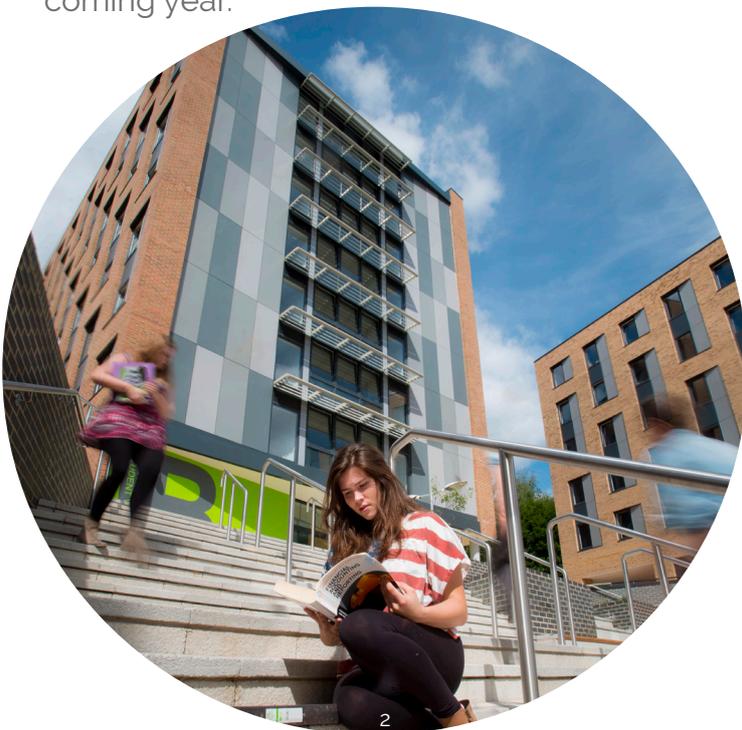


# 2014 Chairman's Statement

I am very pleased to be able to report a return to profitability in the year to 31 March 2014. The Group has seen a 28% growth in turnover and has recorded a profit before tax of £5.2 million, after a loss in the previous year.

2014 has had a very different feel to 2013. Our Development and Investment business had an excellent year, handing over a 499 bed student accommodation project for the University of Winchester and making good progress on Mayflower Halls, a 1,100 bed scheme for the University of Southampton.

Construction grew its turnover by 37% (including both student accommodation schemes) and returned to profit. Both Property Services and Infrastructure exceeded their budgets, and achieved very significant project awards that provide these businesses with a very solid base for the future. Innovaré suffered from project slippage but has managed to build a strong order book for the coming year.



Cash has, again, been a key focus, and our cash position remained strong at £25.6 million (2013 - £27.8 million), which is particularly pleasing as we invested £5.5 million (without recourse to bank borrowing) in 40,000 sq ft of office space in Cambridge as part of a joint venture with the Howard Group.

The safety of those we work with is of utmost importance to us and, unfortunately, our Accident Frequency Rate for the year fell back to 0.35 from last year's record low. While this movement has also been experienced by a number of our peers, it is disappointing and we have increased resources and leadership in this area as a result. This has seen an improvement in the trend in the final quarter.

Last year I reported that we saw good opportunities in all our chosen sectors, and this positive market outlook has continued through the year. This brings with it new challenges, such as material and supply chain price inflation, and we have responded by focusing on shorter duration projects, two-stage tenders and frameworks, which reduce this risk. Our Order

Book has been significantly strengthened by recent wins on Network Rail's Wessex Southern Multi Functional Framework and the housing management contract for Dacorum Borough Council. The secure order book now stands at £443 million (April 2014), an increase of 63% on last year.

During the year I have, on many occasions, been hugely impressed by the professionalism and personal commitment of our employees in making our customers successful. I would like to thank them all for their efforts. Two examples, in particular, stand out: the Saw Swee Hock building for the London School of Economics, and the Emergency Earthwork Repairs for Network Rail.

The Saw Swee Hock Student Union Centre has been one of the most complex and technically challenging projects Osborne has undertaken. It is a truly remarkable building and its quality is a testament to the project team and the many craftsmen that worked on it. Its recognition as the RIBA London Building of the Year is hopefully one of many awards to come.

The prolonged and heavy rain at Christmas and into the New Year caused severe damage to the rail network in the South. At very short notice, we had teams working 24 hours a day, 7 days a week over a twelve week period to repair 8 separate landslips, including one of the worst ever seen on Britain's railways at Botley, Hampshire. I pay tribute to the staff and supply chain involved who demonstrated an extraordinary level of agility, resourcefulness and ingenuity as well as true collaboration with the customer, all while giving up their Christmas holidays.

