

Chairman's Statement

and

Chief Executive's Report

OSBORNE

AUGUST 2017



Chairman's Statement 2017

I am delighted to report an increased profit before tax of £3.6 million for the year to 31 March 2017 (2016 - £3.0 million). It is particularly pleasing to note that, for the first time in a number of years, all our Contracting businesses were profitable. Our Developments business did not make a significant contribution, as no developments reached completion during the year, but we do have two projects on site and planning consent was achieved on further sites during the year, so it can look forward positively. Our offsite manufacturing business, Innovaré Systems, saw continued improvement with a £0.5 million profit (2016 - £0.2 million) and has now completed over 100 schools.



Our turnover for the year was £348 million (2016 - £342 million). The EU referendum undoubtedly resulted in increased uncertainty causing a slowdown in projects coming to site. Additionally, the changes in Government funding around social housing impacted spend in this market sector and saw reduced turnover in our Property Services business. However, we have recently been awarded a number of long-term repairs and maintenance contracts, including contracts for Slough Borough Council and Optivo Housing Association, so we are planning growth in this business.





Our cash position remained strong at £22.1 million (2016 - £26.7 million) and enabled us to pursue our strategic objectives and invest a further £3.5 million in joint ventures to develop student accommodation. We have a £5 million revolving credit facility and borrowed £2 million during the year to ensure that our investment in joint ventures did not limit working capital.

Health and Safety remains of the utmost importance to us, so I am pleased that our Accident Frequency Rate has improved slightly from 0.17 to 0.15. We will not achieve our aim of zero accidents through process and procedure alone and so have put over 1,000 people, including customers and supply chain, through our behavioural safety programme, "STOP Think!". We have also increased our focus on health (notably mental health) taking part in Mind's first Workplace Wellbeing index, and being an active member of Health in Construction.

Our people are fundamental to our success, and creating opportunities for them to learn and develop will secure our future. We have undertaken 2,834 training days during the year across 149 different courses. We now have 77 apprentices, trainees and graduate trainees across the business, representing some 9% of our workforce.

Our secured forward order book at the end of the financial year stood at £461 million (2016 - £445 million) across a broad range of markets in both the public and private sectors, and we have positions on a number of frameworks. Including work in second stage or single source negotiation the order book stood at £753 million (2016 - £639 million), a record level.

The recent election and the process of Brexit have increased uncertainty in the market, but the Construction industry has always been volatile. Our strategy has been to look to grow in areas of reduced (or at least different) volatility to give a better balance to our portfolio of businesses, and recent events have not changed this approach. We have made good progress during the year with significant investment in student accommodation and housing – both new build and repairs and maintenance - and we look to continue this in the coming years. We have also seen a considerable number of project wins where we scored highly on quality and were not the lowest on price, as we have focused on customers for whom quality of service is a key driver in their business models.

Brexit will significantly impact the industry, particularly in the availability of labour. Our response is to work much more closely with our preferred supply chain, involving them at an earlier stage in the design process, so that we can improve efficiency, and make greater use of modern methods of construction and offsite manufacture.

The tragic fire at Grenfell Tower in June will have a far reaching impact on the industry. It is an opportunity for all of us to make a step change in how the industry operates, demonstrating that we understand the duty of care we have for the end users of our output, and that our involvement in health and safety does not stop at practical completion.

Our success is a testimony to the energy, hard work, innovation, team spirit and enthusiasm of our people. I never cease to be amazed by the many remarkable things they achieve, and would like to thank them all for their efforts.





Chief Executive's Annual Report

We continue on our ambitious journey to do something a little different, and I am pleased that our strategy is making good progress. Our core values remain unchanged: we will never do anything if it cannot be done safely and never knowingly compromise quality. We recognised that to create a more sustainable future we needed to become a learning organisation. Our solid operating performance has been built on the premise, 'to truly understand the needs and challenges of our customers, who value our service led solutions that go beyond the build'. This insight has driven our investment strategy and the development of new income streams.





