: £0.4m)

**4. Cash flow.** Operating cash flow was an inflow of £178.7m (FY 2019: inflow of £35.4m). Free cash flow was an inflow of £155.6m (FY 2019: inflow of £22.0m).

	<b>2020</b>	<b>2019</b>
	<b>£m</b>	<b>£m</b>
<b>Operating profit - adjusted</b>	<b>68.5</b>	<b>93.1</b>
Depreciation	22.0	21.3
Share option (credit)/expense	(0.1)	5.9
Movement in fair value of shared equity loans	0.5	0.4
Share of net profit of joint ventures	(2.3)	(6.5)
Other operating items <sup>1</sup>	6.4	9.4
Change in working capital <sup>2</sup>	102.6	(61.9)
Net capital expenditure (including repayment of finance leases)	(19.5)	(30.1)
Dividends and interest received from joint ventures	0.6	3.8
<b>Operating cash flow</b>	<b>178.7</b>	<b>35.4</b>
Income taxes paid	(19.9)	(12.8)
Net interest paid (non-joint venture)	(3.2)	(0.6)
<b>Free cash flow</b>	<b>155.6</b>	<b>22.0</b>

<sup>1</sup> 'Other operating items' includes provision movements (£2.0m), shared equity redemptions (£2.4m), revaluation of investment properties (£0.6m), disposal of investment properties (£1.8m), adjustment for impairment of investments (£3.3m), less gain on disposal of interests in joint ventures (£2.7m) and gain on disposal of property, plant & equipment (£1.0m)

<sup>2</sup> The cash flow due to change in working capital excludes a total £1.1m of non-cash movements relating to the unwinding of discounting on land creditors (£0.7m) and other non-cash creditor movements (£0.4m)

**5. Net cash.** Net cash at the end of the year was £332.8m as a result of a net cash inflow of £140.1m from 1 January 2020.

	<b>£m</b>
<b>Net cash as at 1 January 2020</b>	<b>192.7</b>
Free cash flow (as above)	155.6
Dividends	(9.6)
Other <sup>1</sup>	(5.9)
<b>Net cash as at 31 December 2020</b>	<b>332.8</b>

<sup>1</sup> 'Other' includes net loans advanced to JVs (£12.9m), the purchase of shares in the Company by the employee benefit trust (£9.6m) and a payment to acquire an additional interest in a JV (£0.1m); less proceeds on the disposal of interests in joint ventures (£8.3m), proceeds from the sale of other investments (£0.5m), proceeds from the issue of new shares (£7.0m) and proceeds from the exercise of share options (£0.9m)

**6. Capital employed by strategic activity.** An analysis of the negative capital employed in the **Construction** activities shows an increase of £70.1m since the previous year, split as follows:

<b>Capital employed<sup>1</sup> in Construction</b>	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Construction & Infrastructure	(262.9)	(220.0)	(42.9)
Fit Out	(63.7)	(35.7)	(28.0)
Property Services	14.4	13.6	0.8
	<b>(312.2)</b>	<b>(242.1)</b>	<b>(70.1)</b>



An analysis of capital employed in the **Regeneration** activities shows a reduction of £32.7m since the previous year, split as follows:

<b>Capital employed in Regeneration</b>	<b>2020 £m</b>	<b>2019 £m</b>	<b>Change £m</b>
Partnership Housing <sup>2</sup>	122.2	132.3	(10.1)
Urban Regeneration <sup>2</sup>	85.1	107.7	(22.6)
	<b>207.3</b>	<b>240.0</b>	<b>(32.7)</b>

*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 40.0p per share (FY 2019: nil). This will be paid on 19 May 2021 to shareholders on the register at 30 April 2021. The ex-dividend date will be 29 April 2021.

