

# The Construction Brands Group



Morgan Sindall is the fastest growing construction group in the UK. Its commitment to specialisation and decentralisation results in a group comprising several brands organised within four divisions.

**OVERBURY**

**MORGAN LOVELL**  
THE WORKPLACE SPECIALIST

#### Fit Out

The Fit Out Division, comprising Overbury and Morgan Lovell, is the UK's leading office fitting out and refurbishment specialist. Both brands provide an exceptional level of customer service to developers and occupiers, and consistently achieve high levels of repeat business on both a project by project basis and within framework or long term partnership arrangements.

  
bluestone

#### Regional Construction

Bluestone is the new brand for Morgan Sindall's unified regional construction business. Nationally directed and locally managed, Bluestone provides coverage over England and Wales. The Division has a significant and demonstrable track record in Education, Health, Commercial, Industrial, Leisure and Non-Food Retail sectors. Bluestone's aim is to challenge industry practice by setting new standards of service excellence across its business.

  
LOVELL

#### Affordable Housing

Lovell is the UK's leading provider of affordable housing, specialising in mixed tenure developments. From seven regional offices, the Company works in partnership with Registered Social Landlords and Local Authorities at the cutting edge of urban regeneration to create sustainable communities. Lovell offers flexible solutions for affordable housing including open market homes, design and build, refurbishments, PFI schemes and large-scale urban regeneration projects.

morgan=est

#### Infrastructure Services

The Infrastructure Services Division operates through the core disciplines of Water, Tunnelling and Civils in both the public and private sector. A pioneer in partnering arrangements, its culture of co-operation has led to strong client relationships with a long order book. The recent acquisition of Pipeline Constructors Group, a utilities services provider, has enhanced the Division's ability to undertake integrated outsourcing contracts and positions Morgan Est as a leading infrastructure services provider.



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# Highlights

## Financial

	2001	2000	%
Turnover	£909m	£655m	+39
Profit on ordinary activities before taxation	£20.77m	£15.36m	+35
Earnings per ordinary share	36.03p	29.75p	+21
Dividends per ordinary share	14.00p	10.50p	+33
Net assets	£63.7m	£45.7m	+39
Cash at bank	£34.6m	£23.5m	+48

# Operational

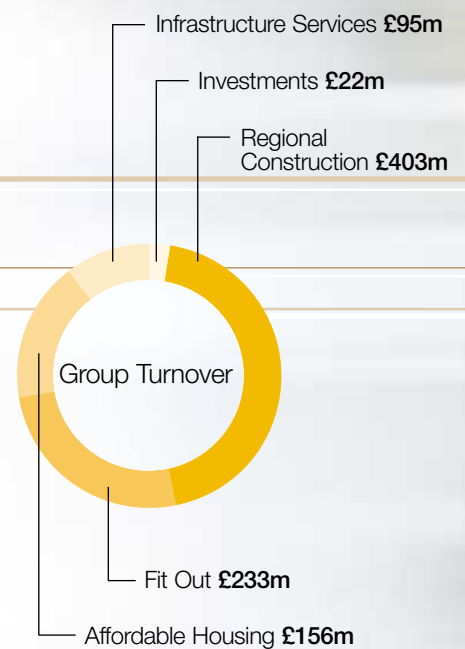
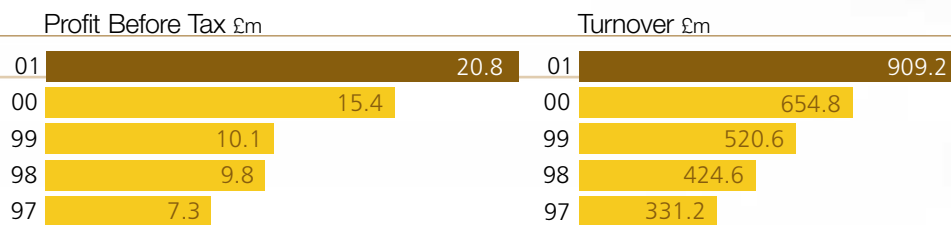
Seventh consecutive year of record results

Infrastructure Services Division created by acquisition and rebranded as Morgan Est

Affordable Housing and Infrastructure Services Divisions strengthened by strategic bolt-on acquisitions

Record forward order book of over £1bn

Balance Sheet remains strong with cash of £35m



2001 represented a strategic step change for the Group. As well as achieving record results for the seventh consecutive year, we announced three important acquisitions that have significantly strengthened and broadened the Group's offering.