Making you successful

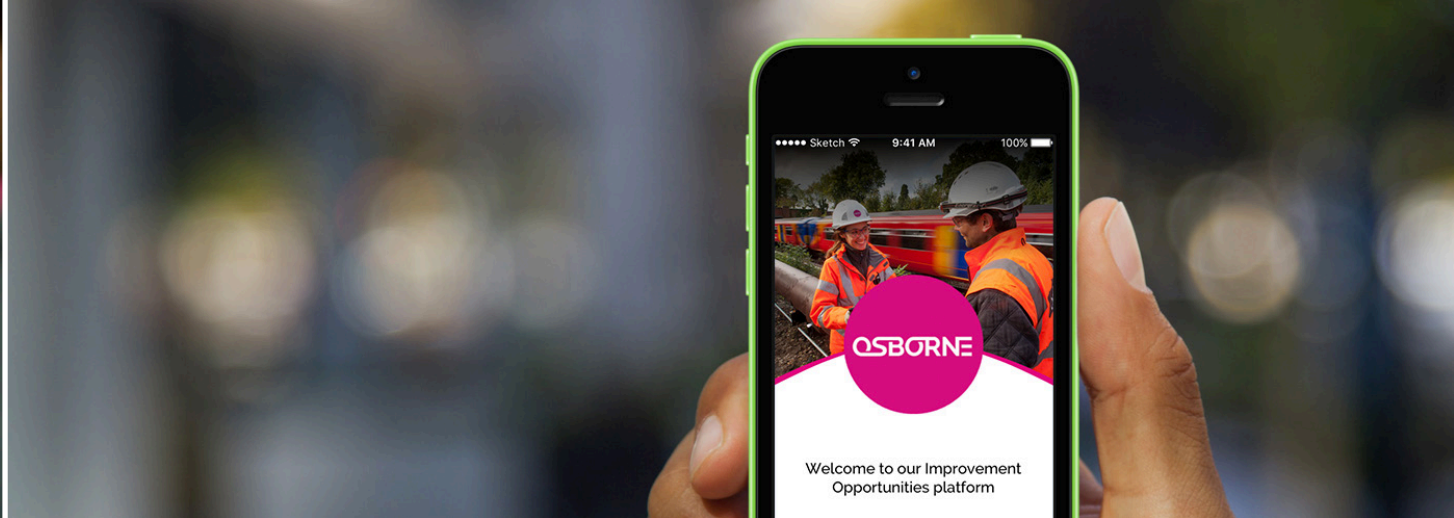
Having delivered another year of increasing profitability I am delighted that we are making good progress on our 5 year business plan. We started this journey by recognising that the business model that had served the Group so well for the last 50 years would not make us successful over the next 50 years.

The new business model plans for more investment into our own assets to create a long term development pipeline, with the ability to manage the whole property life cycle. We aim to grow our operating businesses into a more balanced portfolio between social and transport infrastructure. Leveraging our increasing profitability, this year we have made further substantial investment in 777 student bedrooms. Combining this with our construction activities means that we now have around 3000 student study bedrooms either on site or in the pre-construction development programme.

Importantly, all of our operating businesses delivered profitable results this year. Going forward, our balanced portfolio is designed to ensure that we can consistently deliver increasing profit from our operating businesses. When combined with new revenue streams from development programmes due to commence this year, this bodes very well for the future.

Our specialist subsidiary Innovaré Systems has seen strong profit growth delivered by simplifying off-site construction. This year we are investing further by doubling the capacity of our manufacturing plant to serve the growing demand for such solutions. Our investment in B1M Limited, a social media venture, has delivered a remarkable performance with the company ranked Number 1 in the top 500 global BIM influencers.

Our long term forward order book is at a record £753 million and is further enhanced by over £100 million in successes in our social housing business. This is a testament to the value our customers place in our brand, the learning and improving culture we strive to create, and the importance we place on safety and quality above all other business decisions.



A learning organisation

The Grenfell Tower fire has been a wakeup call to the entire industry of the need to review every stage of product regulation, specification and installation. It is essential that the industry openly shares the learning from the detailed inquiries of this tragic event, but in the meantime, we have progressed risk assessments of our own completed and current projects. We have, and continue to review the fire strategies of our individual projects, revisited the validation of design details against those fire strategies and considered how our inspection and test plans can be further enhanced and improved accordingly.