**8. Reporting segments.** From 1 January 2021, the responsibility of the operations of the current Investments division was divided and allocated between Partnership Housing, Urban Regeneration and Group Activities. The operational and financial performance of the old Investments schemes will be reported within the division responsible for the scheme as follows:

- Bournemouth, Brentwood and Slough – Urban Regeneration
- All other projects – Partnership Housing
- Non-project related overheads – Group Activities

As such, there will no longer be an Investments reporting segment and the Group will report five operating segments plus the Group activities.

The preliminary (unaudited) reallocation of the 2020 Investments segment is presented below. It is anticipated that these will be the allocations presented for comparative purposes in 2021 reporting.

	<b>Investments</b>	<b>Partnership Housing</b>	<b>Urban Regeneration</b>	<b>Group Activities</b>
<b>Revenue</b>	<b>34.2</b>	<b>32.5</b>	<b>1.7</b>	<b>-</b>
<b>Operating Loss before amortisation of intangible assets</b>	<b>(6.9)</b>	<b>(0.1)</b>	<b>(0.4)</b>	<b>(6.4)</b>
Amortisation of Intangible Assets	(1.9)	(1.9)	-	-
<b>Operating Loss</b>	<b>(8.8)</b>	<b>(2.0)</b>	<b>(0.4)</b>	<b>(6.4)</b>
<b>Capital employed at 31 December 2020 (£m)</b>	<b>21.9</b>	<b>8.4</b>	<b>15.7</b>	<b>(2.2)</b>

### **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 2020

	Notes	2020 £m	2019 £m
<b>Revenue</b>		<b>3,034.0</b>	3,071.3
Cost of sales		<b>(2,718.2)</b>	(2,739.9)
<b>Gross profit</b>		<b>315.8</b>	331.4
Administrative expenses		<b>(252.3)</b>	(249.2)
Share of net profit of joint ventures		<b>2.3</b>	6.5
Other gains and losses		<b>2.7</b>	4.4
<b>Operating profit before amortisation of intangible assets</b>		<b>68.5</b>	93.1
Amortisation of intangible assets		<b>(3.1)</b>	(1.8)
<b>Operating profit</b>		<b>65.4</b>	91.3
Finance income		<b>0.9</b>	1.7
Finance expense		<b>(5.5)</b>	(4.4)
<b>Profit before tax</b>		<b>60.8</b>	88.6
Tax	4	<b>(15.4)</b>	(17.4)
<b>Profit for the year</b>		<b>45.4</b>	71.2
Attributable to:			
<b>Owners of the Company</b>		<b>45.4</b>	71.2
<b>Earnings per share</b>			
Basic	6	<b>99.8p</b>	157.9p
Diluted	6	<b>98.1p</b>	153.1p

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

**Consolidated statement of comprehensive income**

For the year ended 31 December 2020

	<b>2020</b>	2019
	<b>£m</b>	£m
<b>Profit for the year</b>	<b>45.4</b>	71.2
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Foreign exchange movement on translation of overseas operations	<b>(0.2)</b>	(0.2)
Gains arising during the year on net investment hedges	<b>0.2</b>	-
	-	(0.2)
<b>Other comprehensive income/(expense)</b>	-	(0.2)
<b>Total comprehensive income</b>	<b>45.4</b>	71.0
Attributable to:		
<b>Owners of the Company</b>	<b>45.4</b>	71.0

