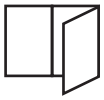
BUSINESS MODEL – OUR OPERATIONS



Open the flap to read more

Our ability to deliver long-term value for shareholders is underpinned by our business model.

Henry Boot operates across the whole property value chain. We acquire land without planning permission, obtain planning permission, develop sites and maintain an investment portfolio.

Our people are at the heart of all that we achieve, we develop skilled employees who deliver profitable schemes with confidence.

Henry Boot PLC has six primary businesses, in three segments:

Land Promotion
Hallam Land Management

Property Investment and Development
Henry Boot Developments and Stonebridge Projects

Construction
Henry Boot Construction, Banner Plant and Road Link (A69)

Investment into land acquisition and planning permission process

IDENTIFY OPPORTUNITIES AND ACQUIRE LAND

LAND PROMOTION

PROPERTY INVESTMENT AND DEVELOPMENT

Hallam Land Management acquires mainly agricultural land and then promotes it for its highest value use. The use of agency and option agreements, as opposed to buying all land outright, means less expenditure on each asset, allowing us to maximise the number of land opportunities that we are involved in at any one time. As investment is spread over many assets, this reduces the overall risk of involvement in the planning process and maximises the likelihood of making a return on the capital invested.

Henry Boot Developments acquires mainly brownfield land.

OBTAIN PLANNING PERMISSION

LAND PROMOTION

PROPERTY INVESTMENT AND DEVELOPMENT

Gaining planning permission on land adds immense value to its worth and is a crucial part of the operations of both the **Land Promotion** and **Property Investment and Development** segments. Our high level of expertise in resolving complex planning issues and our partnerships are key enablers to achieving successful outcomes in the promotion of sites through the planning process. Maintaining close relationships with key property advisers alerts us to potential opportunities. Throughout the process, we work closely with landowners, calling on the knowledge and guidance of planning consultants and legal advisers as required.

Hallam Land Management promotes land for residential, commercial and retail consent.

Henry Boot Developments promotes land for commercial development. **Stonebridge Projects** promotes land for residential development.

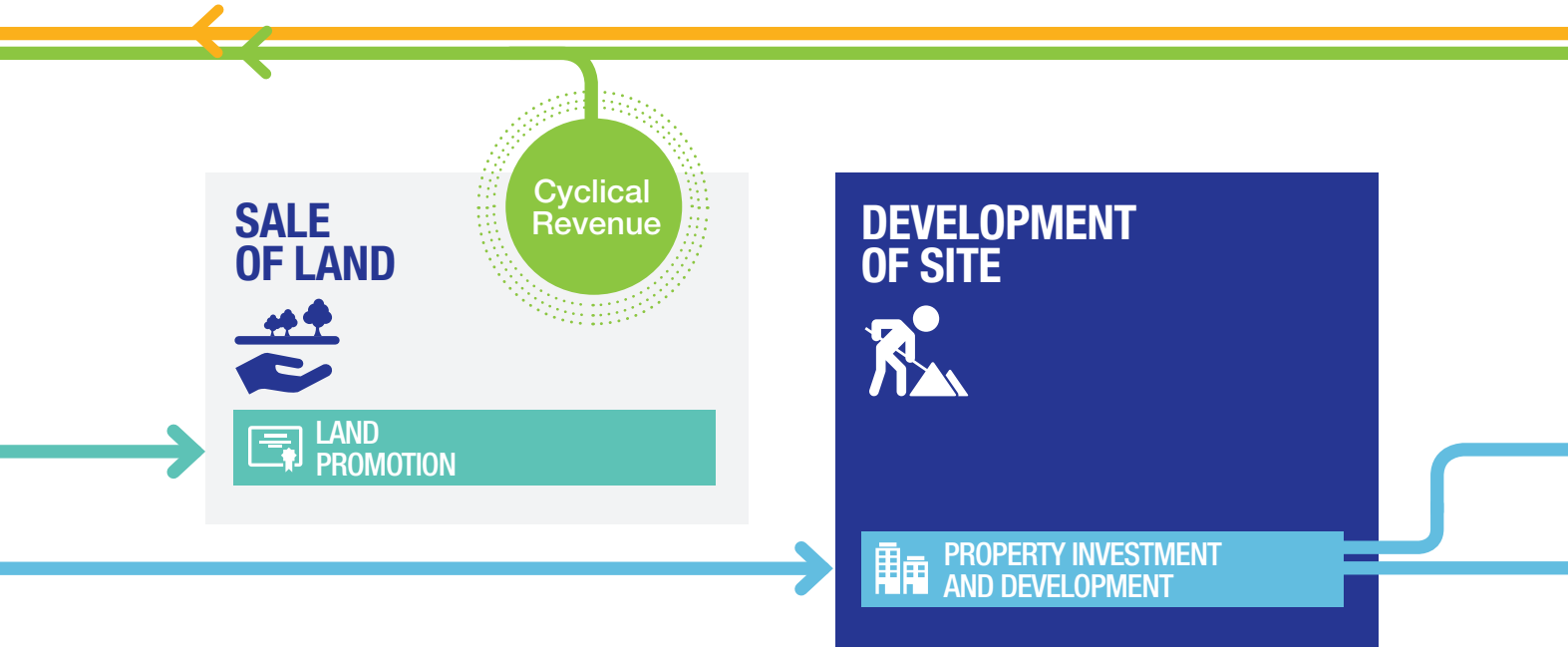
The businesses share ideas and working best practice with each other.

The six primary businesses within Henry Boot all operate relatively autonomously within their respective business segments, and it is rare that they will work on the same assets. However, the businesses will work on the same projects if the circumstances are right. For example, Henry Boot Construction may act as a construction contractor for the Property Investment and Development businesses, if it tenders the best bid. The businesses share ideas and best practice with each other.

The diversification of the Group activities strengthens the business. Being involved in multiple sectors – residential, retail and industrial development, construction and civil engineering – means that we are not overly exposed to one particular market. This enables us to weather the economic landscape and deliver on our key objective of maximising shareholder value.

Watch our Business Model video at **www.henryboot.co.uk**

Read about our **Group Financial Strength** on page 13



Once **Hallam Land Management** obtains planning permission on a site, it is sold to a developer, sometimes after infrastructure has been installed. The amount of capital required to achieve planning permission on a section of land is a very small proportion of the total capital required for the whole building process, from acquisition of land without planning permission through to completion of construction. This means that **Hallam Land Management** is focused on maximising the most profitable section of the housebuilding process for the lowest amount of working capital.

Unlike **Hallam Land Management**, when **Henry Boot Developments** and **Stonebridge Projects** gain planning permission for a site, they will develop it themselves.

The ability that **Henry Boot Developments** has to self-fund or source prefunding opens up opportunities for the business. It means that they do not require bank funding before agreeing to development work and can commit to long-term projects, such as complex multi-site regeneration schemes.

Read more about **Cyclical Revenue** on page 13

CONSTRUCTION

Recurring Revenue

Read more about **Recurring Revenue** on page 13

Our Construction division is formed from three primary businesses: **Henry Boot Construction**, **Banner Plant** and **Road Link (A69)**. **Henry Boot Construction** is a contractor specialising in serving both public and private clients in all construction and civil engineering sectors. **Banner Plant** offers a wide range of services, and a high quality inventory of equipment for hire and sale, such as temporary accommodation, powered access equipment, tools and non-man operated plant. **Road Link (A69)** has a contract with Highways England to operate and maintain the A69 trunk road between Carlisle and Newcastle upon Tyne. Highways England pays Road Link a fee based on the number of vehicles using the road and the mileage travelled.

SALE OF PROPERTY

Cyclical Revenue

PROPERTY INVESTMENT AND DEVELOPMENT

INVESTMENT PORTFOLIO

Recurring Revenue

PROPERTY INVESTMENT AND DEVELOPMENT

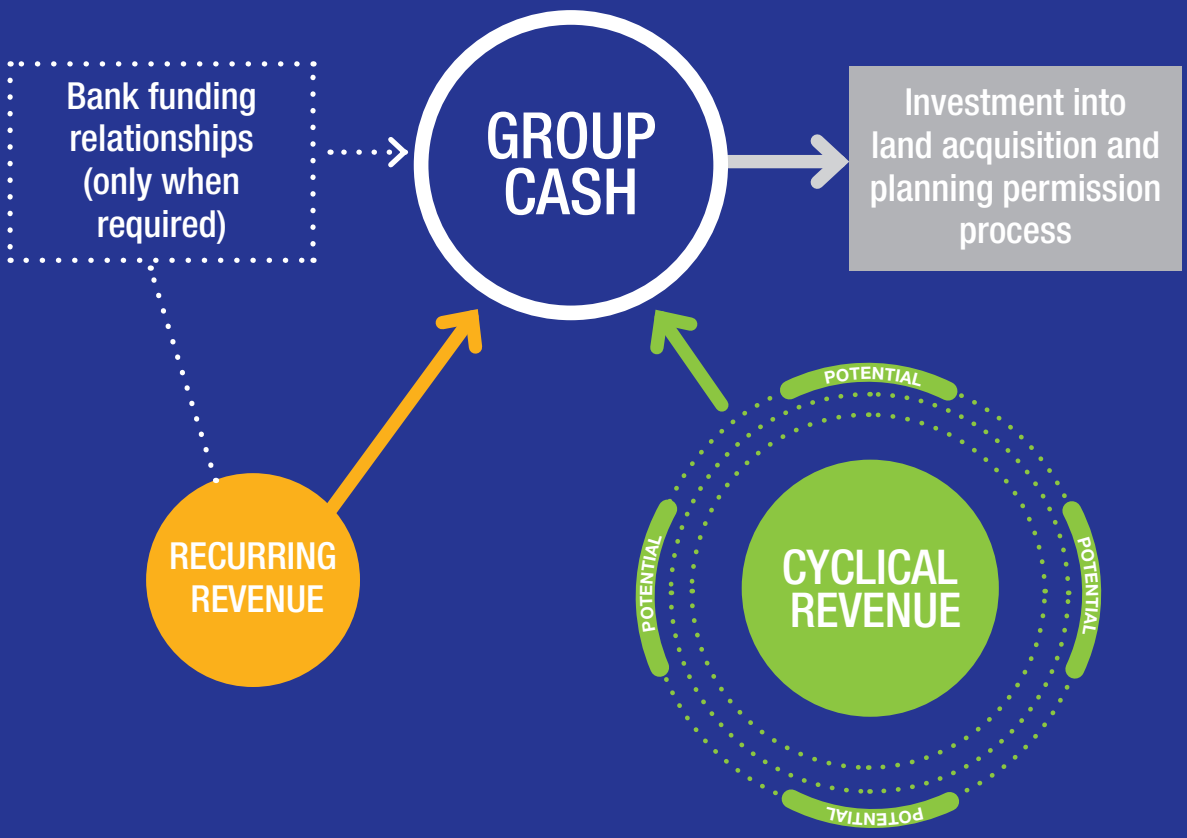
Once a property is developed, it may be immediately sold, generating significant revenue. Properties may be retained by the business to form part of the investment portfolio and may be sold at a later time.