With recent political events and exponentially increasing technological advances, we all face global economic and industry change of an unprecedented scale and speed. So much so that the only real certainty we have is uncertainty!

It has never been more important for all our people to have the ability to work outside of their comfort zones in less than certain environments. To thrive in such environments we all need to learn openly from every event and share that knowledge widely. No single individual, team or organisation is infallible.

As a constant reminder of the paramount importance of being a learning organisation, my colleagues and I keep an aircraft black box in the office. This incredibly intelligent device captures every decision and the resulting outcome, enabling the aviation industry to maximise learning opportunities to drive those all-important marginal gains in safety and performance improvement.

In our ambition to mirror such data capture and performance improvement, our culture empowers our teams to openly learn from both our mistakes and our successes. We continue to work hard to embed this learning culture business-wide through activities such as our STOP Think! programme and Improvement Opportunities. We have invested in the development of our own Osborne IO App to effectively and efficiently capture ideas and suggestions for improvement from our people, people we work with, people we work for, and members of the public.

Over 4100 Improvement Opportunities have been raised, reviewed and closed out across the business during the year, sharing great learning across our businesses, our customers, and our supply partners. This is testament to our collective organisation mindset to continually evolve within a safe and trusting environment.



Our people

Our core values of openness, caring, quality, progressiveness and integrity underpin all our decisions. We value the benefits of an inclusive and diverse workforce.

Health and wellbeing have become much more aligned to our safety journey. This year we are one of only six construction companies to have taken part in the inaugural "Mind" Workplace Wellbeing Index, and we aim to achieve Gold Standard by 2021. To achieve Gold an organisation has to demonstrate that it has successfully embedded mental health into its policies and practices using a variety of best practice approaches, and demonstrated a long-term, in-depth commitment to staff mental health.

This year we have also put more emphasis on learning and development, confirming our commitment to being a learning organisation and creating space for our people to be creative and to innovate. An action learning programme was developed for our top 40 leaders with the aim of building agility, collaboration and resilience into our leadership team. Five separate action learning groups are working to develop solutions around specific prioritised problems within our business plan including:

- Value Propositions
- Sustainability Strategy
- Supply Chain Management
- STOP Think! Cultural Change Programme
- Performance Improvement



We all bring something different to the business and we need to attract and retain people who will help us to move forward with exciting ideas and innovative thinking. We know that we can only do this with a diverse pool of people. Hence, this year we started work with the Sustainability School on their Fairness, Inclusion and Respect Programme (FIR).

We are represented on the Industry's Fairness Inclusion and Respect Steering Group and have appointed FIR Ambassadors who arranged joint FIR workshops with our customers. They are also supporting our Group People Director to improve our diversity and inclusivity people strategy. In addition, our People Director is working with external support from "Stonewall" to help progress our LGBT (lesbian, gay, bisexual, and transgender) Strategy. Stonewall is a member of the Equality and Diversity Forum, a network of national organisations committed to achieving progress on age, disability, gender, race, religion and belief and sexual orientation issues.

Our People Team has provided refreshed guidance and workshops on absence management and hiring to help our people become more effective in these areas. We have also refined our recruitment processes to reduce our dependency on recruitment agencies. 46% of all hires in 2016/17 were secured directly, which is a significant improvement. We have an established scheme to reward employees who nominate and introduce new candidates and also have a growing waiting list of applicants who have expressed interest in working with us.



Our focus remains on nurturing and promoting the very best talent from within and we do all we can to help our people succeed. A total of 3664 people have received formal training.

I was truly inspired to read the nominations for the Annual Chairman's Awards. Our STOP Think! Cultural Change Programme Leader received the overall Chairman's Award for helping us all to think differently and make better decisions to keep us all safe. The Mercers Yard project team were worthy winners for demonstrating exceptional customer service and, as a consequence, securing long term repeat business. Other winners included the Connect Plus Lifecycle Bid Team (who achieved an exemplar bid quality score over all competitors), our Service Delivery Manager (who was the inspiration and creator of a new training centre with our customer Dacorum), and our site manager at Whittington College who was recognised for his exceptional personal service.