## Consolidated balance sheet

At 31 December 2020

	Notes	2020 £m	2019 £m	1 January 2019 £m
<b>Assets</b>				
Goodwill and other intangible assets		222.1	223.6	216.4
Property, plant and equipment		65.8	79.5	62.6
Investment property		2.7	5.1	5.7
Investments in joint ventures		91.4	84.3	81.5
Other investments		-	1.3	1.3
Shared equity loan receivables	7	5.5	8.4	13.0
<b>Non-current assets</b>		<b>387.5</b>	<b>402.2</b>	<b>380.5</b>
Inventories		294.2	338.1	334.2
Contract assets		171.8	186.8	192.0
Trade and other receivables	8	234.6	275.7	233.2
Cash and cash equivalents <sup>1</sup>	10	400.5	251.2	268.3
<b>Current assets</b>		<b>1,101.1</b>	<b>1,051.8</b>	<b>1,027.7</b>
<b>Total assets</b>		<b>1,488.6</b>	<b>1,454.0</b>	<b>1,408.2</b>
<b>Liabilities</b>				
Contract liabilities		(55.6)	(56.2)	(98.3)
Trade and other payables	9	(838.0)	(832.4)	(797.8)
Current tax liabilities		(1.0)	(9.6)	(5.8)
Lease liabilities		(12.1)	(12.8)	(11.2)
Borrowings <sup>1</sup>	10	(67.3)	(58.5)	(61.3)
Provisions		(4.9)	(7.1)	-
<b>Current liabilities</b>		<b>(978.9)</b>	<b>(976.6)</b>	<b>(974.4)</b>
<b>Net current assets</b>		<b>122.2</b>	<b>75.2</b>	<b>53.3</b>
Trade and other payables		(1.7)	(3.8)	(15.6)
Lease liabilities		(38.9)	(46.9)	(35.7)
Borrowings	10	(0.4)	-	-
Retirement benefit obligation		(0.2)	-	-
Deferred tax liabilities		(12.5)	(8.1)	(12.0)
Provisions		(26.0)	(21.8)	(23.9)
<b>Non-current liabilities</b>		<b>(79.7)</b>	<b>(80.6)</b>	<b>(87.2)</b>
<b>Total liabilities</b>		<b>(1,058.6)</b>	<b>(1,057.2)</b>	<b>(1,061.6)</b>
<b>Net assets</b>		<b>430.0</b>	<b>396.8</b>	<b>346.6</b>
<b>Equity</b>				
Share capital		2.3	2.3	2.3
Share premium account		45.5	38.5	38.3
Other reserves		(0.8)	(0.8)	(0.6)
Retained earnings		383.0	356.8	306.6
<b>Equity attributable to owners of the Company</b>		<b>430.0</b>	<b>396.8</b>	<b>346.6</b>
<b>Total equity</b>		<b>430.0</b>	<b>396.8</b>	<b>346.6</b>

<sup>1</sup> The prior year balances for cash and cash equivalents and bank overdrafts have been re-presented in accordance with IAS 32 (see the Basis of Preparation for details). There is no impact on the net assets of the Group or Net Cash and cash equivalents.