Two of these acquisitions form the basis of a new fourth Division, Infrastructure Services, now trading under the name of Morgan Est. Our Affordable Housing Division was boosted by the acquisition of Carillion Housing which has expanded our geographical coverage, manpower resource and expertise.

We are pleased to report that turnover was £909m, up 39% (2000: £655m). Profit before tax of £20.8m was 35% up on last year and represents 38% compound growth since 1995.

# Chairman's Statement

2001 represented a strategic step change for the Group.

Earnings per share increased 21% to 36p per share which represents 28% compound growth over the same period. The Group's Balance Sheet remains robust and cash positive. In light of the Company's strong performance, the Board recommends an increased final dividend of 10.0p making a total of 14.0p for the year (2000: 10.5p).


### Trading Overview

The Fit Out Division had another excellent year with operating profits up 23% to £10.7m (2000: £8.7m) on turnover of £233m (2000: £229m). It remains a focused business with a 20 year track record that has not only survived but prospered in difficult economic times.

It enters 2002 with a strong order book reflecting both the strength of the brands and increased spending on refurbishment and restack of existing offices compensating for reductions in new office take up.

Regional Construction did not meet expectations in 2001. Whilst turnover again increased we have been unable to move margins ahead. Consequently the decision has been taken to merge the six regional construction brands into one new company – Bluestone. This change will impact results for 2002 but we are confident that the Division will benefit in the longer term from restructuring investment.

The Affordable Housing Division had an excellent year with operating profits increasing 58% to £4.3m on turnover of £156m (2000: £108m). The Carillion Housing acquisition is now fully integrated into Lovell, and has considerably broadened the Division's range of expertise and geographical coverage. With increased public expenditure forecast in this sector Lovell as market leader is well positioned for significant growth. This will involve increased investment but at levels capable of being financed out of current resources.



Market Capitalisation

£196m

Share Price

£4.84

2001 saw the establishment of our Infrastructure Services Division with the £20m acquisition of Miller Civil Engineering Services, now renamed Morgan Est. In the eight months of 2001 the Division contributed £2.7m operating profit from £95m turnover. This performance is broadly in line with our expectations at acquisition.

On 2 January 2002 we acquired Pipeline Constructors Group, a utilities services provider that will merge into Morgan Est, strengthening the Division's offering particularly in the Water Sector. Morgan Est now has the technical and financial resource to enable it to be a major player in this important sector where it is likely that only the stronger broad based suppliers will prosper.

Once again our property investments have contributed positively to Group results. During the year we sold two London properties, one in Shepherds Bush and another in Wigmore Street. Together with rental income and interest from positive cash balances we have continued to show a good return on the funds required in the Group but not utilised in the operating divisions. With increased investment in Affordable Housing and PFI projects there will be a shift in how these available funds are employed but no change in our desire to ensure that they are proactively rather than passively invested.





## Board

At the half year we announced that Jack Lovell had decided to relinquish his executive role but had agreed to remain as a Non-Executive Director. In May we welcomed Jon Walden as a Non-Executive Director. Jon is a Main Board Director of Lex Service plc and Managing Director of its subsidiary Lex Vehicle Leasing. Consequently he brings an alternative and helpful insight to the challenges faced by growing, service orientated groups. As a result of these additions to the Board, Sir Derek Hornby has decided that it is an opportune time for him to retire as a Non-Executive Director at the forthcoming Annual General Meeting. Sir Derek has been with Morgan Sindall since our formation in 1994, a period of rapid expansion for the Group.

With our best wishes to him for the future, we thank him for his enormous contribution.

## Outlook

The first few weeks of the year have remained buoyant and our total order book is at a record of over £1bn. Each of the four Divisions is well positioned and has great potential, and as such, we see the immediate challenge in developing these businesses rather than making further acquisitions. The Group has never been better balanced. Strength in those areas where governmental expenditure is forecast to increase and a strong order book sits well alongside our historic base, focusing on a wide spread of clients and smaller projects in both the new and refurbishment markets.