Read more about **Cyclical Revenue** on page 13

A number of the finished property developments are retained and managed by the **Property Investment and Development** segment. The property investment portfolio of **Henry Boot Developments** is worth over £100m and generates a sizable amount of rental income each year.

Read more about **Recurring Revenue** on page 13

BUSINESS MODEL – GROUP FINANCIAL STRENGTH



RECURRING REVENUE

The revenue from construction and the property investment portfolio is regular and stable. This income allows Henry Boot PLC to maintain long-term bank funding relationships.

CYCLICAL REVENUE

Sale of land and property developments generates cyclical revenue. These activities are riskier and give varying amounts of profit through each economic cycle. These profits, in good years, contribute significantly to the stable profits from construction and property investment.

Investment into land acquisition and planning permission process

Investing in the planning process and achieving planning permission delivers significant value. However, the revenue generated from sale of land and properties is not regular, recurring income. Therefore, it would not be possible to directly fund the Land and Property Development activity through bank loans.

The property investment portfolio of Henry Boot Developments is worth over £100m and generates a sizeable amount of rental income each year. This recurring revenue allows us to borrow money against the investment portfolio at attractive rates, which may be invested into the land and property development process. The Construction segment is self-funded and cash generative. There is little capital employed so income is used to invest in land and development.

The only bank debts that the Group has are secured against the investment properties and the housebuilding inventory. A significant amount of equity has always been retained in the business, which reduces the need for borrowing. As a result of our financial structure, we can invest in the more profitable areas of the business (strategic land and property development) to maximise the value generated while maintaining prudent gearing levels.

BETTER WORKING TOGETHER

In January 2016 we began a fresh focus on how the Henry Boot Group of Companies can better work together and ensure greater internal collaboration between our companies.

Our first course of action was to create an Operations Board consisting of the Chief Executive Officer, Group Finance Director and Company Secretary together with the four prime subsidiary company Managing Directors and the Managing Director of Stonebridge Projects Limited, our jointly owned house builder.

The meetings occur bi-monthly in advance of the Henry Boot PLC Board Meeting with the aim of updating the Chief Executive Officer and Group Finance Director on business matters prior to the PLC Board Meeting, as well as encouraging discussion on topics including Group working and co-operation.

We then rolled out these principles of co-operation and collaboration as agenda items to the subsidiary company board meetings. Once more of our people became aware of this focus we realised a need to review our existing statements of Purpose, Strategy, Vision and Values and re-assess the communication of our Business Model.

We called this important project '**One Henry Boot**'.

The Board decided to engage an external consultant, Infinite Global Consulting Limited, to prepare and carry out a perception audit. We wanted to understand the thoughts and feelings of our employees and of our key suppliers, sub-contractors and customers as to the Group's Vision, Values and the Henry Boot way of working. All employees were given the opportunity to participate in the perception audit. We then expanded upon the project with a second perception audit targeting a selection of Henry Boot's institutional investors and analysts. This second survey was conducted on our behalf by DuplexIR.

Our aim was to determine how well the institutional investors and analysts actually understood our business model and how it worked, and what their thoughts were in respect of our Purpose, Strategy, Vision and Values.

Whilst the business (what we do) has changed a lot in the past 130 years, our culture (the way we do things) has not. However, we realised that a clearer communication of our business model was essential and this year the business model is presented in a new format which we believe helps to explain the crucial interaction between our businesses and, therefore, the need for a focus on Group working and co-operation.

The '**One Henry Boot**' project has now been extended and we have created three teams of employee volunteers with the remit to consider the Vision and Values of the Group as a whole. The volunteers will also help bring the vision and values to life by identifying real life examples of behaviours in the workplace.

The three teams of volunteers, with representatives from all our companies, are working with a third external consultant, Slic Solutions Limited.

We involved volunteers as we want this process of review to be drawing upon experience from across the Group and to benefit from the genuine thoughts and feelings of our people.

By next year's Annual Report we will be able to present the results of this work. Already, the '**One Henry Boot**' project has created a great deal of interest and enthusiasm in the Group and we firmly believe that this project will provide real benefits to us all in the future.

The Board is committed to its role in shaping, overseeing and embedding our Vision, Values and behaviours.

Read more about our **People** on pages 40 to 42

Pictured Our first team of volunteers met at Dronfield in February this year.

"Henry Boot engaged us to find out how the Company is viewed by both employees and the external market. It takes a degree of courage to ask people for their frank opinions of your organisation, but this invaluable information has enabled the management team to test whether the Company's stated Vision and Values are aligned with its present situation, and thereby inform Henry Boot's strategy."

Bruce Wraight
Infinite Global Consulting Limited

"Henry Boot were one of the first to see the merits of my approach and their willingness to be an 'early adopter' proved very useful and provided some valuable information on how investors and analysts respond to online questioning – particularly when it came to valuation approaches and accounting for assets gains and values."

Ian Robinson
DuplexIR

"I'm delighted to be working with Henry Boot on this exciting and inspiring journey to define, create and embed their refreshed Vision, Values, Behaviours and Henry Boot Way. Its a joy to be working with such enthusiastic and passionate people. Their commitment is a great testament to the importance they place on this work and the benefit they believe it brings for their people, business, stakeholders and shareholders."

Karen Dunn
Slic Solutions Limited

OUR STRATEGY

"In my first business review since taking over as Chief Executive Officer on 1 January 2016, I am very pleased to report that Henry Boot PLC has delivered yet another strong operational performance, financial result and earnings per share growth of 23%. Our strategy and the Company organisation remains unchanged, as do the key metrics by which we manage and monitor our business segments. 2017 has started well in all our businesses and we confidently look forward to a year of further progress."

John Sutcliffe
Chief Executive Officer

Purpose

We express our purpose through our key objective which is to maximise long-term shareholder value.

Strategy to achieve our Purpose

We shall promote land, develop and prudently invest in high quality property assets, and provide construction activities for the longer term as explained by our Business Model. Our strategic priorities are flexible and regularly reviewed in order to deal with the vagaries of the economic cycle and with prudent borrowing levels we seek to ensure the long-term security of our asset base and the ability to pay dividends.

Business Initiative	How we'll measure progress	How our model supports this
Provide growing long-term shareholder returns	— Shareholder value — Shareholders' funds	— Long-term financial strength — Resources
Create regular revenue streams through retained property assets, rental income and construction activities	— Revenue — Return on capital employed — Investment property	— Construction — Property investment
Achieve long-term funding relationships with financial partners and maintain prudent levels of gearing at less than 50% of net assets	— Gearing levels — Revenue — Net assets	— Long-term financial strength
Create long-term cyclical revenue potential and realisation through land promotion and property development	— Long-term revenue — Asset value creation	— Land promotion — Property development
Provide a long-term commitment to high levels of dividend cover	— Earnings per share — Dividend cover	— Long-term financial strength — Resources
Achieve a return on capital in excess of 10%	— Profit — Net assets — Return on capital employed	— Construction — Property investment — Property development — Land promotion
Recruit and retain the highest calibre of people to meet our key objective	— Long-term success of businesses — Individual performance targets met	— Talented people — Successful and motivated

MARSTON MORETAINE, BEDFORDSHIRE

Hallam Land Management

The site of 61 acres was purchased in 2007 and we secured an allocation in the Central Bedfordshire (North) Site Allocations plan. This was adopted in April 2011. The allocation included three elements:

- Residential development for 125 dwellings
- 17 acres for employment uses
- A contingency residential site for 320 dwellings

An application for the 125 dwellings and the 17 acres of employment was submitted in December 2011 with permission issued in September 2013. The area for the 125 dwellings was marketed and sold to Bovis Homes, completing in June 2014. There was not sufficient market demand to sell the employment land.

By the start of 2014 the local authority's housing land supply position was slipping so it was thought appropriate to bring forward the contingency site and at the same time review the need for the large scale employment site. At the time the local community were also beginning a neighbourhood plan so we needed to undertake a high level of community engagement to bring the site forward in a different form to the planned allocation.

An application for 365 dwellings, 1.5 acres for a care home and 1 acre for business or community use was submitted in January 2015. The application was granted permission in December 2015. The sale of this second phase to Barratt David Wilson completed in June 2016.

Read about **Land Promotion** on pages 24 and 25

MARKHAM VALE, DERBYSHIRE

Read about **Property Investment and Development** on pages 26 and 27

Henry Boot Developments

Markham Vale, our 200 acre employment park being developed in partnership with Derbyshire County Council, saw the continued acceleration of development activity with over 700,000 sq ft of new warehousing developed in the year. The 480,000 sq ft distribution unit, pre let to Great Bear Distribution Limited and forward funded by M&G, is the largest unit developed on the park to date, and following its completion in mid 2016, Great Bear contracted to purchase a second 480,000 sq ft unit which will be delivered in 2017. The national distribution warehouse, comprising 225,000 sq ft of space, for German automotive parts company, Ferdinand Bilstein, was also substantially completed by the end of the year to programme and contracts for a further two units were being finalised at the end of the year with both schemes expected to be delivered over the subsequent year.

ABERDEEN EXHIBITION AND CONFERENCE CENTRE

Henry Boot Developments

Following the grant of detailed planning permission, development and funding agreements were unconditionally concluded with Aberdeen City Council at mid-year enabling the development of the 800,000 sq ft conference and exhibition centre, which incorporates a 10,000 seat performance venue and 200 room, four-star hotel, to commence on site. The 130 acre site will also eventually include a 400,000 sq ft business park and a further two hotels, the first of which is already under contract and will open in parallel with the exhibition centre. The initial phase of development, funded through the City Council, represents an investment of over £330m and is expected to be completed in 2019, enabling the existing exhibition centre to relocate to this new facility adjacent to Aberdeen International Airport. We remain actively involved in the subsequent business park development in partnership with the City Council and will also be responsible for bringing forward the redevelopment of the existing 50 acre AECC site to the north of the city for a mixed residential and commercial scheme once the relocation has taken place in 2019.

WHARFEDALE VIEW, YEADON, WEST YORKSHIRE

Read about **Construction** on pages 28 and 29

Henry Boot Construction

Henry Boot Construction successfully delivered the project to build the flagship Wharfedale View for Leeds City Council, an extra care housing scheme in Yeadon. The project was secured through the YORbuild Framework.

The 45 self-contained apartments are part of the first council owned and managed extra care scheme in the city.

Henry Boot continued to invest in and develop Building Information Modelling (BIM) through the scheme. The Henry Boot design team modelled the project utilising AutoCAD Revit software. They also developed 4D simulations which were used for progress reporting and to utilise BIM tools on a live project.