**Consolidated cash flow statement**  
For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
<b>Operating activities</b>			
Operating profit		65.4	91.3
Adjusted for:			
Amortisation of intangible assets		3.1	1.8
Share of net profit of equity accounted joint ventures		(2.3)	(6.5)
Depreciation		22.0	21.3
Share option expense		(0.1)	5.9
Gain on disposal of interests in joint ventures		(2.7)	(4.4)
Gain on disposal of property, plant and equipment		(1.0)	(0.2)
Revaluation of investment properties		0.6	0.4
Movement in fair value of shared equity loan receivables	7	0.5	0.4
Impairment of investments		3.3	-
Proceeds on disposals of investment properties		1.8	-
Repayment of shared equity loan receivables	7	2.4	4.2
Increase in provisions		2.0	5.0
Proceeds on disposal of service contracts in joint ventures		-	4.4
<b>Operating cash inflow before movements in working capital</b>		<b>95.0</b>	<b>123.6</b>
Decrease/(increase) in inventories		43.9	(3.9)
Decrease in contract assets		15.0	5.2
Decrease/(increase) in receivables		41.6	(42.9)
Decrease in contract liabilities		(0.6)	(42.1)
Increase in payables		2.7	21.8
<b>Movements in working capital</b>		<b>102.6</b>	<b>(61.9)</b>
<b>Cash inflow from operations</b>		<b>197.6</b>	<b>61.7</b>
Income taxes paid		(19.9)	(12.8)
<b>Net cash inflow from operating activities</b>		<b>177.7</b>	<b>48.9</b>
<b>Investing activities</b>			
Interest received		1.2	1.6
Dividend from joint ventures		-	2.9
Proceeds on disposal of property, plant and equipment		1.4	0.3
Purchases of property, plant and equipment		(4.2)	(12.6)
Purchases of intangible fixed assets		(1.6)	(2.7)
Net increase in loans to joint ventures		(12.9)	(3.3)
Proceeds on disposal of interests in joint ventures		8.3	-
Proceeds from the disposal of other investments		0.5	-
Acquisition of subsidiaries, joint ventures and other businesses		(0.1)	(1.6)
<b>Net cash outflow from investing activities</b>		<b>(7.4)</b>	<b>(15.4)</b>
<b>Financing activities</b>			
Interest paid		(3.8)	(1.3)
Dividends paid	5	(9.6)	(24.8)
Repayments of lease liabilities		(15.1)	(15.1)
Proceeds from borrowings	10	180.4	-
Repayment of borrowings	10	(180.0)	(10.2)
Proceeds on issue of share capital		7.0	0.2
Payments by the Trust to acquire shares in the Company		(9.6)	(9.1)
Proceeds on exercise of share options		0.9	2.3
<b>Net cash outflow from financing activities</b>		<b>(29.8)</b>	<b>(58.0)</b>
Net increase/(decrease) in cash and cash equivalents		140.5	(24.5)
Cash and cash equivalents at the beginning of the year		192.7	217.2
<b>Cash and cash equivalents at the end of the year</b>	10	<b>333.2</b>	<b>192.7</b>

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*Cash and cash equivalents presented in the Consolidated cash flow statement include bank overdrafts. See note 10 for a reconciliation to Cash and cash equivalents presented in the Consolidated statement of financial position.*

**Consolidated statement of changes in equity**  
For the year ended 31 December 2020

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2019	2.3	38.3	(0.6)	306.6	346.6
Profit for the year	-	-	-	71.2	71.2
Other 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 options	-	-	-	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)
<b>1 January 2020</b>	<b>2.3</b>	<b>38.5</b>	<b>(0.8)</b>	<b>356.8</b>	<b>396.8</b>
Profit for the year	-	-	-	45.4	45.4
Total comprehensive income	-	-	-	45.4	45.4
Share option credit	-	-	-	(0.1)	(0.1)
Tax relating to share options	-	-	-	(0.8)	(0.8)
Issue of shares at a premium	-	7.0	-	-	7.0
Purchase of shares in the Company by the Trust	-	-	-	(9.6)	(9.6)
Exercise of share options	-	-	-	0.9	0.9
Dividends paid	-	-	-	(9.6)	(9.6)
<b>31 December 2020</b>	<b>2.3</b>	<b>45.5</b>	<b>(0.8)</b>	<b>383.0</b>	<b>430.0</b>

**Other reserves**

Other reserves include:

- Capital redemption reserve of £0.6m (2019: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.6m) (2019: (£0.8m)) arising under 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 (£0.8m) (2019: (£0.6m)) arising on the translation of overseas operations into the Group's functional currency.

**Retained earnings**

Retained earnings include shares in Morgan Sindall Group plc purchased in the market and held by the Morgan Sindall Employee Benefit Trust (the 'Trust') to satisfy options under the Group's share incentive schemes. The number of shares held by the Trust at 31 December 2020 was 278,383 (2019: 351,961) with a cost of £5.3m (2019: £2.2m).

## Notes to the consolidated financial statements

For the year ended 31 December 2020

### 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 2020 or 2019 but is derived from those accounts. A copy of the statutory accounts for 2019 was delivered to the Registrar of Companies and those for 2020 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 2021. 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 25 February 2021, can be found on the Group's corporate website: [www.morgansindall.com](http://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 2020.

#### Going concern

In determining the appropriate basis of preparation of the Financial Statements, the Directors are required to consider whether the Group and Company can continue in operational existence for the foreseeable future.