The last year has seen a transformation in confidence compared to the previous five, and there has been a dramatic improvement in the outlook for the industry, particularly in London and the South East. We have made

good progress but we still have work to do. With the Scottish referendum and an election next year, there remain uncertainties, and the UK economy is still vulnerable to shocks in the Eurozone. However, the problems facing the industry have changed; many people left the sector in the recession and we are seeing cost inflation in nearly all areas. This will bring new challenges, but, as always, we will focus on our customers and providing them with a first class service, and I believe we can look forward to the coming year with optimism.



**Andrew Osborne**  
Chairman

Images:

- 1 Andrew Osborne, Chairman.
- 2 Burma Road Student Accommodation, Winchester.
- 3 The gym at the Saw Swee Hock Student Centre for the London School of Economics.



# Chief Executive's Report

## Introduction

**2013-14 has been a year of significant progress for the company both financially and in refreshing our customer focus.**

We have always been a company where customers can easily reach the right person to speak to. We have always been a company which is honest with our customers – even when that means telling them bad news. We have always been a company that is responsive to changing needs and dependable. These are the characteristics that make us different. It's not 'what we build' but 'how we do business' that makes us special.

In 2013 we reminded everyone in the company of this. We also ensured that our passion and our skills were visible in every prequalification and tender we submitted so that customers could choose us (or not) knowing what they were buying.

The results of this are that, as at April 2014, our secured forward order book was £443 million compared with £272 million a year before (63% increase) and our secured orders plus good prospects was £633 million compared with £351 million a year before (80% increase).

By ensuring that our customers choose us for what we can excel at, we will ensure we have happy customers and develop a service-led business.

## Finance

Year ending March	2014	2013	2012	2011	2010	2009
Turnover	£325m	£256m	£281m	£287m	£311m	£334m
Profit before tax	£5.2m	£(2.6)m	£1.0m	£3.5m	£2.8m	£2.6m
Cash	£25.6m	£27.8m	£31.3m	£31.4m	£30.6m	£27.3m
Staff numbers	884*	831	937	950	1030	1108
Turnover per employee	£368k	£308k	£300k	£302k	£302k	£301k

\*includes people employed by customer whom generate turnover for us.

The table shows the improvement in the year.

Our end of year cash at £25.6 million is particularly pleasing as during the year we invested £5.5 million in buying Mount Pleasant House, Cambridge.



## Business Philosophy

Osborne works across a wide range of construction related activities in order, so far as is possible, to ensure a steady workflow. The activities include both cash generating and cash absorbing businesses. By managing the balance of these activities we can create a good return on capital employed with an acceptable risk profile.

## Construction

Our Construction sector grew by 37% and is now trading at comparable levels to those pre-recession.

Education is now the largest market for Construction and in 2013 we completed 9 schools. In 2015 we expect to complete 18 schools. As this market matures, so the emphasis will move from primary to secondary schools.

Two significant completions in the year were:

- The £26 million Saw Swee Hock Student Centre for the London School of Economics, completed in December 2013. This building won the RIBA London Building of the Year award, ahead of The Shard, a number of Olympic projects and Kings Cross Station redevelopment.
- The £16 million Winchester Student Accommodation on which we were both developer and design/build contractors.

At the time of writing we have commenced phased handover of Kingfisher Court Mental Health Facility, Hertfordshire (£32 million), Mayflower Halls Student Accommodation, Southampton (£43 million), Chichester Festival Theatre (£12 million) and the customer is starting fit out of the new School of Architecture at Greenwich (£42 million).

For 2014-15, the emphasis is on improving performance. The forward order book indicates that further growth will occur in 2015-2016.

## Infrastructure

Infrastructure was formed in 2013 by combining the previous Civils and Rail sectors. In the year it grew by 17%. Infrastructure undertakes a wide range of work primarily across the rail and road networks.

On 24 December 2013, Network Rail sought assistance repairing embankment slips that occurred following the extreme weather. The team worked 24/7 from that day until March to complete nearly £4 million of works under truly appalling conditions.