LANCASTER UNIVERSITY, LANCASHIRE

Henry Boot Construction

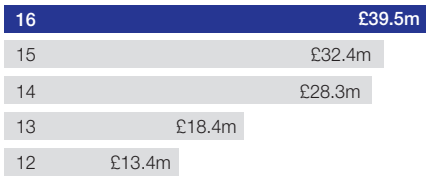
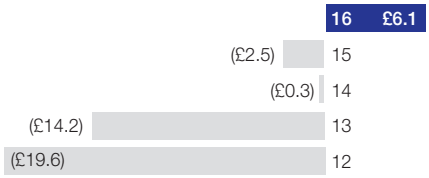
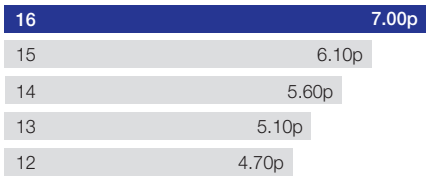
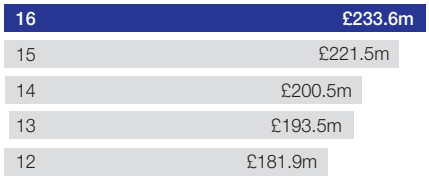
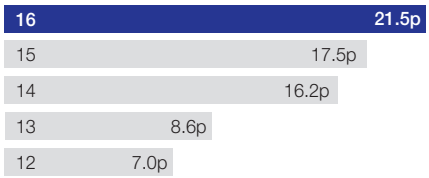
Henry Boot Construction has been selected as contractor for the £9m spine remodelling project at Lancaster University. Enabling works have already commenced following completion of demolition and site preparation.

The works include the removal of existing canopies and supporting brickwork to provide improved pedestrian flow. Alongside the construction works, Henry Boot Construction will also be implanting an extensive landscape and urban strategy.

The scope of the project spans from the Great Hall to the George Fox building, and the construction works are being phased over 18 months with completion in early 2018.

FINANCIAL KPIs

Each business segment within the Group is required to establish targets at the beginning of each financial year. This allows us to establish a broad range of financial indicators.

KPI		Performance	Future Aims
Profit before tax **Definition** A profitability measure that takes looks at a company's revenue less all interest and operating expenses except for income tax.		A 22% increase as higher levels of property development generated additional profits.	**Objective** To increase profit levels over time.
Cash generation **Definition** Money available for reinvestment after all other costs of operating have been paid.		We continue to reinvest retained earnings in the portfolio of land and property development assets.	**Objective** To monitor cash generated over time.
Dividends per ordinary share **Definition** A portion of company earnings paid to Shareholders.		A 15% increase to 7.00p as we continue to move dividends to new record high levels.	**Objective** To generate growing shareholder returns over time.
Net assets **Definition** The value of company's assets less it's liabilities.		A 5% increase to net assets achieved by retained earnings from higher profits offset by dividends paid and an increase in the pension scheme deficit.	**Objective** To grow the asset base over time.
Earnings per ordinary share **Definition** The portion of company profits allocated to each outstanding share of common stock.		A 23% increase due to higher retained profits helped by additional returns from property development.	**Objective** To increase returns over time.

Read about **Risks and Uncertainties** on pages 34 to 38

Read about **Our Strategy** on page 16

Read the **Financial Review** on pages 30 to 33

KPI		Performance	Future Aims
NAV per share **Definition** The portion of company net assets allocated to each outstanding share of common stock.	16 177p 15 168p 14 152p 13 148p 12 139p	A 5% increase during the year, little change to share capital; therefore, benefits from the increase in retained earnings.	**Objective** To increase shareholder value over time.
Shareholder return **Definition** The share price appreciation combined with dividends paid shown as an annualised percentage.	(7%) 16 15 18% 14 0% 13 52% 12 13%	Share price reduced 10.0% over the year, which coupled with the increase in dividends, gave rise to a return over the last three years of 9.4%.	**Objective** To generate growing shareholder returns over time.
Gearing levels **Definition** The ratio of net debt to equity.	16 14% 15 18% 14 18% 13 19% 12 12%	Reduced following returns from property development. May increase during 2017 as we reinvest in land sites and property development.	**Objective** To monitor levels of cash required over time.
Return on capital employed **Definition** The ratio of earnings before interest and tax to capital employed (total assets less current liabilities).	16 14.4% 15 12.2% 14 11.4% 13 8.3% 12 6.2%	We continue to achieve a healthy improvement in returns on utilised capital and will continue to monitor this area for improvement.	**Objective** To increase returns on capital employed over time.
Pension scheme deficit **Definition** A scheme's liabilities outweighing assets; additional money required to pay all pension benefits.	16 £26.4m 15 £19.6m 14 £28.2m 13 £20.1m 12 £30.5m	A 35% increase in the deficit due to a further fall in the discount rate applied to future liabilities, despite Company contributions and an excellent performance from the scheme's assets.	**Objective** To reduce the pension scheme deficit over time.

NON-FINANCIAL KPIs

We have identified a number of key performance indicators (KPIs) against which we measure our corporate responsibility. These are monitored during the year and action taken as necessary.

KPI		Performance	Future Aims
Accident frequency rate (AFR) – employees **Definition** Incidents reportable to the Health & Safety Executive.	16 0 15 0 14 0 13 0 12 0	Another successful year of zero reportable incidents affecting our directly employed staff.	**Objective** To ensure a reducing number of reportable health and safety incidents. **Target** Zero incidents and to exceed industry standards.
Accident frequency rate (AFR) – including subcontractors **Definition** Incidents reportable to the Health & Safety Executive.	16 0.17 15 0.08 14 0.12 13 0.06 12 0.20	Our ongoing education of our subcontractors and partners, and the closer monitoring of their working practices continues. This year was below our high standards but equivalent to competitors and industry standards.	**Objective** To ensure a reducing number of reportable health and safety incidents. **Target** Zero incidents and to exceed industry standards.
Personal development (days) **Definition** Development days provided by the Group.	16 1,057 15 1,203 14 1,164 13 1,306 12 1,085	A slight decrease in the number of development days, reflective of structural change within resources. New policies now in place for learning and development.	**Objective** To ensure that our employees are trained to the appropriate level and are given adequate opportunity to develop their careers. **Target** To exceed 2016 figure.
Reportable accidents **Definition** Incidents reportable to the Health & Safety Executive.	16 4 15 1 14 2 13 1 12 3	It is an ongoing priority and focus of the Group to commit to ensuring health and safety is paramount. 2016 saw an increase in reportable incidents.	**Objective** To ensure a reducing number of reportable health and safety incidents. **Target** Zero incidents and to exceed industry standards.

KPI		Performance	Future Aims
Employee profile **Definition** The gender balance percentage between all our employees. Employee figures as at 31 December 2016	16: 342 Males, 111 Females, 453 15: 328, 106, 434 14: 348, 111, 459 13: 347, 103, 450 12: 338, 100, 438 Males / Females	We have a gender split of 75% male to 25% female. This has altered during 2016 as we work closely with partners to encourage under-represented groups into the industry.	**Objective** To ensure a diverse spread of gender within all job roles in the Group. **Target** All individuals should be treated fairly and have access to equal opportunities.
BITC Environmental Index (%) **Definition** Measuring environmental management and performance.	16: 94 15: 94 14: 94 13: 97 12: 95	Due to a realignment in the scoring process two years ago, we are now classed as Gold status. This has been maintained for three years now.	**Objective** To be acknowledged by a recognised body as being a leader in environmental management. **Target** Regain Platinum status.
Considerate Constructor Scheme **Definition** Promote and achieve best practice under the Code of Considerate Practice.	16: 38.3 15: 37.4 14: 37.1 13: 36.1 12: 34.7	A slightly improved score again in 2016. Improvement has been made for six years in a row in the five scoring categories.	**Objective** To be classified as a 'good neighbour' when scored against the Considerate Constructor Scheme score of 50. **Target** Top score of 50.
Recycling – diverted from landfill (%) **Definition** To minimise the environmental impact from our business operations.	16: 95 15: 95 14: 94 13: 94 12: 93	We have continued to achieve a minimum recycling rate of 95%.	**Objective** To reduce the amount of waste going to landfill by recycling, reusing or upcycling. **Target** To achieve a minimum recycling rate of 95%.

Read about our **Corporate Responsibility** on pages 39 to 45

LAND PROMOTION

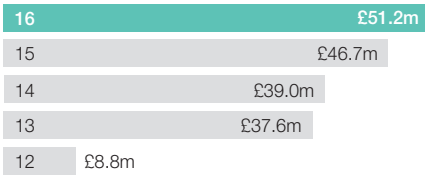
Our business model in action: Creating long-term cyclical revenue potential and realisation through strategic land promotion for a variety of different land uses.

"During the year we sold 16 sites comprising 1,609 plots, coupled with land having consent for employment use. We secured new planning consents for some 5,800 plots during the year and at the end of 2016, we held a portfolio of 16,417 plots with planning consent."

Nick Duckworth
Hallam Land Management Limited

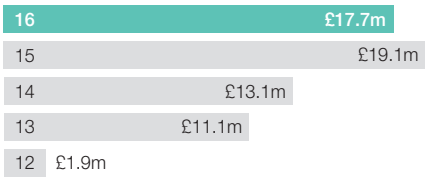
Total revenue **+10%**

£51.2m



Profit before tax **-7%**

£17.7m



See the **Land Promotion** Case Study on page 17

Hallam Land Management Limited

Hallam Land Management Limited, our strategic land promotion business increased both the acres of land it held in its portfolio and the number of consented plots it had on that land, charts on page 25 show the year end position.

2016 started very positively. Ahead of the EU referendum, Hallam Land had exchanged or completed the bulk of its 2016 budgeted sales which ultimately resulted in a pre-tax profit of £17.7m (2015: £19.1m). Furthermore, we exchanged several sites for completion in 2017 and 2018. For the UK house builders, the uncertainty caused by the referendum vote initially created a slowdown in land acquisition, however, through the autumn, they re-entered the land buying market, albeit with increased hurdle rates in less attractive locations. In the early months of 2017, house builders continued to show strong interest in high quality sites and good market areas. The recent Housing White Paper is broadly supportive of increased delivery of housing, albeit with a focus on the affordable end of the market.

During the year, we sold 16 sites comprising 1,609 residential plots, coupled with land having consent for employment use at Lutterworth and Bridgwater and land consented for a public house at Cranbrook, Exeter. We secured new planning consents for some 5,800 plots during the year and at the end of 2016, we held a portfolio of 16,417 plots with planning consent, a 36% increase on 2015. Our total land interests at 31 December 2016 were 11,888 acres (2015: 11,061 acres), of which 2,405 acres (2015: 1,982 acres) had planning consent with a further 1,078 acres (2015: 1,160 acres) allocated for residential development; the remainder we are promoting through the planning permission and allocation process.

Key Projects

The first six months of the year saw the disposal of two successful schemes at

Kettering and Marston Moretaine. The East of Kettering scheme sits within the 5,500-unit strategic urban extension for the town and outline planning consent was granted in 2015. As is often the case with large, strategic sites, in order to successfully dispose of development land once outline consent has been achieved, a significant amount of time and resource needs to go into delivering the relevant service infrastructure to enable house builders to build houses. In early 2016, final collaboration agreements were secured with the service providers and owners of the wider site, allowing 174 plots to be sold to Barratt with provisions that require them to service our retained land, comprising 264 plots.