Our supply partners

Working closely with our suppliers is essential to ensure the successful delivery of our projects. Their considerable knowledge and experience adds value when they work with us from the earliest possible stages of a scheme to create innovative service led solutions that make our customers successful. We continue to develop ways to make it easier and more efficient for our suppliers to work with us. Through increased collaboration we have seen an increase in work undertaken by recognised Preferred Supply Partners compared to the previous years. These are suppliers who share and demonstrate the same commitment to delivering continuous improvement in safety, quality and performance.

Only by working as a fully integrated collaborative team can we fully realise the benefits to all parties, including the people who use our infrastructure, work within our buildings, or live in the vicinity of our schemes. In our endeavour to build trusted supplier relationships we have introduced an "Early Payment Facility" that allows preferred and selected suppliers to draw down their payments early. We are also currently testing a jointly developed online invoicing process called "Webcontractor" - an application workflow system providing increased transparency for both our suppliers and ourselves.

Nominations for our annual Chairman's Awards are actively sought from our supply partners and our suppliers are encouraged to contribute to our Improvement Opportunities. This has been made much more accessible for everybody with the Osborne IO App. Our suppliers play an important part of our continuous learning and in unlocking the benefits of trusted and collaborative relationships with our customers.



Our operating businesses

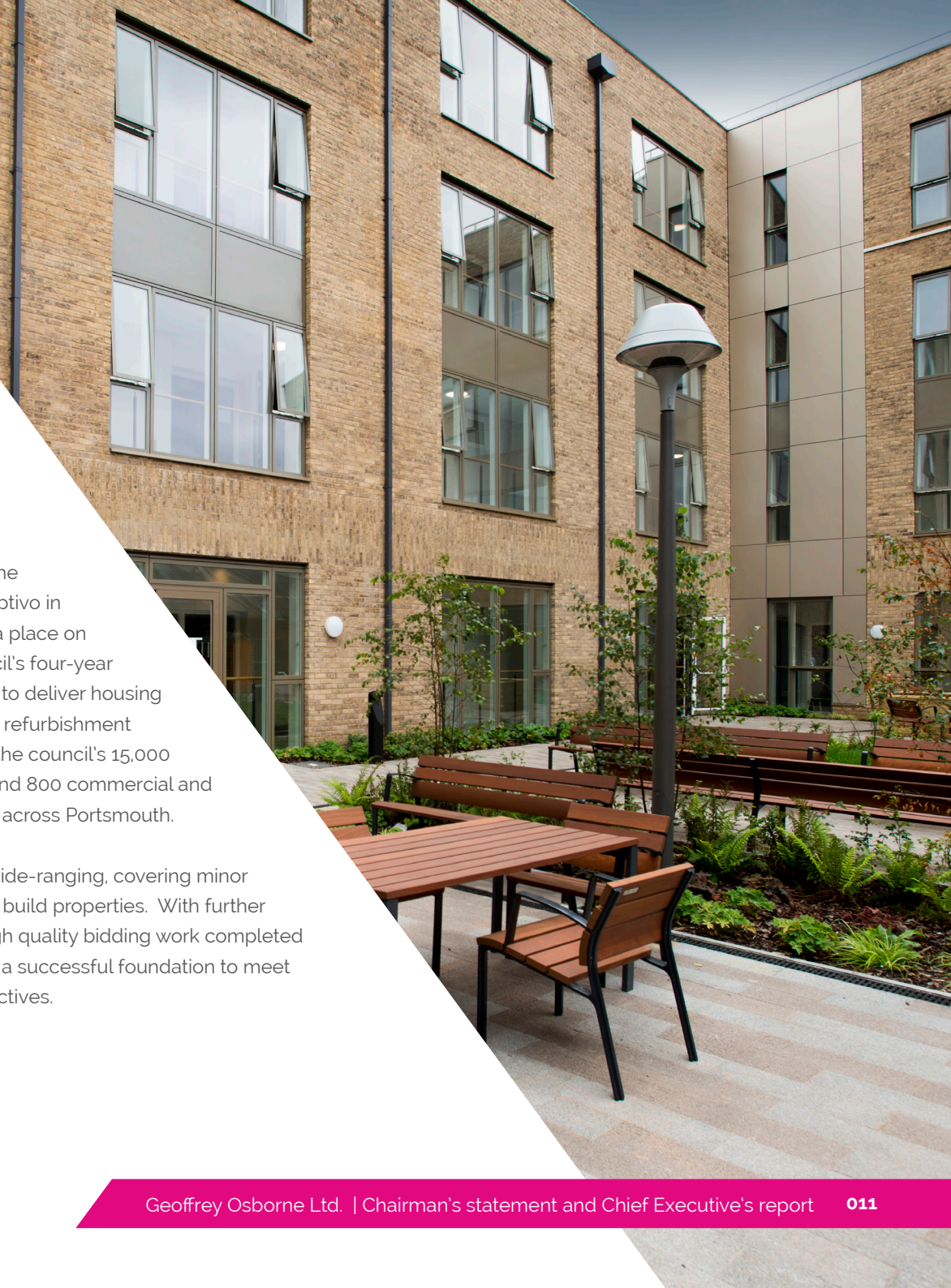
Health, Safety and Wellbeing remains at the heart of everything that our company does. If it cannot be done safely it will not be done. While our Accident Frequency Rate has improved slightly from 0.17 to 0.15, we are determined to be leaders in the safety arena. This is demonstrated by our long term commitment to rolling out our STOP Think! programme across the business and leading indicators such as senior management tours and IOs.