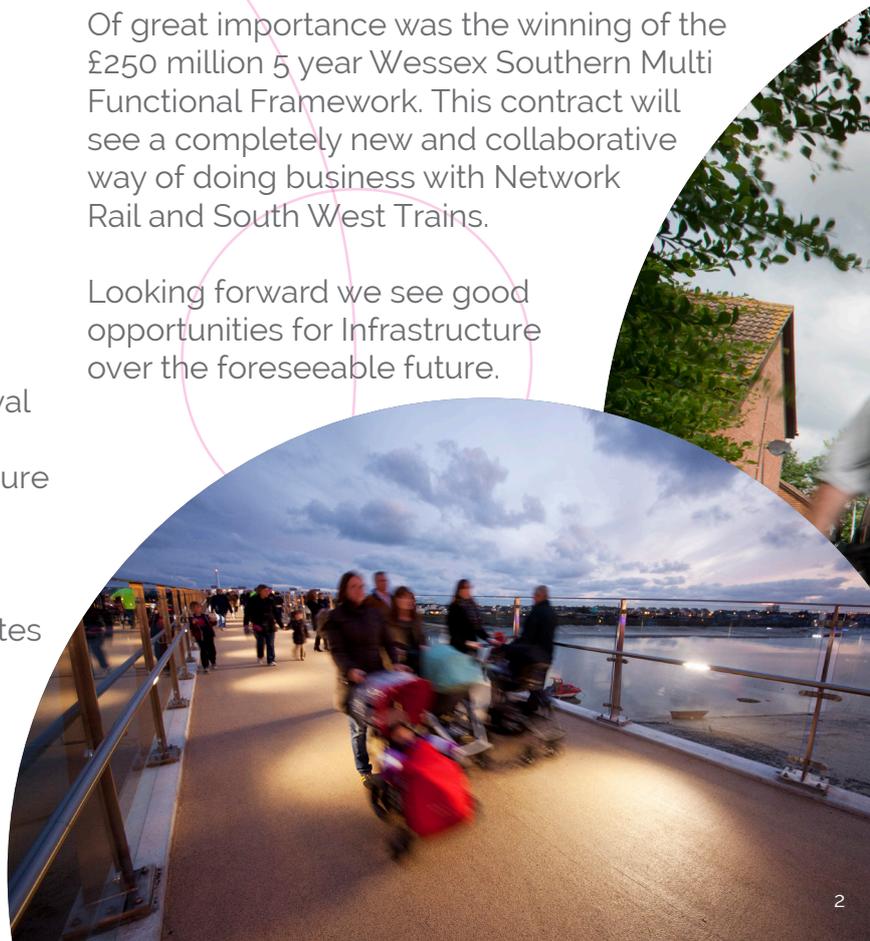
Also over the Christmas rail shutdown, they replaced Ravensborne Rail Underbridge at Catford.

Other notable completions in the year were:

- The £10 million new Dartford Station Building.
- The £10 million Cross Rail Signalling Renewal.
- The £7 million Adur Ferry Bridge at Shoreham.
- The £7 million Northern Road Bridge at Portsmouth.

Of great importance was the winning of the £250 million 5 year Wessex Southern Multi Functional Framework. This contract will see a completely new and collaborative way of doing business with Network Rail and South West Trains.

Looking forward we see good opportunities for Infrastructure over the foreseeable future.



## Property Services

In the year Property Services grew by 22%.

The on going Ascham and Winchester projects traded successfully. The Circle 33 project came to an end and we were delighted with the accolades that our people received in the way this was handed onto the next contractor.

We were delighted when Affinity Sutton came back to us mid 2013 for their responsive maintenance works for 22,000 properties.

Property Services customers put great importance on their contractors – us - giving back to the community. This has seen a wide range of activities led by us including work experience, Christmas parties, refurbishment of community centres and the permanent employment of local people with learning difficulties.

Close to the year-end Property Services were advised that they had been successful on the Dacorum Borough Council responsive and planned repairs for 10,600 homes. The contract is for 5 years renewable for a further 5 years and could have a value of £235 million over this time.

## Innovaré

In the year Innovaré, our wholly owned subsidiary, grew by 31%. This business is a specialist provider of energy efficient buildings.

Innovaré is consolidating its customer base with repeat work now coming from a stream of blue chip contractors.

The business has made significant improvements in the latter part of the year to its project and commercial management and factory productivity has been greatly enhanced by improved workflows.

The Kingfisher Court Mental Health Facility, undertaken for Construction, is the largest Structural Insulated Panel (SIP) building constructed in Europe.

## Development & Investment

The Winchester Student Accommodation building was successfully completed and handed over. It has been well received by the students and we are now looking at further work with Winchester University.

The 1,100 bed Student Accommodation at Mayflower Halls, Southampton has proceeded at pace throughout the year and is on programme for occupation September 2014.

As previously mentioned we purchased an office block in Cambridge for £5.5 million which we will re-develop.

Our Central London property has been refurbished and the top 2 floors leased out.

On our Witham Industrial development, all units will be sold or leased by the end of June 2014.