As at 31 December 2020, the Group held cash of £400.5m and total loans and borrowings of £67.7m, including of £67.3m of overdrafts repayable on demand (together net cash of £333m). Should further funding be required, the Group has significant committed financial resources available including unutilised bank facilities of £180m, of which £30m matures in March 2022 and £150m matures in October 2023. The Group's secured order book at 31 December 2020 is £8.3bn (2019: £7.6bn), of which £2.3bn relates to the 12 months ended 31 December 2021.

The Group has continued to operate safely during the COVID-19 pandemic under the Site Operating Procedures ('SOP') agreed by the Construction Leadership Council and following the advice from UK Government, the devolved administrations and public health authorities. The Group has operated profitably with positive operating cash flows for the year ended 31 December 2020 whilst under these restrictions and, whilst there continues to be uncertainty over the remaining period of restrictions due to the pandemic, the Group expects the business to remain resilient whilst it continues to operate under these guidelines for the foreseeable future until the end of the pandemic.

The directors have reviewed the Group's forecasts and projections for 2021, including sensitivity analysis to assess the Group's resilience to more adverse outcomes, which has been carried out to model the potential financial impact on the Group of any further impacts of the pandemic or other plausible losses of revenue or operating profit which could arise from the one of the principal risks to the business, including a reasonable worst case scenario in which the Group's principal risks manifest in aggregate to a severe but plausible level



## **Notes to the consolidated financial statements**

For the year ended 31 December 2020

involving the aggregation of the impacts of a number of these risks. The modelling showed that the Group would remain profitable over the next 12 months and there is considerable headroom in lending facilities and covenants which underpins the going concern assumption on which these financial statements have been prepared. As part of their analysis the Board also considered further mitigating actions at their discretion to improve the position identified by the reasonable worst case scenario. In all scenarios, including the reasonable worst case, the Group is able to comply with its financial covenants, operate within its current facilities, and meet its liabilities as they fall due.

Accordingly, the Directors consider there to be no material uncertainties that may cast significant doubt on the Group's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of signing of these Financial Statements. For this reason, they continue to adopt the going concern basis in the preparation of these 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 2019 other than the item noted below.

#### ***IAS 32 'Financial Instruments: Presentation'***

The Group's bank overdrafts and certain cash balances are subject to cash pooling arrangements where both the Group and the bank have rights to offset credit balances within the cash pool against overdrafts within the cash pool. In accordance with IAS 32: 'Financial Instruments: Presentation', cash balances are presented gross within cash and cash equivalents and bank overdrafts are presented gross within current loans and other borrowings. Within the period, it was determined that the Group's cash and overdrafts within cash pooling arrangements did not meet the requirements for offsetting in accordance with IAS 32: 'Financial Instruments: Presentation' and should not have been presented net in cash and cash equivalents in the balance sheet in prior periods. For presentational purposes, the balances have been re-presented as at 31 December 2019 and 1 January 2019. The impact of this change is to increase both cash and cash equivalents and bank overdrafts within current loans and other borrowings as at 31 December 2019 by £58.5m and as at 1 January 2019 by £51.1m in the Group's Balance Sheet. This has had no impact on net assets or net cash and cash equivalents.

## Notes to the consolidated financial statements

For the year ended 31 December 2020

### 2 Revenue

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

	2020	2019
	£m	£m
Construction	670.3	618.9
Infrastructure and design	966.5	867.5
<b>Construction and Infrastructure</b>	<b>1,636.8</b>	1,486.4
Traditional fit out	600.6	680.7
Design and build	99.5	158.0
<b>Fit Out</b>	<b>700.1</b>	838.7
<b>Property Services</b>	<b>111.7</b>	115.3
Contracting	163.4	243.7
Mixed tenure	278.0	269.2
<b>Partnership Housing</b>	<b>441.4</b>	512.9
<b>Urban Regeneration</b>	<b>122.8</b>	118.8
<b>Investments</b>	<b>34.2</b>	8.0
Inter-segment revenue	(13.0)	(8.8)
<b>Total revenue</b>	<b>3,034.0</b>	3,071.3

### 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.
- **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

## Notes to the consolidated financial statements

For the year ended 31 December 2020

land across multiple sites and generates development profits from such partnerships. As from 1 January 2021, the activities of the Investments division were reorganised with it no longer operating as a separate division from that date. The operational management of the joint venture property partnerships and Later Living business formerly reported within Investments were transferred to Partnership Housing and Urban Regeneration.