The pace of change in our industry is dramatically increasing, driven by economic volatility, complex procurement methods, testing environmental and safety standards and more demanding employee expectations. I see these conditions as profoundly exciting and believe that Morgan Sindall has both the ability and the will to succeed.



**John Morgan**  
Executive Chairman

12 February 2002



Each of the four Divisions is well positioned and has great potential.

Despite a much tighter market in 2001, the Fit Out Division was able to deliver healthy growth with operating profits of £10.7m, an increase of 23% over last year. The fundamental reason for the improvement is that the continuously improving quality of our service delivery to clients remains the Division's primary goal. "Perfect Delivery", the business improvement process, has enabled the Division to benefit from a high level of repeat orders, measurably improved client satisfaction and consistent profitability.

Despite a much tighter market in 2001, the Fit Out Division was able to deliver healthy growth.

# Fit Out



In 2001, three-quarters of Overbury's projects were "Perfectly Delivered" including the largest project to date a £15m refurbishment in Central London, completed on time and snag free, over a tight six month programme. Morgan Lovell will be launching its own "Perfect Delivery" initiative early in 2002.

2002 will continue to set new challenges, but we enter the year with a strong order book that should result in an improved first quarter trading performance. Also, the Division is well positioned to react to increasing industry interest in "frameworks" and long term partnership arrangements.

With considerable experience of mutually beneficial partnering with clients, the Fit Out Division is able to match private and public sector goals to find better value and consistent quality.

Our businesses continue to respond to the changing market demands requiring new and more diverse skills. These include experience of working at the technological edge of the workplace. Increased cost constraints facing many organisations encourage them to make better use of their existing workspace, offering us new opportunities to demonstrate our skills. As we have learnt, these projects require tighter team work, effective programme management skills and fast problem solving abilities, in order to reduce business disruption.

Our brands have worked hard to become market leaders in terms of service delivery and client satisfaction, but we are far from complacent. We continue to challenge ourselves on how to improve our service and working procedures. Striving to out perform the industry standard will underpin the Division's future expansion, both organically and into other sectors allied to our current business.



Turnover £'000s

2001	232,513
2000	229,350

Operating Profit £'000s

2001	10,717
2000	8,716

Whilst 2001 did not live up to expectations, turnover increased to £403m (2000: £318m). However, the operating profit reduced to £4.0m (2000: £4.5m) resulting in a margin of just over 1%. Whilst this level of margin is fairly typical within the industry, we believe that better margins are sustainable as evidenced by several of the profit centres within the Division.

At the end of the year we announced that from 1 January 2002, the six existing regional companies would be merged to create one brand, Bluestone.

We are confident that the new structure will ultimately improve consistency of delivery and financial performance.