The second significant sale of 2016 was at Marston Moretaine, a site which we have owned since 2007 with a first tranche sold in 2013. In September 2016, we completed a second tranche for 180 plots, and a third tranche of 183 plots is contracted for sale in 2017.

Though no further residential land was sold at Cranbrook (the 3,500-unit new community outside Exeter), residential sales values remained strong and we expect to see a further land sale here in 2018. At Kingsdown, our urban extension at Bridgwater, the decision to build Hinckley Point nuclear power station brought with it increased interest in the site. A parcel of consented employment land was sold to the Homes and Communities Agency to progress a starter homes scheme, and a conditional contract was entered into with Persimmon for 130 plots, which we expect to complete in 2017.

During 2016, we obtained a significant planning consent, subject to Section 106 agreement, at Didcot for a 2,170-unit scheme which sits within a 4,200-unit housing site. We anticipate making significant progress on this scheme during 2017, with a first, part-disposal expected in 2018. The Didcot area has a strong housing market with good potential for family housing well within commuter distance of London.

Outlook for 2017 and beyond

2017 has started well with 850 plots exchanged for sale as we entered the year, and a further 290 plots exchanged with completion subject to detailed planning consent. A further two sites are close to exchange and we hope to complete these sales during 2017.

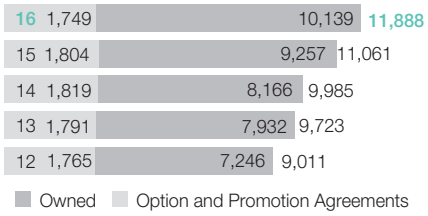
We expect the house builders to remain cautious about the implications of the EU referendum and, therefore, selective when purchasing land, however, we have entered the year in a strong position. We have a strong land portfolio with a substantial number of sites available for sale and, at this stage, we anticipate that 2017 will be another year of steady progress.

Pictured A full planning permission has been finalised at Buxton for 375 plots, with a sale agreement in place with a national developer.

Land bank +8%

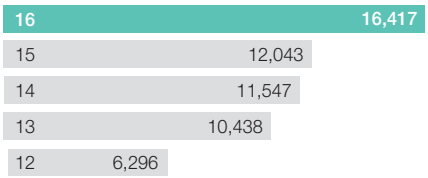
(acres)

11,888



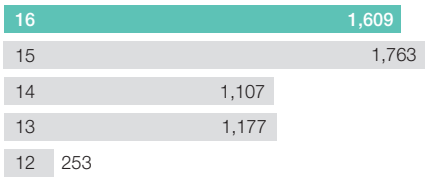
Plots with planning permission +36%

16,417



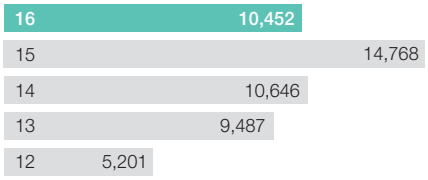
Number of plots sold -9%

1,609



Plots in planning process -29%

10,452



PROPERTY INVESTMENT AND DEVELOPMENT

Our business model in action: Investment assets giving year on year recurring revenue, with property development creating long-term cyclical revenue.

"We significantly increased our residential activity in the year, starting four material projects. The conversion of the listed Terry's chocolate factory in York into 165 apartments is progressing well."

David Anderson
Henry Boot Developments Limited

"We continue to strengthen the future site portfolio and now have some 675 plots either secured or under option."

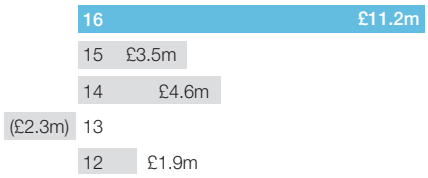
Darren Stubbs
Stonebridge Projects Limited

Total revenue **+251%**

£176.5m

Profit before tax **+220%**

£11.2m



See the **Property Investment and Development** Case Studies on page 18

Henry Boot Developments Limited

Henry Boot Developments, our commercial development business had one of its busiest ever years in 2016. Of particular significance was the finalisation of development, funding and contractor agreements for the new 800,000 sq ft exhibition and conference centre, 10,000 seat performance venue and a 200-bed, four-star hotel for Aberdeen City Council. The construction of this initial phase, costing £333m, began in mid-2016 and is currently progressing on programme.

During 2016, we developed over 875,000 sq ft of new, pre-let and pre-sold, largely industrial space and, furthermore, agreed terms on a further two million sq ft, most of which is expected to start or be completed in 2017, including a second 480,000 sq ft distribution warehouse for Great Bear at Markham Vale. We also completed at Markham Vale a 480,000 sq ft distribution unit, pre-let to Great Bear Distribution Limited, and a 225,000 sq ft unit for automotive parts distributor, Ferdinand Bilstein. Further smaller lettings and sales were concluded at our industrial parks at Thorne and Salford.

We continue to maintain a broadly based development pipeline, with over 80,000 sq ft of retail warehousing completed at Belper, Derbyshire, and in Livingston town centre, benefiting from pre-let agreements with Aldi, B&M Retail and Dunelm. We also commenced the construction of a 110,000 sq ft Head Office scheme for Atkins PLC in Epsom.

We significantly increased our residential activity in the year, starting four material projects. The conversion of the listed former Terry's chocolate factory in York into 165 apartments is progressing well. We concluded 89 sales in the second half of the year and anticipate completing that part of the scheme in 2017. In Manchester city centre, we secured planning permission for a 540-unit private rented sector (PRS)

development, which triggered unconditional development and funding agreements and the site purchase. We expect the building phase of this scheme to begin mid-2017. In Bristol, in partnership with a local student housing operator, we completed the conversion of a former office building to create a fully let, 86-bed student residential scheme to complement the 100-unit scheme in which we already hold an interest. In Skipton, we obtained outline planning permission for a 30-acre mixed residential and commercial development and, by the year end, had agreed terms for the sale of the residential land element.

Though we saw a significant increase in development activity in the year, we were able to pre-fund projects including the warehouse schemes at Markham Vale, the PRS residential development in Manchester, the office HQ development in Epsom and the retail warehouse scheme in Belper, as well as the initial phase of development in Aberdeen, amounting to over £600m in total. Therefore, internal funding was only required for a number of our smaller projects, helping us maintain prudent gearing levels within the Group.

As well as delivering the major schemes noted above we also secured high quality, future development opportunities. By December 2016, we had obtained planning permission and commenced initial infrastructure works at the 50-acre Airport Business Park in Southend, developed jointly with Southend Borough Council. We entered into a joint venture agreement for a strategic site in Huyton, Merseyside, adjoining the M57/M62 motorway junction, and purchased a high yielding city centre office investment in Bath, which has potential as a future residential conversion opportunity.

Outlook for 2017 and beyond

Contractual terms are in discussion or have been agreed on a number of projects which we expect to bring into our portfolio during 2017, providing us with a range of future development opportunities.

Stonebridge Projects Limited

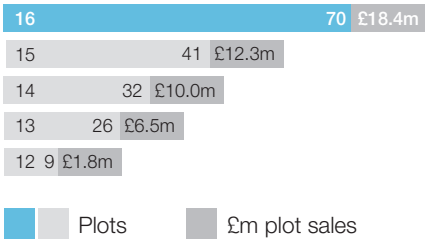
Stonebridge Projects, our jointly owned housebuilding company, completed 70 sales in the year, up from 41 in 2015, having begun to complete sales on both the Headingley and Stocksbridge sites. We continue to strengthen the future site portfolio and now have some 675 plots either secured or under option. We are targeting 100 sales in 2017 and, subject to obtaining the necessary permissions, anticipate further progress in 2018.

Rental income **-7%**

£6.7m

Number of plots sold (Stonebridge Projects) **+71%**

70 plots £18.4m



Pictured Far Left Darren Stubbs (left) and David Anderson (right).

Pictured Above Work commenced on the new Head Office for Atkins PLC in Epsom.

Pictured Below Aerial view of Victoria Gardens in Leeds, a development of 101 plots.

CONSTRUCTION

Our business model in action: Creating regular revenue to enable long-term funding relationships with financial partners.

"Following completion of the £35m Fox Valley retail park at Stocksbridge, we commenced phase one of the £35m Better Barnsley town centre regeneration scheme. We are also delivering work for Manchester City Council at Piccadilly Gardens, our first project through the North West Construction Hub framework."

Simon Carr
Henry Boot Construction Limited

"Banner Plant had a very successful year. Our power tool depot in Ossett, West Yorkshire, successfully completed its first year of trading."

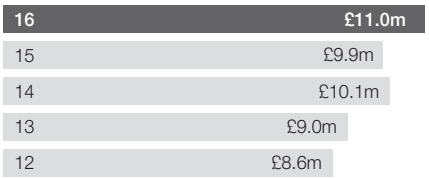
Giles Boot
Banner Plant Limited

"Financially, the contract performed well in the year with traffic volumes slightly ahead of 2015."

Trevor Walker
Road Link (A69) Limited

Profit before tax **+11%**

£11.0m



See the **Construction** Case Studies on page 19

Henry Boot Construction Limited

Henry Boot Construction specialise in serving both public and private clients in all construction sectors, including civil engineering.

After a good start, Henry Boot Construction exceeded targeted profit levels for 2016. It is also pleasing that the business started 2017 with a contracted workload of almost 90% of its forecast activity, the healthiest order position seen in recent years.

Following completion of the £35m Fox Valley retail park at Stocksbridge, we commenced phase one of the £35m Barnsley town centre regeneration scheme. In addition, we are delivering Snowhill Retail Park for Kier Property and a new spa facility at Rudding Park Hotel, Harrogate, which will be completed in the first half of 2017.

Within the civil engineering sector, we commenced work on: the Olympic Legacy Park and the Advanced Manufacturing Park, both for the University of Sheffield; a multi-storey car park for B. Braun in Sheffield; and we continue to be a major supply chain partner on the 25-year, Amey PFI Sheffield Highway Scheme. Finally, we are working with Stonebridge Projects to deliver infrastructure works on schemes in Leeds and Stocksbridge and are refurbishing the former Leeds Girls High School for residential use.

We are carrying out structural works to six tower blocks for Leeds City Council through the YORbuild framework and were appointed in 2016 to the new YORbuild2 North of England local authority framework. We are also delivering work for Manchester City Council at Piccadilly Gardens, our first project through the North West Construction Hub framework.

In the health and social care sectors we delivered a 60-unit extra care housing scheme for Leeds City Council and a residential block for St Wilfrid's Charity in Sheffield. In 2017 we will deliver a further 60-unit extra care scheme for Newark & Sherwood Homes and have won a place on the Sheffield Teaching Hospitals NHS Trust framework.

In the education sector, we were awarded the Spine Remodelling project for Lancaster University, the Mappin Street Building refurbishment for the University of Sheffield and phase one of the University of Hull Sports Facility development. We have also

completed an over-roof project for the University of Huddersfield, the refurbishment of the Management School for the University of Sheffield and the refurbishment of the Grade II listed St Helena's campus for the University of Derby.