A number of further opportunities are being pursued.



## Health & Safety

The difficulties and disruption experienced in 2012-13 in our Construction sector undoubtedly impacted their Accident Frequency Rate (AFR) which has in turn meant that the overall AFR for the company is 0.35. This is of great concern and actions were taken to address this. Taking the last quarter of the year Construction's AFR was 0.15. This would equate to a 0.2 AFR across the company for the last quarter. This trend is encouraging.

During the year over 6,000 Improvement Opportunities were submitted by us and our Supply Chain people through our on-line business enhancement scheme. This was 50% above our target of 4,000.

We recognise though that we have not yet embedded Health and Safety into every action every one of us takes. This remains our objective and our challenge. We are increasing our Health and Safety training accordingly in the coming year.

We have introduced a Health Monitoring System for new employees and we will develop this into a system for all employees.

In 2014 Infrastructure are piloting for the company a new behavioural safety programme.

## Market Trends

The unexpected and sudden market upswing since mid 2013 saw our volume of enquires soar. In our geographic area this is continuing. Elsewhere across the UK it is patchy.

In the National Infrastructure Plan the government has increased its estimate of annual infrastructure spend by over 10% to £45bn per annum. The commitment to new build in Road and Rail are significant and give Infrastructure a solid basis to develop their sector on.

The country's demographics mean that there will be an on-going demand for primary school places followed by secondary schools. In Further Education we see colleges investing heavily in new facilities in order to attract both international and local students. Both are markets where Construction has great expertise.

The housing shortage is well documented and we see a steady flow of opportunities in this market both on the new build and the responsive and planned repair markets.

As the economy continues to grow the demand for offices and other commercial premises is increasing particularly in the South East.

The increase in construction activity has seen the start of resource shortages. This increases the attraction of off site construction which, combined with Innovaré's growing brand strength and market presence, gives them the potential to grow substantially year on year.

## Process

Behind every sustainable business are effective processes.

Throughout the year we have been improving our processes. This starts with recruitment and induction. It continues into value propositions and work winning, then into resource allocation, into purchasing etc. We aspire to making all our processes 'simple and effective'.

We have made considerable improvements in the way we manage and monitor our cash. Across the business there is a greater recognition of the importance of cash and the disciplines needed to manage it professionally.

In Property Services the investment made two years ago in IT and processes continues to deliver productivity improvements.

During the year we replaced the IT backbone of our systems. This was a major exercise carried out without significant disruption to our activities and gives us a solid IT platform for the coming years.

We have established an overall governance process to ensure that every part of the business recognises the essential processes and monitors their compliance with them.

Improving our processes is not a 'one off'. It is a continuous, year on year, requirement in order to keep the company attractive to our customers and our employees effective and competitive.

## Risks

Despite our improved performance and the market trends there are always risks which we must be aware of and plan for.

The risks for main contractors on long duration fixed price contracts in a rising market, where trade contractors and trade suppliers can and will lift their prices, are well known. The majority of our tenders and work has therefore been for 2 stage, frameworks or short duration projects. Whilst this does not eliminate our risk it greatly reduces it.

We recognise that in 2015 there will be a general election and there will be a hiatus for 3-6 months when government funded projects are delayed.

Over the last 5 years it is estimated that some 250,000 people left the construction industry. We are aware of the risk this creates and are looking to recruit ahead of need rather than find ourselves without the right people.

## The Future

After a number of challenging years, when some difficult decisions were made, the future is now much rosier.

2013 saw a return to sound financial trading. It also saw more effective processes and governance across the company.

Most importantly, the improving performance allowed the company to give more time to our customers. Osborne is all about providing a very personal service to our customers and a service based on collaboration, trust and flexibility. That is what sets us apart from most other contractors and is what our customers want. When we get this right we give our customers 'a more enjoyable project experience' than others.

During the year we reminded all our people what the essence – the soul – of Osborne was all about and as I write this we are rebranding the company in a bold and vibrant way. Rebranding is **not** about changing the essence of the company. It **is** about telling more customers what makes us special. Only by knowing how we do business can they make an informed choice to work with us.

Across the company we have many remarkable people and a great multi-discipline capability. We have a good future order book and an improving market. We are telling our customers what they can expect from us if they choose us and are clear in our value propositions to our customers.

There will be challenges to overcome but I look forward optimistically to telling you about our further progress in a year's time.



**David Fison**  
Chief Executive

### Images:

- 1 David Fison, Chief Executive
- 2 Adur Ferry Bridge reconnects the community in Shoreham-By-Sea
- 3 A multi-skilled operative on our Affinity Sutton Contract