# Regional Construction

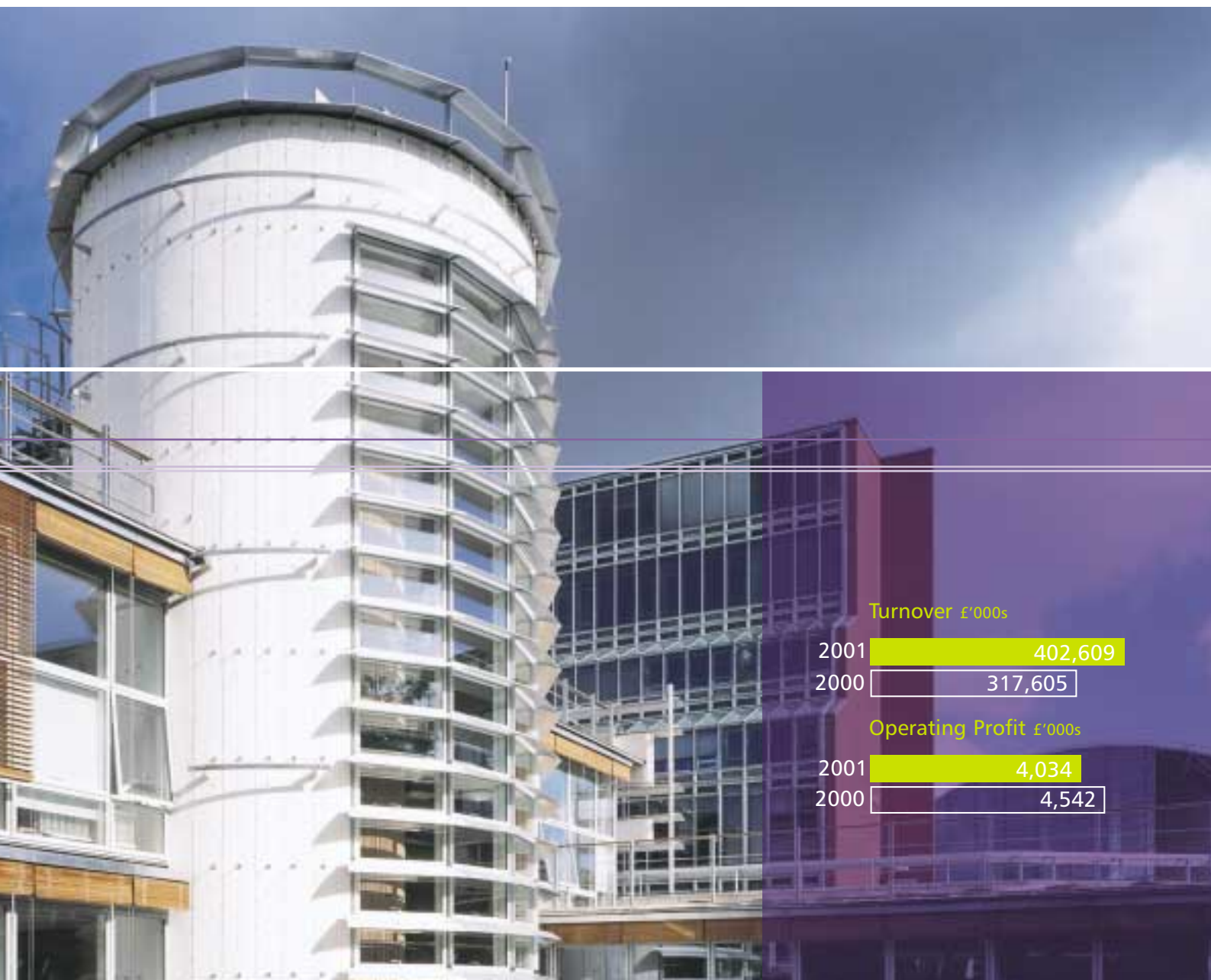


The new structure is designed to engender a greater sense of one purpose for the Division without changing the profit centre culture where regional offices serve their local community. Driving performance and removing the geographical boundaries will better place us to serve our customers irrespective of project location.

Additionally the ability to utilise the whole construction skill base across the Division will strengthen our position in the market place and create a more dynamic structure for our people.

We see this change as the next stage of development for the Division albeit it is our intention to build on the many successful achievements over the years rather than start anew. The profile of specialisation by geography or work type and the spread of risk across a variety of value bands will continue. The reputation built up in some cases over many decades for expertise in Education, Health, Commercial, Industrial, Leisure and Non-Food Retail will remain the Division's focus.

Nevertheless the changes to be made in 2002 are significant and there is no expectation of either turnover or profit growth this year, however we are confident that the new structure will ultimately improve consistency of delivery and financial performance. Whilst our Regional Construction business has moved a long way forward from its entry point into the Group, the pace of improvement has been slower than we expected. Nevertheless the Group remains committed to the sector and to making Bluestone a top performing regional construction business.



Turnover £'000s

2001	402,609
2000	317,605

Operating Profit £'000s

2001	4,034
2000	4,542

Lovell made significant progress in 2001. Not only did turnover and margins improve, but the acquisition of Carillion Housing in July expanded the range of expertise and extended the geographical coverage particularly into Scotland. Divisional turnover was £156m and operating profit £4.3m (2000: £108m and £2.7m), with the acquisition contributing five months' turnover of £20m, although little in net contribution after the costs of merging the operation into Lovell.