We remain cautious regarding risks to construction activity due to the UK's decision to leave the EU, price pressures on imported materials caused by exchange rate volatility and EU related skilled labour pressures. However, the business has a good blend of both private and public sector clients across a wide range of building and civil engineering sectors, giving us a good base to weather this market uncertainty.

Health and Safety

Health, Safety and Environmental management remains of paramount importance and we are fully committed to actively finding ways of eliminating risks and incidents. We were, therefore, delighted that for the fifth consecutive year, our construction related accident frequency rate (AFR) for the directly employed workforce was zero. This strong commitment to our health and safety management culture resulted in us winning a prestigious RoSPA Gold Medal Award for seven continuous years of Gold Award achievements.

Banner Plant Limited

Banner Plant had a very successful year with turnover up 4.4%, net profit up 3.6%, and net margin remaining strong at 11.6%. Confidence in our markets saw capital investment increase, with a 7.8% growth in the hire fleet. Our power tool depot in Ossett, West Yorkshire, successfully completed its first year of trading and on 3 April this year we announced the acquisition of Premier Plant and Tool Hire Limited (see note 14 on page 116).

All the individual departments contributed to what was a record profit for the business, however, we did see geographical variations in demand. Derby and North Derbyshire saw only modest activity growth, whilst West and South Yorkshire were more buoyant.

The key challenges within plant hire are the higher capital costs resulting from the weaker pound, recent clean engine technology requirements and the recovery, through increased hire rates, of these higher equipment costs.

Road Link (A69) Limited

The PFI contract to run the A69 trunk road between Carlisle and Newcastle has completed 21 years in operation and has nine years to run. Financially, the contract performed well in the year with traffic volumes slightly ahead of 2015. Weather conditions during 2016 proved to be relatively benign and the road operated normally throughout the year.

Outlook for 2017 and beyond

The constituents of the Construction segment continue to provide very stable returns from a low level of capital employed. We do not expect that this will change in 2017 and the year has started well. The contractual workload brought into the year is encouraging, the plant business contract count is currently running slightly ahead of 2016 and, at this stage, we expect another solid performance from this segment of the Group.

External revenue

£84.4m

16	£79.4m
15	£79.5m
14	£82.4m
13	£78.5m
12	£79.0m

Pictured Far Left Giles Boot (left), Simon Carr (centre) and Trevor Walker (right).

Pictured Above A JCB Loadall capable of lifting 4 tonnes, part of our evolving Banner Plant fleet.

Pictured Left Our latest project with Sheffield University, 'The Management School'.

FINANCIAL REVIEW

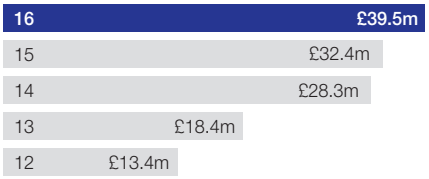
These excellent Group results are a real credit to the talented people within our business and those within the businesses with which we engage.

"Our mix of business streams continues to demonstrate the benefits of this broad-based operating model working together to the benefit of our Group."

Darren Littlewood
Group Finance Director

Profit before tax **+22%**

£39.5m



Read the **Chairman's Statement** on pages 06 and 07

Key highlights of our financial performance in 2016

- Profit before tax increased by 22% to £39.5m
- Basic earnings per share increased by 23% to 21.5p
- Dividends per ordinary share for the year increased by 15% to a record 7.00p
- Return on capital employed increased by 18% from 12.2% to 14.4%

Our long-term strategic approach to land promotion and property development has again generated results ahead of management expectations, coupled with our construction activities, these excellent Group results are a real credit to the talented people within our business and those within the businesses with which we engage. Against the current backdrop of economic uncertainty, we have never had greater clarity of our future land transactions or the property development and construction order books we hold.

Consolidated Statement of Comprehensive Income

Revenue increased 74% to £306.8m (2015: £176.2m) resulting from increased activity within the property development market from the commencement of the new conference and exhibition centre for Aberdeen City Council and sales of residential apartments at the former Terry's chocolate factory in York. Gross profit increased 17% to £62.3m (2015: £53.3m) and reflects a gross profit margin of 20% (2015: 30%), due primarily to: lower margins on larger development schemes and providing for a loss-making contract we commenced in the year. Administrative expenses saw an increase of £0.7m, resulting from expected increases in staff costs, we also anticipate further modest increases going forward as we continue to invest across all operating segments

to support the higher levels of operational activity. Pension related costs increased £0.1m (2015: £0.5m) as we increased the lower auto-enrolment contributions offset by reductions in the defined benefit scheme service cost. Property revaluation losses of £1.8m (2015: £2.0m) arose from positive movements in the fair value of certain existing and newly completed investment properties of £3.9m, offset by the recognition of valuation deficits on certain other properties amounting to £5.7m; most notably, a small trade park site and a development site impacted by the closure of a large adjoining retail unit which continue to prove difficult to redevelop profitably. Overall, operating profits increased 25% to £39.5m (2015: £31.7m) and, after adjusting for net finance costs and our share of profits from joint ventures and associates, we delivered a profit before tax of £39.5m (2015: £32.4m), an increase of 22%.

The segmental result analysis shows that property investment and development produced a significantly improved operating profit of £15.1m (2015: £7.3m) arising from the Aberdeen and York schemes noted above. Land promotion operating profit decreased slightly to £18.6m (2015: £20.0m) as the prior year benefited from higher returns on the disposal of land we owned. Construction segment operating profits increased to £10.3m (2015: £8.9m) after positive results from all three businesses within this segment. Our mix of business streams continues to demonstrate the benefits of this broad-based operating model working together to the benefit of our Group. Whilst we have greater foresight surrounding the future, deal-driven transactions from our land promotion and property development businesses, financial results can vary significantly from year to year, however, these fluctuations are mitigated by the relatively stable returns from the Construction segment.

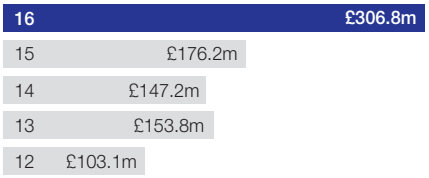
Tax

The tax charge for the year was £8.9m (effective rate of tax: 23%) (2015: £7.5m and effective rate: 23%), this again arises because the net investment property revaluation deficit is not tax deductible until realised. We currently have a £2.7m unrecognised deferred tax asset (2015: £2.3m) which can be utilised to offset future capital gains as they arise. Current taxation on profit for the year was £8.9m (2015: £5.6m), with the 2016 charge benefiting from joint venture profits which are included net of tax offset by the non-deductible property revaluation deficit. The deferred tax charge was £0.04m (2015: £1.87m), arising due to the elimination of any property revaluation deferred tax asset and no deferred tax asset arising on the increased pension scheme deficit due to contributions having exceeded cumulative charges to the income statement.

Pictured Residential plot sales now exceed 1,200 at Cranbrook near Exeter.

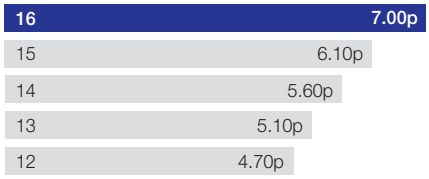
Revenue **+74%**

£306.8m



Dividends per ordinary share **+15%**

7.00p



Earnings per share and dividends

Basic earnings per share was 23% higher at 21.5p (2015: 17.5p). Dividends payable for the year increased by 15% to 7.00p (2015: 6.10p), with the proposed final dividend increasing 18% to 4.50p (2015: 3.80p), payable on 30 May 2017 to shareholders on the register as at 28 April 2017. The ex-dividend date is 27 April 2017.

Return on capital employed (ROCE)

Increased pre-tax profits in the year helped ROCE[1] improve to 14.4% in 2016 (2015: 12.2%). We continue to review our strategic target rate of return and, given that we are currently able to forward fund and sell property development, a target return of 12%-15% is considered appropriate in the current operating environment. We will continually monitor this important performance measure over the business cycle, given the potential for market conditions to change quickly.

[1] ROCE is calculated as operating profit divided by, total assets less current liabilities.

Finance and gearing

Net finance costs increased to £1.5m (2015: £0.2m) due to a specific property development financing arrangement concluded in the prior year, and 2016 saw a return to a position which reflects our net debt levels. Average borrowing rates were similar to those of the previous year although overall interest costs may increase slightly in 2017 as we utilise higher borrowings to support higher development activity. It is also possible that we will see a small rise in interest rates in 2017, although we do not believe this will result in a material change to borrowing costs. We expect to continue to invest in both our land and property development assets as we recycle capital into future opportunities and anticipated development activity.

Interest cover, expressed as the ratio of operating profit (excluding the valuation movement on investment properties and disposal profits) to net interest (excluding interest received on other loans and receivables), was 28 times (2015: 23 times). No interest incurred in either year has been capitalised into the cost of assets.

We continue to hold an investment property portfolio of around £100m against which we can secure bank funding to allow us to undertake property development and land promotion, neither of which are easy to fund using bank debt. Our investment property assets continue to provide the key covenant support for our £60m banking facilities, which we extended in February 2017 by a further year moving the renewal date to February 2020. In addition, we have a £5m revolving loan facility within Stonebridge Projects, our joint venture house builder. This loan is secured against house build work in progress and allows us to continue to grow activity in this business.

2016 year-end net debt fell by £6.0m to £32.9m (2015: £38.9m) helped by cash generated from operations. Gearing on net assets of £233.6m fell to a conservative 14% (2015: net assets £221.5m; gearing 18%). Total year-end net debt includes £7.6m (2015: £8.6m) of funding which is repayable from the future sale of residential units on certain land development sites. All bank borrowings continue to be from facilities linked to floating rates or short-term fixed commitments. Throughout the year we operated comfortably within the facility covenants and continue to do so.

Statement of cash flows

During 2016, we increased operating cash flows before movements in working capital by £9.2m to £40.6m (2015: £31.4m) and, after a net investment in working capital of £12.0m (2015: £26.2m), cash generated from operations was £28.5m (2015: £5.2m). Our investment in working capital shows a significant reduction during the year arising from the start of a number of large pre-sold and forward funded property developments, allowing us to recover our initial land and planning investment at an early stage in the build process. Cash outflows from investing activities of £2.4m (2015: inflow of £6.9m) arising from disposals of £9.9m (2015: £23.4m) of investment property and property, plant and equipment sales, offset by new investment of £13.4m (2015: £17.2m) in new property development, plant purchases and investments in joint ventures and associates. Dividends paid, including those to non-controlling interests, totalled £10.6m (2015: £9.7m), with dividends paid to equity shareholders increasing by 9%.

Statement of financial position

Investment property and assets classified as held for sale were valued at £124.7m (2015: £125.3m). The fair value of completed investment property, including assets held for sale, was £102.0m (2015: £103.7m) and the value of investment property under construction within investment property was £22.7m (2015: £21.6m) as we develop these assets into investment properties.