As a partner of the Supply Chain Sustainability School and a "Gold Leaf" member of the UK-Green Building Council, we have been actively supporting environmental issues. We have sponsored a ground-breaking report on the carbon targets set by our Infrastructure customers and have adopted the BRE's Smartwaste Portal as a mechanism to capture environmental data on waste, energy, water and sustainable timber from our sites.

We continued to invest in strong governance, including the development of an integrity risk management programme designed to raise awareness of the potential of financial misconduct and build in checks and balances to inform decision making. We are also increasing the accuracy of our financial forecasting and reporting.

These actions, combined with careful opportunity selection, have all contributed to confidence and strength in creating increasing business value. We continue to increase business value by improving the performance of our operating businesses and through investments in our development company.





Social Infrastructure

Our business plan identifies significant controlled growth in the provision and maintenance of social housing. During the year we have strengthened our Social Infrastructure operating businesses by appointing managing directors for property services and homes. This will provide our communities leadership with the necessary space and capacity to develop and deliver the planned business growth.

Communities

Our property services team is recognised for providing a consistently high level of service to meet the needs of its social tenants. We received over 110,000 calls in the last year. An impressive 96% of these were answered within 20 seconds and 90% of the faults reported were fixed on the first visit. Our focus on customer service has been rewarded with contract extensions on existing frameworks at Winchester and for Hyde. The Hyde Group also extended the geographical areas where we can carry out works under their Responsive Repairs and Voids Support contract.

New property service contracts have been secured with Slough Borough Council and the Housing Association Optivo in Sussex. We also won a place on Portsmouth City Council's four-year framework agreement to deliver housing project works covering refurbishment and planned works to the council's 15,000 homes, as well as around 800 commercial and educational properties across Portsmouth.

The scope of work is wide-ranging, covering minor repairs through to new build properties. With further results awaited, the high quality bidding work completed this year has delivered a successful foundation to meet our business plan objectives.



New build housing has always been an important market for Osborne and we have delivered over 2,700 new homes. Our teams work collaboratively with a number of customers to optimise land use, creating smaller scale community based infill sites as well as solutions for traditional larger new build projects. Where possible we continue to maximise the simplicity, speed and efficiency of off-site construction through our subsidiary company Innovaré Systems.

We have been awarded two projects under the London Borough of Islington Framework. At Rowstock Gardens we are on site constructing two new build residential projects, providing 24 homes designed to achieve Code for Sustainable Homes Level 4. Works on the Redbrick Estate are to construct a new community centre, two retail units and 55 flats over three blocks. On both projects we are working with our specialist partners, who are experts in community regeneration and have an unparalleled understanding of creating resilient communities that can engage effectively in the neighbourhood.



Education and commercial properties

We continue to build on our reputation and expertise in providing exemplar buildings in the education and mixed use commercial property markets.