Lovell is now the largest specialist provider of affordable housing, and can satisfy the full range of demands from design and build, refurbishment and open market development.

# Affordable Housing

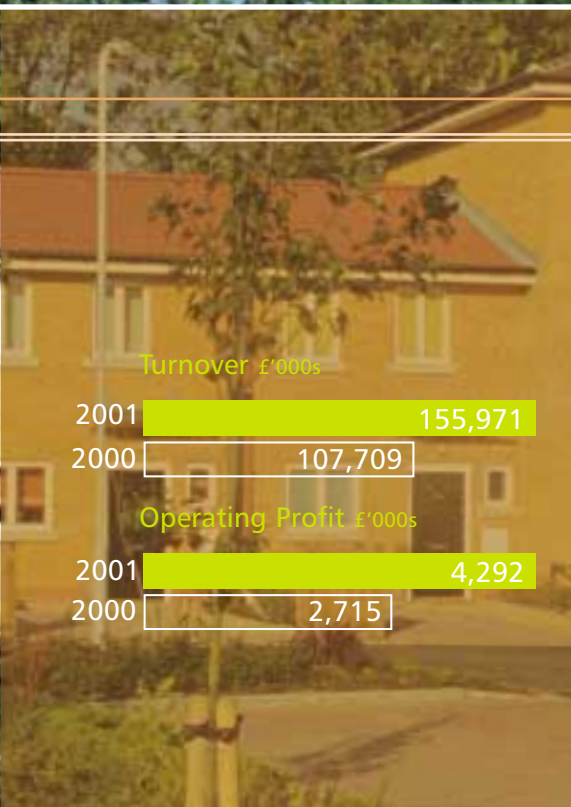


During 2001 affordable housing has increasingly come under the spotlight. It is accepted by Government and Local Authorities that much more must be done to reduce the estimated £20bn backlog in repairs, and meet the Government's target to achieve a decent standard of homes for all in social housing by 2010. As the largest specialist provider of mixed tenure affordable housing in the UK, Lovell is well positioned to benefit and can satisfy the full range of demands from design and build, refurbishment and open market development.

It is therefore ideally placed to respond to the release of larger schemes whether traditional, Stock Transfers or PFI. Lovell is currently shortlisted for four of the eight Social Housing Pathfinder Schemes and is reviewing the second tranche.

Typical of the expertise Lovell has in urban regeneration schemes is a £25m project at Central Park, Birmingham to provide 264 mixed tenure homes. With many Lovell projects, price is only one of several factors in winning contracts, awards being based on design, consultation with residents and local employment training opportunities amongst other considerations.

Lovell enters 2002 with confidence. The Carillion Housing acquisition has been fully integrated into the company. The order book is at a record £255m and the market in which it operates is buoyant. The Lovell management have achieved much in the last year and are confident that the rewards of these endeavours will be increasingly apparent in the next few years.



Turnover £'000s

2001	155,971
2000	107,709

Operating Profit £'000s

2001	4,292
2000	2,715

The Infrastructure Services Division was created in May 2001 by the £20m acquisition of Miller Civil Engineering Services, subsequently renamed Morgan Est. The business has a good track record in three distinct areas of operation, Water, Tunnelling and Civils. In the last full year before acquisition it had a turnover of £135m and made an operating profit of £3.76m. Morgan Sindall had for some time been looking to enter the infrastructure services market and found in Morgan Est a major operator in its fields of activity with strong management.

Morgan Est has the opportunity to be one of the leaders in the sector, and a major contributor to the Morgan Sindall Group.

# Infrastructure Services





In 2001 in the eight months post acquisition, Morgan Est had a turnover of £95m and made an operating profit of £2.7m. At acquisition the order book stood at £330m. This was increased over the year, not least by securing the £178m Contract 310 for the Channel Tunnel Rail Link between Dagenham and Thurrock, and the award of preferred bidder status on the £55m Newport Southern Distributor Road in South Wales. Both of these major contracts were won in joint venture arrangements, a structure which Morgan Est has successfully used before with European construction companies.