Intangible assets reflect the Group's investment in Road Link (A69) of £4.9m (2015: £5.8m). The treatment of this asset as an intangible asset is a requirement of IFRIC 12 and arises because the

Pictured A 480,000 sq ft distribution warehouse completed for Great Bear at Markham Vale in Derbyshire.

underlying road asset reverts to Highways England at the end of the concession period. Property, plant and equipment comprises Group occupied buildings valued at £6.5m (2015: £6.9m) and plant, equipment and vehicles with a net book value of £15.4m (2015: £14.1m); this increase arose from continued investment in new plant and plant delivery vehicles. Non-current trade and other receivables have reduced to £5.6m (2015: £10.5m) due to a net decrease in long-term housebuilder land sale payment plans. Investments in joint ventures and associates increased to £5.1m (2015: £3.8m) as we continued to invest in property development projects with other parties where we feel there is a mutual benefit to be gained. The non-current deferred tax asset increased because of the higher IAS 19 pension deficit. In total, non-current assets reduced to £166.5m (2015: £170.7m).

Within current assets, inventories were £137.9m (2015: £138.9m) and saw further investment in the land portfolio to £107.9m (2015: £106.8m) although, property development work in progress decreased to £30.0m (2015: £32.1m). Trade and other receivables increased to £66.9m (2015: £54.4m) resulting from land sales completions late in 2016. Cash and cash equivalents reduced to £7.4m (2015: £12.0m) but was again a result of cash received in December which could not be offset against short-term borrowing at that time. In total, current assets increased to £213.3m (2015: £205.4m).

Current liabilities decreased to £105.9m (2015: £116.6m) as the portion of debt classed as current decreased to £33.3m (2015: £42.8m), helped by recoveries made on property development inventories. Trade and other payables decreased to £61.1m (2015: £64.4m), resulting from lower payments on account relating to construction contracts. Provisions increased to £6.7m (2015: £5.7m) as previously classified non-current provisions moved to current and continue, in the main, to relate to infrastructure planning obligations on two land development schemes.

Pictured Planning permission granted for a 50,000 sq ft office development at 'The Silk Works', Manchester.

Net current assets increased to £107.4m (2015: £88.8m). This increase is predominantly due to increased debtors, reduced creditors and lower borrowings as we operate at a generally higher level of activity and profit throughout the Group. Non-current liabilities increased to £40.4m (2015: £37.9m) after IAS 19 pension liabilities increased to £26.4m (2015: £19.6m).

Net assets increased by 5% to £233.6m (2015: £221.5m) as the increase in retained profits was offset by the increase in the pension deficit and treasury share purchases. Net asset value per share increased 5% to 177p (2015: 168p).

Pension scheme

The IAS 19 deficit at 31 December 2016 was £26.4m compared to £19.6m at 31 December 2015 and was directly affected by a further fall in the discount rate applied to future liabilities to 2.8% (2015: 3.8%), despite the Company's contributions and an excellent performance from the pension scheme's assets. As we have noted in previous years, the application of a 4% discount rate would result in a negligible deficit and the 2016 scheme asset return was comfortably ahead.

The pension scheme's assets continue to be invested globally with high quality asset managers, using a broad range of assets and diversification. The pension scheme trustees regularly consider the merits of both the managers and asset allocations and, along with the Company, review the returns achieved by the asset portfolio against the manager benchmarks; they then make changes, as the trustees consider appropriate, in conjunction with investment advice from KPMG.

Darren Littlewood
Group Finance Director

21 April 2017

MANAGING OUR RISK

Effective risk management is essential to the achievement of our key objective and strategic initiatives. Risk management controls are integrated across all levels of our business and operations.

The Group operates a system of internal control of risk management and operates a risk management framework. The long-term success of the Group depends on the continual review, assessment and control of the key business risks it faces. To enable shareholders to appreciate what the business considers are the main operational risks, they are listed below.

Read about the **Risk Management Framework** on page 60

Risk and description	Mitigation	Change during the year
Health & Safety **Inherent risk within construction activity**	— Priority consideration of all Group and subsidiary board meetings — Robust training, policies, procedures and monitoring — OHSAS 18001 approved Health & Safety management system — Internal independent Health & Safety department that conducts regular random inspections — Routine Director and Senior Manager safety inspections — Regular externally reviewed mock incidents	↔
Construction **Increased cost and lower availability of skilled labour, subcontractors and building materials**	— Quality training given to grow personnel internally — Pool of approved and checked subcontractors subject to regular review — Group purchasing arrangements and preferred supplier agreements — Forward planning to increase ordering times and availability of materials	↑
Environmental **The Group is inextricably linked to the property sector and environmental considerations are paramount to our success. Stricter environmental legislation will increase development and house building costs and therefore could impact on profitability if capital and land values do not increase to reflect more efficient energy performance**	— Our interaction with the environment and the agencies that have an overarching responsibility has to be positive at all times in order to achieve best value — Construction environmental risk is managed through the operation of an ISO 14001 approved environmental management system — Internal design helps mitigate environmental planning issues — Record of awards given in respect of good safety and environmental performance — Environmental impacts addressed at main Board and each subsidiary company board meeting	↔
Development **Not developing marketable assets for both tenants and the investment market on time and cost effectively**	— Monthly performance meetings — Defined appraisal process — Monitoring of property market trends — Highly experienced development team — Flexible to market trends in development requirements — Diverse range of sites within the portfolio	↓

Risk and description	Mitigation	Change during the year
Development **Rising market yields on completion making development uneconomic**	— Active asset management — Monitoring property market trends — Only develop when yields are stable — Development subject to a 'hurdle' profit rate — Larger developments pre-sold	↓
Development **Construction and tenant risk which is not matched by commensurate returns on development projects**	— Construction projects, including returns and cash flows, are monitored monthly by subsidiary company management teams — Seek high level of pre-lets prior to authorising development — Development subject to a 'hurdle' profit rate — Shared risk with landowners where applicable	↓
Land **The inability to source, acquire and promote land would have a detrimental effect on the Group's strategic land bank and income stream**	— Monthly operational meetings detail land owned or under control, new opportunities and status of planning — Each land acquisition is subject to a formal appraisal process which must exceed the Group-defined rate of return and is subject to approval by the Group's Executive Directors — Land bank of nearly 12,000 acres with aspiration to grow further — Finance available to support speculative land purchases — Well respected name within the industry that demonstrates success — Long-established contact base — Large land bank can help smooth short-term fluctuations	↓
Land **A dramatic change in house builder funding sentiment and demand for housing can have a marked change on the demand and pricing profile for land**	— The Group's policy is to only progress land which is deemed to be of high quality and in prime locations — The business is long-term and is not seriously affected by short-term events, or economic cycles — We recognise cyclicality in our long-term plans and operate with a relatively low level of debt — Greenfield land is probably the most sought-after land to build upon — Long-term demographics show growing trend; therefore demand for land will follow — House builders do have very good land banks and can be choosey regarding what they buy and will target prime locations	↔
Planning **Changes in Government or Government policy towards planning policies could impact on the speed of the planning consent process or the value of sites**	— Large land bank can help smooth short-term fluctuations — A high profit margin can be achieved when successful — No revaluations are taken on land through the planning process; therefore, though profits may be smaller if site values fall, the Group should still achieve a good profit margin on sale	↔

Key: ↑ Rise ↓ Fall ↔ Remain

Read about **Our Strategy** on page 16

Read about our **Business Model** on pages 10 to 13

Read about **Health and Safety** on page 43

RISKS AND UNCERTAINTIES CONTINUED

Risk and description	Mitigation	Change during the year
Planning **Increased complexity, cost and delay in the planning process may slow down the project pipeline**	— The Group's highly skilled in-house technical and planning teams monitor changes in the market and in the planning process and react accordingly to ensure that planning consents are achieved in the most cost-effective and timely manner, whilst ensuring a broad spread of developments remain in the planning system at any one time — Good local knowledge assists in bringing forward land, and contractual agreements ensure land can be brought to market at an appropriate time — Long-established successful operator — Inventory of approximately 165 sites in progress throughout the UK — Sites are typically greenfield and of a high quality	↔
Economic **The Group operates solely in the UK and is closely allied to the real estate, house building and construction sectors. A strong economy with strong tenant demand is vital to create long-term growth in rental and asset values, whilst at the same time creating a healthy market for the construction and plant hire divisions**	— Strong Statement of Financial Position with low gearing and long-term shareholder base means that we can ride out short-term economic fluctuations — Different business streams increase the probability that not all of them are in recession at the same time — The City recognises the Group is a cyclical business and understands performance will be affected by economic cycles — Directors and shareholders share a common goal of less aggressive leveraging than some competitors — Current market conditions are supportive	↑
Personnel **Attraction and retention of the highest calibre people with the appropriate experience is crucial to our long-term growth in the highly competitive labour markets in which the Group works**	— This risk is increased when unemployment falls and labour markets contract — Good long-term employment record indicates that good people stay within the Group — The Group encourages equity ownership — Proven record of sharing profits with staff — Succession planning is an inherent part of management process	↑
Treasury **The lack of readily available funding to either the Group or third parties to undertake property transactions can have a significant impact on the marketplace in which the Group operates**	— The Group has agreed three-year facilities with its banking partners, which run to February 2020 and are backed by investment property assets — Detailed cash requirements are forecast up to 15 months in advance and reviewed and revised monthly — Short-term positive cash balances are placed on deposit — Group funding levels are prudent in relation to the Statement of Financial Position — As a PLC, access to equity funding is available should this be required	↔
Investments **Identifying and retaining assets which have the best opportunity for long-term rental and capital growth, or conversely, selling those assets where capital values have been maximised**	— This is an ongoing process with regular reviews of the assets and market conditions to achieve best value — Broad range of development opportunities to choose from — Investment assets are seen as tradeable if required — We have a record of recycling assets into funding for new developments	↔

Risk and description	Mitigation	Change during the year
Interest rates Significant upward changes in interest rates affect interest costs, yields and asset prices and reduce demand for commercial and residential property	— Statement of Financial Position strength allows the Group to warehouse sites in tough markets — Long-term nature of land business helps smooth short-term interest rate impacts — Interest cover of over 30 times; gearing relatively low and therefore significant scope to deal with interest rate rises	↓
Counterparty Depends on the stability of customers, suppliers, funders and development partners to achieve success	— The Group pays particular attention to the financial strength of counterparties before contracting with them in order to mitigate financial exposure	↔
Pension The Group operates a defined benefit pension scheme which is closed to new members. Whilst the Trustees have a prudent approach to the mix of both return-seeking and fixed-interest assets, times of economic instability can have an impact on those asset values with the result that the reported pension deficit increases. Furthermore, the relationship between implied inflation and long-term gilt yields has a major impact on the pension deficit and the business has little control over those variables	— Operation of Trustee approved Recovery Plan — Whilst pension schemes are a long-term commitment, regulations require the Group to respond to deficits in the short-term — Move out of gilts will provide a cushion should rates rise — Risk mitigated by move to quoted investments including pooled diversified growth funds — Treat pension scheme as any other business segment to be managed — Strong working relationship maintained between Company sponsor and pension Trustees — Use good quality external firms for actuarial and investment advice	↔
UK exit from European Union The announcement of the UK exit from the European Union resulted in exchange rate fluctuations and material price inflation. As we move through the process we could see further price inflation, reduced market confidence, restrictions to the supply of labour and increased economic uncertainty	— A large proportion of raw materials are sourced from within the UK — Strong history of performance and close working relationships with customers encourages confidence — Many subcontractors utilise locally sourced labour — Weakness in sterling encourages outside investment — Markets currently remain strong and the Group is UK focused	↑
Cyber Security Unauthorised access to systems, hacking, malware and distributed denial of service could all lead to data loss, business disruption, reputational damage or financial loss	— Employee awareness updates distributed routinely — Use of software and security products and regular updates thereof — Detailed disaster recovery plans — External vulnerability and threat management review	↑

Key: ↑ Rise ↓ Fall ↔ Remain

Going concern

The Directors have, at the time of approving the Financial Statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

Viability statement

Introduction

Henry Boot PLC's business model and strategy can be found on pages 10 and 16 in the Financial Statements. These documents are central to the understanding of the long-term business model and we have operated the current business model successfully over the past 15 years, and have a 130-year unbroken history. The nature of the Group's activities tends to be very long-term, especially in the land promotion business, and the Group's strategy and experience in this sector has been built up over many years. Over the last 11 years, the Group has reported an average profit before tax of £24m per annum, added almost £85m to net assets (an increase of some 55%) and paid 53p per share in dividends, all from the trading segments it now operates, and at no stage in the downturn, between 2008 and 2010, did the Company make a trading loss. Analyst forecasts for the viability assessment period indicate a positive continuation of these financial results, underpinned by the commercial development and land opportunities we already control.