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.

### Adjusted Performance Measures

The divisions are the basis on which the Group reports its segmental information as presented. In addition to monitoring and reviewing the financial performance of the operating segments and the Group on a statutory basis, management also use adjusted performance measures which are also disclosed in the Annual Report. These measures are not an alternative or substitute to statutory IFRS measures but are seen by management as useful in assessing the performance of the business on a comparable basis. These financial measures are also aligned to the measures used internally to assess business performance in the Group's budgeting process and when determining compensation. The Group also uses other non-statutory measures which cannot be derived directly from the financial statements. There are four alternative performance measures used by management and disclosure in the Annual Report which are:

#### **'Adjusted'**

In all cases the term 'adjusted' excludes the impact of intangible amortisation of £3.1m (2019: £1.8m). This is used to improve the comparability of information between reporting periods to aid the use of the Annual Report in understanding the activities across the Group's portfolio. The below segmental analysis reconciles the statutory operating profit measure to the 'adjusted' measure and is used in reviewing the segmental performance. Adjusted profit before tax is used only in monitoring the Group's performance which is the statutory measure excluding the impact of intangible amortisation of £3.1m (2019: £1.8m). Adjusted basic earnings per share and adjusted diluted earnings per share is the statutory measure excluding the post-tax impact of intangible amortisation of £2.5m (2019: £1.5m) and the deferred tax charge arising due to changes in UK corporation tax rates of £1.5m (2019: £nil). See note 6 for a detailed reconciliation of the adjusted EPS measures.

#### **'Net cash'**

Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing. Lease liabilities are not deducted from net cash. A reconciliation of this number at the reporting date can be found in note 10. In addition, management monitor and review average daily net cash as good discipline in managing capital. Average daily net cash is defined as the average of the 365 end of day balances of the net cash over the course of a reporting period.

#### **'Operating cashflow'**

Management use an adjusted measure for operating cashflow as it encompasses other cashflows that are key to the ongoing operations of the Group such as repayments of lease liabilities, investment in property, plant and equipment, investment in intangible assets, and returns from equity accounted joint ventures. The figures can be derived from the consolidated cash flow statement being: Cash inflow from operations (£197.6m) plus dividend from joint ventures (£nil), interest received from joint ventures (£0.6m, reported within £1.2m Interest received) and proceeds from the disposal of property, plant and equipment (£1.4m), less repayments of lease liabilities (£15.1m), purchase of property, plant and equipment (£4.2m), and purchase of intangible assets (£1.6m). Operating

## Notes to the consolidated financial statements

For the year ended 31 December 2020

cash flow conversion is operating cashflow as defined above divided by adjusted operating profit as defined above.

### 'Return on capital employed'

Management use return on capital employed (ROCE) in assessing the performance and efficient use of capital within the Regeneration activities. ROCE is calculated as adjusted operating profit plus interest received from joint ventures divided by average capital employed. Average capital employed is the 12 month average of total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, intercompany financing and overdrafts).