In December 2001 the Group announced that it had agreed the purchase of Pipeline Constructors Group for £16.45m which was completed on 2 January 2002. Pipeline is a leading provider of utility services primarily in the water sector with a turnover of £75m. Pipeline will become the utilities division of Morgan Est, as there are powerful synergies between the two companies with many shared clients. The combined companies will bring both greater scale to the Division, with overhead economy, and be better positioned to undertake the integrated outsourcing contracts which the utilities markets increasingly require.

2002 will be a busy year for the Infrastructure Services Division. With an existing combined turnover of over £200m and a forward order book of £525m, Morgan Est has the opportunity to be one of the leaders in the sector, and a major contributor to the Morgan Sindall Group.



	Turnover £'000s
2001	95,384
	Operating Profit £'000s
2001	2,662

**John Morgan (46)**  
Executive Chairman  
Retirement by rotation  
2002

Founded Morgan Lovell together with Jack Lovell in 1977. He was appointed Chief Executive of Morgan Sindall plc in 1994 and Executive Chairman at the Annual General Meeting in 2000.



**John Bishop (56)**  
Finance Director  
Retirement by rotation  
2004

A Chartered Accountant with twenty years experience in UK quoted companies. On the creation of Morgan Sindall Group in 1994, he joined the board initially as Corporate Development Director, and became Finance Director in June 1998.



**Paul Whitmore (47)**  
Commercial Director  
Retirement by rotation  
2002

Joined the board in April 2000 having undertaken various roles during 27 years in the construction industry, latterly as Chief Executive of Laing Construction plc.



# Board of Directors

**Bernard Asher (65)**  
Senior Non-Executive  
Retirement by rotation  
2004

Appointed to the Board on 1 March 1998 and recognised as the senior Non-Executive Director since 1999. Chairman of Lonrho Africa plc. Vice-Chairman of the Court of Governors of The London School of Economics, Non-Executive Director of Legal & General Group plc, Remy Cointreau and Randgold Resources. Formerly a director of HSBC plc.



**Geraldine Gallacher (42)**  
Non-Executive  
Retirement by rotation  
2003

Appointed to the Board on 24 May 1995. Founder and Managing Director of The Executive Coaching Consultancy having formerly been head of Group Management Development for Burton Group plc (now Arcadia plc).



**Jack Lovell (46)**  
Non-Executive  
Retirement by rotation  
2003

Co-founder with John Morgan of Morgan Lovell in 1977 and a member of the Board of Morgan Sindall plc since October 1994 with executive responsibilities for marketing and latterly, client services. He assumed a Non-Executive role as from 1 August 2001.



**Jon Walden (48)**  
Non-Executive  
Retirement by Rotation  
2002

Joined the Board with effect from 1 May 2001. He is a main Board Director of Lex Service plc and Managing Director of Lex Vehicle Leasing. Previously he held various roles within Lex and also at Rank Xerox having qualified as a Chartered Accountant at Touche Ross (now Deloitte & Touche).



## Report of the Directors

The directors have pleasure in submitting their report to the members together with the audited accounts for the year ended 31 December 2001.

### Principal activities

Morgan Sindall is a construction group with four main divisions - Fit Out, Regional Construction, Affordable Housing and Infrastructure Services. In addition a limited amount of property development and investment is carried out. The principal subsidiary companies are shown on page 48 but reference should be made to the Chairman's Statement starting on page 4 and to the activity reviews immediately following for an understanding of the changes which have taken place during the year. All activities are carried out in the United Kingdom and the Channel Islands.

### Results and dividends

The Group made a profit for the year, after taxation, of £14.234m (2000: £11.396m).

The final dividend for the year recommended by the directors is 10p per ordinary share, which together with the interim dividend of 4p per ordinary share gives a total dividend for the year of 14p per ordinary share (2000: 10.5p). Preference dividends paid or accrued amounted to £0.190m (2000: £0.243m).

### Review of business and future developments

A general review of the Group's activities, development and future prospects are included in the Chairman's Statement on pages 4 to 7 and in the activity reviews on the pages immediately following.

### Fixed assets

External professional valuations of the Group's investment properties were carried out as at 31 December 1999. The directors have considered the carrying value of the Group's interests in property and consider that there is no substantial difference between market and balance sheet values.