This year will see our school expansion project start work on site at Greenford High School in Ealing. This project is unique as it is our first design and build secondary school project for a public customer with Innovaré. Using Innovaré off-site manufactured frames will ensure low construction waste and contribute towards achieving our BREEAM Very Good target.

Following our successful delivery of Mayflower Halls student accommodation at the University of Southampton, we were awarded a second student accommodation project, Chamberlain Halls, which replaced existing halls that had stood since 1959.

Mercers Walk Building Project of the Year – Winner 2017; Judges' comments:

Osborne delivered a remarkably complex project with outstanding outcomes despite its challenging location and associated restrictions. An honest approach by a “proper family building company” resulted in a sustainable relationship with the client’s team – The Master of Mercers was so impressed that a further six jobs have been negotiated with Osborne.

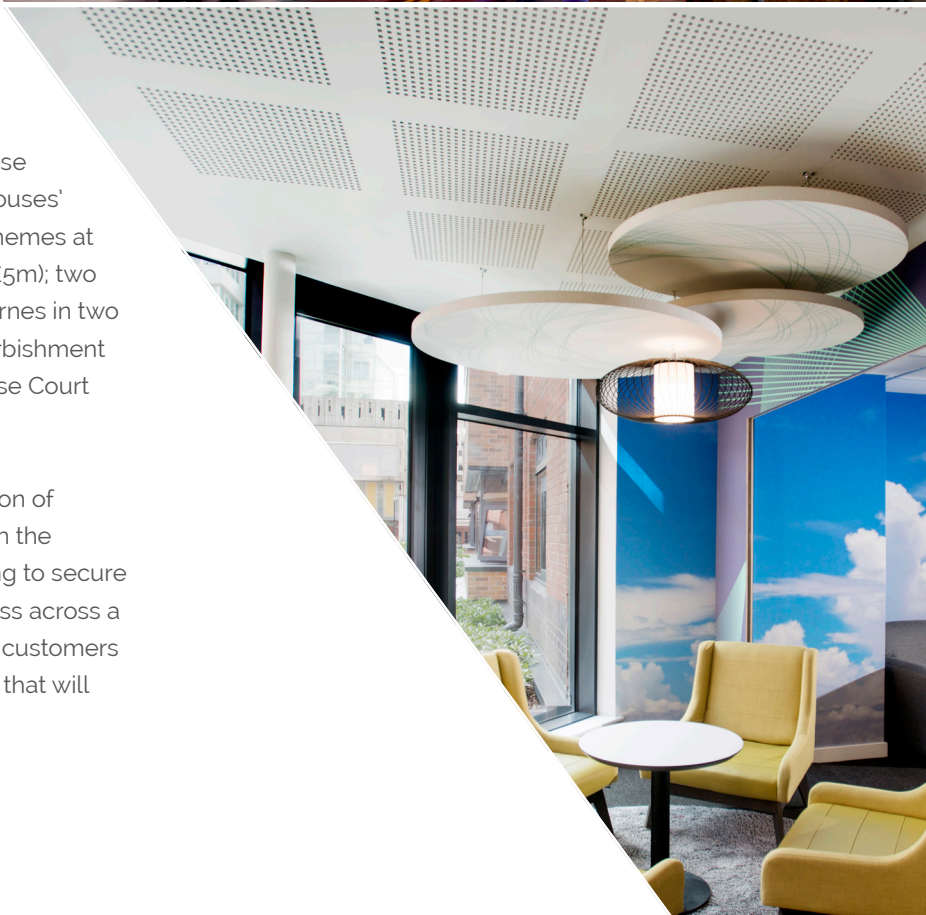
Meanwhile, at the Royal Holloway University of London we are completing a new 24 hour library and student services centre and recently started construction of a new science centre on the same campus. Our Level 2 BIM Model is being put to great use on the library project to provide coordination between designs, package information and clash detection.

Mercers Walk recently won Building Project of the Year at the Constructing Excellence in London and the South East Awards 2017, beating the Tate Modern. This was a £22m mixed use development in the heart of Covent Garden for The Worshipful Company of Mercers.