The assessment process

The Group's prospects are assessed through an annual budgeting process led by the main Board Executive Directors and the boards of the individual subsidiaries. A detailed annual budget is prepared prior to the commencement of the current financial year and re-forecasting takes place each month throughout the financial year within each business and is consolidated at Group level. The two succeeding years are also forecast, using predominately known and controlled opportunities, to assess the longer term viability of the Group. As a largely deal-driven business, it is considered inappropriate to attempt to forecast further out via an extrapolation of years one to three, albeit asset trading and development is central to the Group's long-term strategy. Stress testing these forecasts highlights that if economic conditions worsen and developments and land sales do not happen as envisaged, we invest and borrow less and, whilst profitability is lower, the stable construction segment income and investment property rentals cover most of our overhead costs. Whilst we do not foresee it, only a very long-term, unprecedented lack of liquidity in the UK residential and commercial property markets would cause any threat to the viability of the Group.

Assessment of viability

The long-term strategy, the annual budget and the two-year forecasts reflect the Directors' best estimates of the future prospects for the business. We have also reviewed a number of potential viability risks to the Group and consider that the following represent scenarios which, if not carefully managed, could impact on the Group's viability:

Firstly, overtrading developments in progress with the attendant increase in leverage, at the same time as the property cycle turns down, asset values are falling and schemes have to be completed to create best value. This creates a potentially damaging scenario where debt is rising and asset values are falling. Mindful of this scenario, we have prudent debt levels (even at maximum facility utilisation of £60m) and we have pre-sold a significant proportion of the current development work in progress.

Secondly, a health and safety related breach that causes a fatality (or similar serious outcome). We manage this risk through a very robust health and safety policy, zero tolerance towards policy breaches and treat health and safety as the first matter for discussion on our Company Board meeting agendas. Our safety scores continue to be well into the top quartile of the UK construction industry and we have achieved a very safe working environment for more than 20 years.

Viability statement

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities over the three year period ending 31 March 2020.

Pictured Right: Having raised over £25,500 for The Master Cutler's Challenge in Sheffield, we received an award for 'Most Innovative Fundraiser'.

CONFIDENCE AND TRUST

Our reputation gives our customers, employees, stakeholders, suppliers, investors and the communities in which we operate the confidence and trust to do business with us.

"Henry Boot is a great place to work and we are all proud to work here. Our customers sing our praises too, commenting that we go the extra mile and that we can be depended on to do a great job."

John Sutcliffe
Chief Executive Officer

What does Corporate Social Responsibility mean to Henry Boot?

Our commitment to being a sustainable business underpins everything that we do; this ethos is fully integrated into our day-to-day operations and it is of the utmost importance for us to demonstrate to our stakeholders our approach and its impacts.

We consistently review and address the key social, ethical and environmental impacts of our operations in a way that aims to bring value to all our stakeholders; our programme supports our approach of acting responsibly whilst we continue to grow, with continuous improvement lying at the heart of our business.

A responsible company is one which will succeed and continue to grow and develop; during 2016 we have worked collaboratively to realign our values and behaviours to develop a cohesive framework: 'One Henry Boot'. This will be rolled out in 2017 and will be included in our annual report for that financial year.

During 2016 we launched a key internal communications plan which gave priority to involving all our employees with shaping our business going forward. Through our Speak Up and Speak Out campaigns we have encouraged our employees and other stakeholders to develop and discuss ideas to improve our ways of working (Speak Up) and have reiterated our commitment to deal with issues which may cause our employees concerns by renaming our confidential helpline (Speak Out).

We also joined BITC (Business in the Community) who will be working with us throughout 2017 to develop our Responsible Business Strategy to support both our business strategies and One Henry Boot; this project sits with the Operational Board to ensure consistency in approach and deployment within all our operating businesses.

We continue to face a number of challenges; we must continue to act fairly and responsibly, ensuring all our stakeholders are provided with a safe environment in which to work and making positive progress by trading responsibly and being a great employer.

Rachel White
Head of HR

PEOPLE

The Group's employees are at the heart of all that we achieve. Our people are highly talented, successful and motivated individuals who and essential to the success of the Group. We are committed to ensuring that we have the right people working for us.

"I was so surprised when I was ushered in to the Boardroom with everyone there to help celebrate my 80th birthday. I love working at Banner Cross Hall. It is always enjoyable and I would get bored at home. All the staff are so pleasant and kind, I look after them and they look after me."

Pauline Dungworth
Canteen Assistant

Pictured Pauline Dungworth celebrating her 80th Birthday with colleagues at Banner Cross Hall.

Our approach

Employee engagement and employee satisfaction are crucial to continued improvement and success across all of our businesses. It is important we are able to create an environment that enables us to attract and retain the right people to work at every level, who are committed to working together, and who support our core values.

Working at Henry Boot means working in an inspiring and developing environment where our people are a valuable asset; we are committed to providing a working environment in which our employees can develop to achieve their full potential and have opportunities for both professional and personal development.

We have established policies for recruitment, learning and the development of our employees; we remain committed to investing the time and resource to support, engage and motivate our employees to feel valued, to be able to develop rewarding careers and want to stay with us, and we recruit and promote from within wherever possible.

As our businesses continue to develop and grow, we understand that by retaining and inspiring effective and committed employees, we can continue to deliver excellence to all.

Human rights

Henry Boot PLC is committed to the UN's Guiding Principles on Business and Human Rights. Protecting and preserving human rights is embedded in our culture and is fundamental to our core values. This is reflected in our policies relating to anti-corruption, diversity, and whistleblowing, coupled with our actions towards our people, suppliers, clients and the communities in which we operate.

Read about the **One Henry Boot** project on pages 14 and 15

Modern slavery

We recognise our responsibilities in relation to our wide and varied supply chains, and we actively engage with our suppliers to ensure that they share our core values and comply with relevant legislation. We support and welcome the introduction of the Modern Slavery Act 2015; this legislation is in line with and complements our core values and we applaud any measures which seek to bring greater transparency and scrutiny into our various supply chains, in order to combat slavery and human trafficking activities.

Read more details at
www.henryboot.co.uk

Diversity and inclusion

The approach of Henry Boot PLC is underpinned by our belief that all individuals should be treated fairly and should have access to equal opportunities regardless of their status. Our Equality & Diversity Policy states that no prospective employee should receive less favourable treatment on the grounds of, amongst other characteristics, disability. We have continued the employment, wherever possible, of any person who becomes disabled during their employment with us, and opportunities for learning, career development and promotion do not operate to the detriment of disabled employees.

Gender pay equality

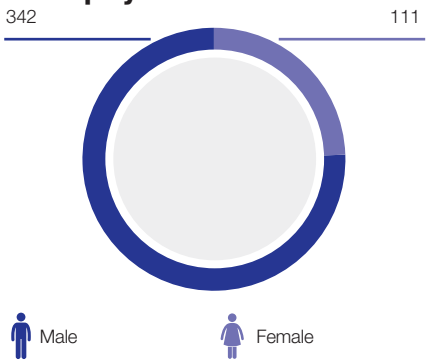
In advance of the adoption of the Equality Act 2010 (Gender Pay Information) Regulations 2017, which will place an obligation on us to report on our gender pay gap, we commissioned a report based on our 2016 data to establish our baseline early.

Our gender pay gap is currently 29.9%, which for Henry Boot is reflective of the ratio of men and women employed at just over 3:1 rather than an issue relating to how we pay our people.

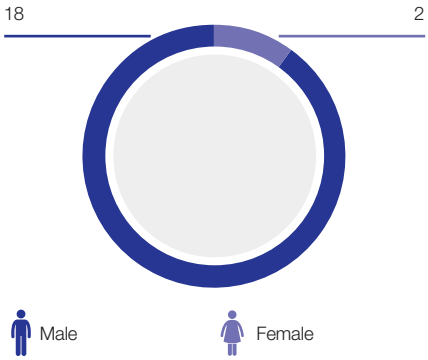
We have a disproportionate number of women in all roles and therefore our data is skewed; we believe that without a representative increase in the number of women we employ, the gap will be difficult to reduce. We have a number of our high profile female employees involved in initiatives to encourage women into construction and its associated industries; we also have a number of employment policies in place around flexible working which we hope will see our gender split decrease over time and have a positive impact on our gender pay gap.

Pictured Henry Boot Construction won the Team of the Year award for the University of Derby, St Helena campus project at this year's Efficiency East Midlands Building Communities Awards.

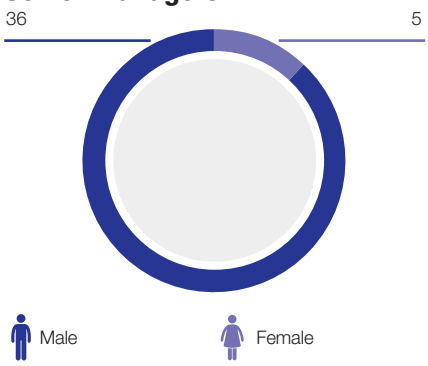
All employees



Directors

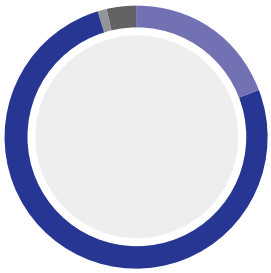


Senior managers



All figures are at 31 December 2016

As at 31 December 2016 the active membership of the pension arrangements stood at (employees):



The Henry Boot Staff Pension & Life Assurance Scheme	87
Henry Boot PLC Group Stakeholder Pension Plan	342*
Road Link (A69) Limited Pension Plan	5
Stonebridge Projects Limited Pension Plan**	15

* 47 employees within this total have invested their residual salary from The Henry Boot Staff Pension and Life Assurance Scheme into the Henry Boot PLC Group Stakeholder Pension Plan

** Now a category within the overall Henry Boot PLC Group Stakeholder Pension Plan.

Our pension arrangements

During 2016 we continued to operate two pension schemes; employees are members of either The Henry Boot Staff Pension and Life Assurance Scheme (defined benefit pension closed to new members in 2004 and subject to a salary cap from 2012) or the Henry Boot PLC Group Stakeholder Pension Plan (defined contribution pension).