The Group reports its segmental information as presented below:

2020									
	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	1,623.8	700.1	111.7	441.4	122.8	34.2	-	-	3,034.0
Inter-segment revenue	13.0	-	-	-	-	-	-	(13.0)	-
<b>Total revenue</b>	<b>1,636.8</b>	<b>700.1</b>	<b>111.7</b>	<b>441.4</b>	<b>122.8</b>	<b>34.2</b>	<b>-</b>	<b>(13.0)</b>	<b>3,034.0</b>
<b>Operating profit/(loss) before amortisation of intangible assets</b>	<b>35.7</b>	<b>32.1</b>	<b>1.0</b>	<b>16.1</b>	<b>9.2</b>	<b>(6.9)</b>	<b>(18.7)</b>	<b>-</b>	<b>68.5</b>
Amortisation of intangible assets	-	-	(1.2)	-	-	(1.9)	-	-	(3.1)
<b>Operating profit/(loss)</b>	<b>35.7</b>	<b>32.1</b>	<b>(0.2)</b>	<b>16.1</b>	<b>9.2</b>	<b>(8.8)</b>	<b>(18.7)</b>	<b>-</b>	<b>65.4</b>

## Notes to the consolidated financial statements

For the year ended 31 December 2020

2019

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneratio n	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

During the year ended 31 December 2020 and the year ended 31 December 2019, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

### 4 Tax

	2020 £m	2019 £m
<b>Current tax:</b>		
Current year	10.9	17.0
Adjustment in respect of prior years	0.9	(0.4)
	11.8	16.6
<b>Deferred tax:</b>		
Current year	2.8	0.9
Revaluation of deferred tax balances due to changes in statutory tax rate	1.5	-
Adjustment in respect of prior years	(0.7)	(0.1)
	3.6	0.8
<b>Tax expense for the year</b>	<b>15.4</b>	<b>17.4</b>

Corporation tax is calculated at 19.00% (2019: 19.00%) of the estimated assessable profit for the year.

## Notes to the consolidated financial statements

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

	2020	2019
	£m	£m
Profit before tax	60.8	88.6
Less: post tax share of profits from joint ventures	(2.3)	(6.5)
	58.5	82.1
UK corporation tax rate	19.00%	19.00%
Income tax expense at UK corporation tax rate	11.1	15.6
<b>Tax effect of:</b>		
Gain on disposal of joint ventures not giving rise to a tax liability	(0.5)	-
Non-taxable income and expenses (including CJRS furlough repayment) <sup>1</sup>	2.7	0.7
Tax liability upon joint venture profits <sup>2</sup>	0.6	1.3
Adjustments in respect of prior years	0.2	(0.5)
Expected forthcoming change in tax rates upon deferred tax	1.5	-
Other	(0.2)	0.3
<b>Tax expense for the year</b>	<b>15.4</b>	<b>17.4</b>

<sup>1</sup> During 2020 the Group claimed £9.5m from HMRC under the UK Government's CJRS furlough scheme, upon which corporation tax of £1.8m was paid. Later in 2020 the Group voluntarily repaid the CJRS furlough claims. The repayment was structured such that £7.7m was repaid directly (being 81% of the total received), recognised in central Group costs, with the remaining £1.8m repaid to HMRC in additional corporation tax, as the repayment through central Group costs is not tax deductible.

<sup>2</sup> 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:

	2020	2019
	£m	£m
Final dividend for the year ended 31 December 2018 of 34.0p per share	-	15.3
Interim dividend for the year ended 31 December 2020 of 21.0p per share	9.6	-
Interim dividend for the year ended 31 December 2019 of 21.0p per share	-	9.5
	9.6	24.8

The proposed final dividend for the year ended 31 December 2020 of 40.0p 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 on 19 May 2020 to shareholders on the register on 30 April 2020. The ex-dividend date is 29 April 2020.

## Notes to the consolidated financial statements

For the year ended 31 December 2020

### 6 Earnings per share

	2020	2019
	£m	£m
Profit attributable to the owners of the Company	45.4	71.2
Adjustments:		
Amortisation of intangible assets net of tax	2.5	1.5
Deferred tax charge arising due to change in UK corporation tax rates	1.5	-
Adjusted earnings	49.4	72.7
Basic weighted average ordinary shares (m)	45.5	45.1
Dilutive effect of share options and conditional shares not vested (m)	0.8	1.4
Diluted weighted average ordinary shares (m)	46.3	46.5
Basic earnings per share	99.8p	157.9p
Diluted earnings per share	98.1p	153.1p
Adjusted earnings per share	108.6p	161.2p
Diluted adjusted earnings per share	106.7p	156.3p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the year. The weighted average share price for the year was £13.60 (2019: £12.51).