The real success story associated with Mercers Walk has been the collective journey of added value collaboration and learning with our customer, and the specialist teams and advisors anchored back to this project.

The depth and openness of the trusted relationships established has created a £95m pipeline of quality repeat business. These opportunities have included: fourteen Almshouses' at Whittington College (£3.5m); mixed use schemes at Frederick's Place (£15m) and Sussex House (£5m); two new teaching blocks at St Paul's School in Barnes in two phases (£19m and £22m) and a complex refurbishment and new build mixed use scheme at Hobhouse Court (£30m).

We have benefitted from a growing recognition of the value we can add when appointed early in the procurement process. It is particularly pleasing to secure such a high level of negotiated repeat business across a series of discrete projects. In some instances customers have requested specific Osborne employees that will comprise the project team they want!





Transport Infrastructure

Transport Infrastructure remains a key growth market. This year we exceeded our budget expectations by maximising opportunities from within our existing customer relationships and arrangements. Our learning culture and energy directed at continuously improving services and performance has been rewarded by retaining significant highway, structures and rail frameworks with Connect Plus, Hertfordshire County Council and the Network Rail Minor Works contracts. Collectively these deliver £25 million per annum. We have won work with new customers in London Overground, Liverpool City Council and Great Western Railway, as well as securing new work for South West Trains. These successes have been part of a more robust customer strategy, focusing on the value that we bring to our customers.

Rail

Through completion of the Reading 10 Car Programme of platform extensions and substations we have further grown our multi-discipline capability, increasing our reputation in the delivery of track, signalling and electrification works. We completed our first station refurbishments and upgrades for London Overground, are delivering our first modular car park contract for Great Western Railway at Didcot, and are a key delivery partner for the Thameslink Programme of Works for Class 700 Trains. This year also saw us commence the advance works for the delivery of our project to transform the area around Twickenham Station. The Solum Gateway Development will include a new station around a new public plaza including shops and homes. It is a true testament of the beneficial service-led solutions that we can provide for our customers when we pool our combined skills and knowledge.

Highways

We have also maximised the opportunities from Connect Plus and, to a lesser extent, Highways England Frameworks, although the latter is now providing increased visibility. Securing the Connect Plus Lifecycles framework for a further 10-12 Years with a quality score of 90% is testament to our deep understanding of our customers' challenges. This is also demonstrated by the award of the A565 North Liverpool Dualling Scheme, which was won on quality not price! After nearly two years of hard work and with much appreciation from our customer, the transport interchange building at The Hard is now complete. The magnificent canopy is certainly in good company, with HMS Warrior, the Historic Dock Yard and the iconic Spinnaker Tower as neighbours.



Investment and Developments

In a competitive educational environment we recognise the important role that good quality student accommodation can play in supporting the strategic goals of academic institutions. Student recruitment, retention and satisfaction can all be influenced by the whole living experience. As the student accommodation market has matured, more innovative ways of approaching funding have also developed, mainly taking advantage of the private sector's willingness to invest.

We continue to strengthen our in-house team of specialists who are developing direct let schemes targeting demand in specific locations, and others in direct partnerships with universities and colleges. Our end to end capability - from land acquisition to fit out and maintenance - enables our customers to realise their ambitions from concept to completion through a more value-focused delivery solution.

This year project highlights have included:

- A 257 bed Joint Venture development with Student Resident Investment Limited at Winchester - a brownfield regeneration of an underused city centre site.
- A courtyard development with the same partners for 211 premium en-suite student homes and 28 studio flats.
- A 277 bed development to be used by St Edmund's College, University of Cambridge, including large en-suite study bedrooms of 17.5m² and a number of studio flats.

These developments are prime examples of how the standard of student study homes is considered so important in attracting students and enhancing the undergraduate learning experience.



Innovaré

The growing off-site market continues to suit our Innovaré approach to simplifying off-site construction and we have secured significant forward orders. Innovaré core service activities include delivering full-structure education and residential solutions and in-fill multi-story mixed use applications. This year Innovaré completed 19 new schools, taking the total for offsite school buildings completed to 102.