Employees who are members of The Henry Boot Staff Pension and Life Assurance Scheme have the opportunity to join the Henry Boot PLC Group Stakeholder Pension Plan, investing their residual salary i.e. the difference between their actual salary and their capped pensionable salary in The Henry Boot Staff Pension and Life Assurance Scheme.

In 2016, we also offered our Henry Boot PLC Group Stakeholder Pension Plan to Stonebridge Projects Limited employees in advance of their auto-enrolment date of February 2017.

Henry Boot PLC has implemented the UK's auto-enrolment pension requirements; this is provided by AVIVA. Employees are informed of auto-enrolment and other pension choices through letters and online via the Group Intranet.

Our performance

As part of our push for excellence amongst our employees, we have robust recruitment procedures in place. Continuing from 2015 we saw a further increase in levels of recruitment in 2016 across all our businesses, and are cautiously optimistic about the future. Our turnover remains low at 12.4%.

We offer a wide range of learning and development opportunities for our employees across our businesses; we believe that offering the right learning and development opportunities will help to ensure our employees feel supported and equipped to carry out their role to the best of their abilities. Our employees are able to access a range of development tools and job specific training appropriate to their needs; we ensure that relevant and appropriate training is provided as job specific training covering the technical and operational skills. We also offer individual learning to support an employee's personal needs and provide mandatory training in health and safety, first aid and manual handling to ensure the welfare of our employees is maintained.

In 2016 we delivered 1,057 (2015: 1,203) taught training days; in addition to this and in recognition of the diverse range of skills within our workforce there was also an unquantifiable amount of ad-hoc learning and development which takes place on a daily basis on our sites, in our offices and depots. In response to employee requirements and the further development and enhancement of e-learning provision we now deliver a range of courses by this medium which allows our employees to refresh specific technical skills from their desks.

In 2016 we recruited 15 trainees and apprentices across our businesses; all trainees and apprentices are enrolled on formal courses of education and have development plans in place to gain operational and technical knowledge from mentors. Our preferred succession planning method is one of in-house development and growth; consequently we also have a number of experienced employees enrolled on formalised education programmes to enhance their skills and knowledge in anticipation of career development and promotion within the business in which they operate.

We anticipate an increase in the number of apprentice recruits in 2017 primarily as part of our succession plans but also in response to the introduction of the Apprenticeship Levy.

HEALTH AND SAFETY

A fundamental commitment of the Company is to ensure that the health, safety and welfare of the Company's employees, stakeholders and the wider public is safeguarded.

Our approach

Henry Boot PLC continues to focus on health and safety as our primary business priority; we remain committed to providing a safe and healthy working environment for our employees, stakeholders and contractors. We operate all our business activities on the principle that good management of health and safety is fundamental in creating a safe and healthy environment, and contributes to improving our business performance. We expect our managers to manage all aspects of our business in a safe manner, and employ practical measures to ensure our business activities do not harm or pose unacceptable risks.

We have developed practical and safe systems of work which is borne out by the Company's exemplary safety statistics; continuous improvement is a key driver and we cannot stand still on this vital area of risk management. All employees receive health and safety training relevant to the job role they perform. By developing communications and knowledge in this key area we are enabling our employees to improve the way we recognise hazards and reduce risk.

Our performance

We continue to benchmark our health and safety performance against Constructing Excellence Health and Safety Key Performance Indicators; we are delighted to report that for another year our Accident Frequency Rate (AFR) for our directly employed employees is again zero.

We have seen an increase in hours worked contributing to an increase in our AFR to 0.17 per 100,000 hours worked including our subcontractors (2015: 0.08); whilst any increase is disappointing we are pleased to report that our Accident Incidence Rate (AIR) per 100,000 workers is above industry average at 84%.

As a further check to ensure the Company processes and procedures are robust, and to test our procedures to the limit, we commissioned a 'mock trial' which was facilitated by law firm Nabarro LLP. Undertaken in Autumn 2016, all key decision-makers within our operational businesses, Managing Directors, Directors and Non-executive Directors were included in the process. A full 'de-brief' was held with those involved to communicate and discuss the outcome and learn points from this.

Following on from our commitment in 2015 to the IOSH No Time to Lose campaign, in 2016 we supported the Breathe Freely campaign which is a collaborative initiative led by BOHS in partnership with key organisations within the construction industry. The provision of a healthy working environment is one of our key objectives and we are fully committed to supporting the campaign's aim of raising awareness of the causes of work-related ill health and disease, continuing to raise awareness and sharing best practice to collectively help improve well-being and reduce occupational lung disease within the construction industry.

We continue to receive recognition for our efforts in managing health and safety and we were again recipients of the RoSPA Gold Medal Award, RoSPA Silver Award for our project at Yeadon, CIOB Celebrating Construction in South Yorkshire Health & Safety Award and CIOB Celebrating Construction in Humber & West Yorkshire Health & Safety Award.

"We have modernised our overall ethos toward health and safety strategy. We recognise the need for health and safety to be incorporated into our wider holistic approach to operations and we empower our people to work within this framework"

Brendon Keown
Group Health, Safety and Environmental Manager

Awards

2016 RoSPA Gold Medal Award

Considerate Constructors 2016 Silver

OUR COMMUNITIES

We are dedicated to supporting our communities both where we are based and throughout our UK-wide operations.

Our approach

As a Group we contribute to the social and economic impacts to the communities in which we operate. With a nationwide presence, and a regionalised focus in Yorkshire, we offer support to a wide range of charities and organisations of all sizes, by working to provide them with donations that are of most benefit to them and their particular cause, whether it be a financial donation or our wide and varied expertise.

Our areas of focus are:

- Charities and organisations local to our business operations;
- Charities and organisations that support educational improvements for children/ adults;
- Charities and organisations that support social improvement through sport.

Where a request for support falls outside of this criteria, we signpost the applicants (if eligible) to South Yorkshire Community Foundation where the Company has a number of endowment funds which offer grants. Further details are on our website.

Our performance

We continue to support and promote a wide range of charitable giving and community volunteering initiatives by employees, focusing on activities that best reflect the needs of their local community and issues of direct significance for them.

This year, the Group contributed £65,130 (2015: £32,600) to charitable causes; £15,580 of which was through our Give As You Earn payroll giving mechanism (2015: £13,078). In addition, we also raised a total of £2,458 for a variety of charities through Dress Down Fridays at our Sheffield office.

We again participated in The Master Cutler's Challenge, one of the largest charity fundraising events in our home city of Sheffield. Local businesses are invited to participate and are given the opportunity to transform a £50 investment into as much fundraising for charities nominated by the incumbent Master Cutler; in 2016 the charities were St Luke's Hospice and Rotherham Hospice.

Following on from our 2015 total of £10,120.69, the organising Committee attempted to double this total. We were delighted to raise £24,558.82 in six short months and were recipients of an award for Most Innovative Fundraising for our salary donation idea.

During the summer of 2016 Henry Boot Construction Limited and Banner Plant Limited teamed up with The Sheffield Children's Hospital Charity in order to safely deliver, as logistics donor, the art installation 'Herd of Sheffield', which was a total of 58 elephants all painted by different artists and installed as a trail around Sheffield. Henry Boot sponsored two elephants: Henry the Constructor which was painted by Deven Bhurke and Heard Sheffield? by Temper. All the elephants were auctioned and raised a fantastic £410,600, with our elephants being auctioned for £5,000 and £7,800 respectively. Whilst we were unsuccessful in our own bids at auction, we were delighted to receive a bespoke small version of Henry the Constructor, renamed Dave, after our colleague Dave Woodhouse who coordinated our logistical efforts, as a thank you from The Sheffield Children's Hospital Charity.

Pictured A well-earned rest and refreshment with 'Henry the Constructor' safely in place at the Botanical Gardens, Sheffield.

ENVIRONMENT

We are committed to protecting and enhancing the environment in the course of all our areas of operations and are proud of our team's expertise and enthusiasm in making this happen.

Our approach

We recognise that we have a responsibility and an obligation to reduce the direct impact of all our business operations on the natural environment, both now and in the future. Reducing our emissions is one way in which we hope to achieve this. Our aim is to create more sustainable ways of undertaking our business operations to conserve energy, save money and deliver efficiency.

Our performance

Our priorities are to:

- Minimise waste produced;
- Increase recycling; and
- Improve energy efficiency and reduce energy use.

Our greenhouse gas emissions for the year ended 31 December 2016 were calculated in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (2011 edition) and emission factors from UK Government GHG Conversion Factors for Company Reporting 2016.

Our direct and indirect operational greenhouse gas emissions are shown in the tables below. These sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our financial statements.

Overall the Group's greenhouse gas emissions have increased by 2% when compared with those of the previous year, this equates to zero movement on tonnes per employee.

For further information on our greenhouse gas emissions please see our website:

Read more details at
www.henryboot.co.uk

Henry Boot Group CO_2 footprint by source

Henry Boot Group CO_2e emissions	**2016 Tonnes**	2015 Tonnes	Trend
Scope 1: Combustion of fuel and operation of facilities	**2,060**	2,048	↑
Scope 2: Electricity, heat, steam and cooling purchased for own use	**1,133**	1,122	↑
Total direct emissions	**3,193**	3,170	↑
Total direct emissions per employee[1]	**7.2 tonnes CO_2e**	7.3 tonnes CO_2e	↓
Scope 3: Upstream and downstream indirect emissions	**952**	908	↑
Total emissions	**4,145**	4,078	↑
Total emissions per employee[1]	**9.4 tonnes CO_2e**	9.4 tonnes CO_2e	↔

[1] Employee numbers are based on the monthly average for the year

Carbon emissions by segment

Henry Boot Group CO_2e emissions	**2016 Tonnes of CO_2e**	2016 Intensity Ratio Tonnes of CO_2e	2015 Tonnes of CO_2e	2015 Intensity Ratio Tonnes of CO_2e	Intensity Basis	Trend
Property investment and development	1,076	2.5	1,021	2.11	per 1,000 sq ft of investment property with communal areas	↑
Land development	117	3.56	114	3.44	per employee	↑
Construction	2,765	34.83	2,776	34.9	per £1m of turnover	↓
Group overheads	187	3.53	167	3.21	per employee	↑
Total gross controlled emissions	4,145		4,078			

"We are committed to the highest levels of environmental management best practice to minimise the environmental impact of our business. Construction activities operate to an Environmental Management System, approved to ISO 14001, which ensures that the environmental impacts of the business are minimised on every project resulting in exemplar environmental credentials and performance."

Richard Grafton
Head of Policy & Compliance