A total of 1,724,145 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 2020 (2019: 3,189,945).

## Notes to the consolidated financial statements

For the year ended 31 December 2020

### 7 Shared equity loan receivables

	2020	2019
	£m	£m
<b>1 January</b>	<b>8.4</b>	13.0
Net change in fair value recognised in the income statement	<b>(0.5)</b>	(0.4)
Repayments by borrowers	<b>(2.4)</b>	(4.2)
<b>31 December</b>	<b>5.5</b>	8.4

#### Basis of valuation and assumptions made

There is no directly observable fair value for individual loans arising from the sale of specific properties under the scheme. 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:

	2020	2019
<b>Assumption</b>		
Period over which shared equity loan receivables are discounted:		
First Buy and Home Buy schemes	<b>20 years</b>	20 years
Other schemes	<b>9 years</b>	9 years
Nominal discount rate	<b>5.3%</b>	5.3%
Weighted average nominal annual property price increase	<b>3.0%</b>	2.5%
Forecast default rate	<b>27.0%</b>	11.5%
Number of loans under the shared equity scheme outstanding at the year end	<b>211</b>	276

#### Sensitivity analysis

At 31 December 2020, 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 be unchanged.

At 31 December 2020, 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 2020, if the forecast default rate had been 100bps higher at 28.0% 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).

### 8 Trade and other receivables

	2020	2019
	£m	£m
Trade receivables	<b>202.9</b>	244.7
Amounts owed by joint ventures	<b>0.9</b>	4.9
Prepayments	<b>11.3</b>	14.1
Other receivables	<b>19.5</b>	12.0
	<b>234.6</b>	275.7



## Notes to the consolidated financial statements

For the year ended 31 December 2020

### 9 Trade and other payables

	2020	2019
	£m	£m
Trade payables	189.2	184.0
Amounts owed to joint ventures	0.2	0.1
Other tax and social security	40.5	37.1
Accrued expenses	577.9	597.8
Deferred income	17.7	1.6
Other payables	12.5	11.8
	<b>838.0</b>	<b>832.4</b>

### 10 Net cash

	2020	2019
	£m	re-presented £m
Cash and cash equivalents	400.5	251.2
Bank overdrafts presented as borrowings due within one year	(67.3)	(58.5)
<b>Cash and cash equivalents reported in the Consolidated cash flow statement</b>	<b>333.2</b>	<b>192.7</b>
Borrowings due between two and five years	(0.4)	-
<b>Net cash</b>	<b>332.8</b>	<b>192.7</b>

*The prior year balances for cash and cash equivalents have been re-presented in accordance with IAS 32 (see the Basis of Preparation for details). There is no impact on the net assets of the Group or net cash and cash equivalents.*

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £30m matures in March 2022 and £150m in October 2023. These facilities are undrawn at 31 December 2020. The Group has a further facility of £0.4m that was drawn down in full during 2020 and matures in July 2025.

## Notes to the consolidated financial statements

For the year ended 31 December 2020

### 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 £50.7m (2019: £43.9m).

#### 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'.

	2020	2019
	£m	£m
Short-term employee benefits	7.3	9.5
Post-employment benefits	0.1	0.1
Termination benefits	0.2	0.3
Share option (credit)/expense	(0.4)	3.1
	7.2	13.0

#### Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 25 February 2021.

#### 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 25 February 2021.

### 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 2020. 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 25 February 2021 and is signed on its behalf by:

**John Morgan**  
Chief Executive

**Steve Crummett**  
Finance Director