Innovaré also entered a Knowledge Transfer Partnership through Innovate UK to work with the Warwick Manufacturing Group (WMG), University of Warwick. The WMG department has earned an impressive reputation for expertise in advanced manufacturing, automation and innovation. The partnership aims to better utilise the knowledge, technology and skills that reside within the UK knowledge base. This investment acknowledges the progress Innovaré has made in simplifying off-site construction and the team's intent to learn and innovate to simplify services further.

The Innovaré team has featured twice on DIY SOS – the Big Build, helping to make a difference to the life of Chloe, a young woman with a rare genetic disorder, and 11 year old Matthew, who has brain and spinal cancer. The team constructed the shell for a single storey extension to the rear of Chloe's house which was then used to create a state of the art bedroom with wet room. The new fully accessible home with bespoke medical facilities meant that Matthew could finally leave hospital and the family could be together in their own home once again.

Innovaré, along with their project partners, have been shortlisted as finalists for the 2017 Off-site Construction Awards on two projects at Cranmere School and Kings (CE) School; showcasing what can be achieved with Modern Methods of Construction through collaboration and innovation.

Supporting our communities

We understand the importance of our role in providing a better environment for future generations, and that many of our projects are in high profile locations that impact on local residents, businesses and the general public. We support activities that help the communities in which we work, and continually seek to identify working methods and off-site solutions that minimise disruption to all our neighbours and stakeholders, and fully consider their health and wellbeing.

Over the last year we supported over 80 community initiatives. In addition, a further 1% of our profits have been committed to charitable causes. These include working with local charities, schools and communities on an outdoor area and garden projects, redecorating refuge shelters and participating in the Big Sleep Out. We have worked with young offenders to refurbish Hemel Stags Rugby Club and participated in a Boccia Tournament with visually impaired children in East London, to name but a few.

As part of our 50 Year Anniversary we have gone a stage further with our own 'SOS' community project to extend the Demelza Children's Hospice at Eltham. The project has been developed through design and planning applications and we anticipate the build will commence on site in autumn of this year.





Forward order book and pipeline

Total secured orders have increased to £461m (£642m at the end of July 2017). Taking account of all projects in advance second stage or single source negotiation, the overall forward order book stands at a record level of £753m (£852m at the end of July 2017).

We continue to identify significant levels of long term social and transport infrastructure opportunity that both provide continued and sustained investment. These are key markets that support UK economic growth. Given the continued forecast of population growth, the high demand for efficient renewal and maintenance of key infrastructure assets is unlikely to diminish.

In a period of fluctuating confidence in the commercial market, careful project selection is essential. We have placed great emphasis on working collaboratively with customers and industry partners to unlock added value. This is securing extended customer programmes of repeat business across a number of discrete projects.

Our investment and developments portfolio opportunities continue to strengthen, with 1,200 student accommodation rooms either on site or in development. In addition, several new sites are in the very early stages of research and feasibility.

Innovaré Systems' focus on simplifying off-site construction is driving increasing long term opportunities, through improved speed of build and quality assurance. Capacity at our current manufacturing facility will be doubled this coming year.

Headlines from 2016 /2017

Turnover UP: 1.7% to £348.1m

Equity UP: 12% to £19m

Profit before tax UP: 19% to £3.6m

Total secured work UP: 4% to £461m

Average number of employees STABLE: at 871

People retention UNCHANGED: 87%

AFR IMPROVED: 12% to 0.15

Our Financial Statements are available on our website:
www.osborne.co.uk



Looking ahead

Many industry commentators predict that the anticipated speed and breadth of political and economic change will be unprecedented. Change of the magnitude intimated, will bring increased uncertainty.

We simply have to focus our business priorities on those issues that we can influence. We must create a learning organisational culture and working environment that empowers our people's agility and innovation to meet the emerging needs of our customers.

This change will drive a need for deeper and more effective collaboration, it will place individuals and teams consistently outside of their comfort zones and we will all find ourselves doing something for the first time more often.

I am confident that for a learning and agile organisation like Osborne, this challenging rate of change will provide exciting opportunities to deliver improving efficiencies to make our customers successful and grow new revenues. Thank you all for your valued contributions in delivering our promises this year. I look forward to working with you to embrace the opportunities that are available us and deliver another strong and reliable performance in this ever volatile and evolving industry.





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