### Directors

The directors at the date of this report are shown on page 52. Details of the changes to the Board since the date of the last Annual Report are given in the Chairman's Statement starting on page 4. Further information on the Group Board's constitution, policies and procedures is set out under corporate governance on pages 24 to 26.

John Morgan and Paul Whitmore are the directors to retire by rotation and, being eligible, offer themselves for re-election. In addition, Jon Walden, having been appointed since the holding of the last Annual General Meeting also retires in accordance with the Articles of Association and, being eligible, offers himself for re-election. Biographical details of the retiring directors are shown on pages 16 and 17.

### Non-executive directors

A short biographical note on each ongoing non-executive director is shown on page 17. As noted in the Chairman's Statement Sir Derek Hornby, who was due to retire by rotation at the Annual General Meeting this year, will not be offering himself for re-election. His biographical details are:

Non-executive director of a number of companies and charitable trusts. Formerly Chairman of London & Continental Railways, Rank Xerox (UK) Limited and the British Overseas Trade Board.

The role and responsibilities of the non-executive directors have been formally established by the Board. Further information on these matters may be found under corporate governance on pages 24 and 25.

### Substantial shareholdings

Excluding directors, on 12 February 2002, the following shareholdings representing 3% or more of the issued ordinary share capital have been notified to the Company:

	Number of Shares	Percentage Holding
CGNU plc	2,054,014	4.28%
Equitable Life Assurance Society	1,498,497	3.96%

### Employment policies

The Company insists that a policy of equal opportunity employment is demonstrably evident throughout the Group. Selection criteria and procedures and training opportunities are designed to ensure that all individuals are selected, treated and promoted on the basis of their merits, abilities and potential. Subject to the nature of its businesses in the construction industry, the policy of the Company is to ensure that there are fair opportunities in the Group for the employment, training and career development of disabled persons, including continuity of employment with re-training where appropriate.

The Company recognises the need to ensure effective communication with employees. Policies and procedures, including in-house newsletters, have been developed in the Group taking account of such factors as location and numbers employed.

The evolution of the Group's structure into four Divisions will allow specialised personnel to be focused on the training process. This will better identify training needs and ensure suitable programmes are put in place.

## Pensions

Details of pension schemes operated for the permanent salaried staff of the Group are shown in Note 28 on pages 46 and 47.

A stakeholder pension facility was introduced in the year for employees not eligible for membership of the pension schemes referred to above. The facility chosen was the B & CE Easybuild scheme administered by the Building & Civil Engineering Benefits Trust. Employees in the industry have long been familiar with the Trust which was established in 1943 as a joint industry employer and Trades Union initiative to provide employee benefits. As a non-profit making organisation the Trust has a significant competitive advantage as it will utilise its reserves so that no charges will be deducted from payments into the scheme for the first five years of its operation.

## Environmental policy

In our 2000 Report and Accounts we signaled our commitment to engage in the development of a more ambitious and centrally co-ordinated Group environmental policy. During the current year, further acquisitions and our entry into new market sectors has provided an immediate improvement in our present capability.

It is our intention to move forward by implementing an Integrated Management System (IMS) comprising Quality Management under ISO 9001, Environmental Management under ISO 14001 and Occupational Health and Safety under OHSAS 18001.

Already the collective experience in Affordable Housing, especially through the acquisition of Carillion Housing and in Morgan Est is providing a platform for best practice transfer to our Fit Out and Regional Construction Divisions. Our programme target for the achievement of a comprehensive IMS throughout the Group is the end of 2003.

## Health and safety

During the year Paul Whitmore, the director responsible, has led the formulation and promulgation of a Group Health and Safety Management Policy framework document reflecting the Board's acknowledgement of the importance of this critical issue in the construction industry.

The document sets out the Group Health and Safety Policy Statement as follows:

"Morgan Sindall plc and its subsidiary companies are committed to providing a healthy and safe working environment for all its employees and others affected by our works.

We accept the aims and provisions of the Health and Safety at Work Act 1974 and all regulations made thereunder. We recognise that the successful management of health and safety contributes to the overall performance in a quality business.

We are committed therefore to:

- Developing a positive health and safety culture throughout the organisation.
- Constantly reviewing health and safety management and performance in accordance with the objectives identified by the Morgan Sindall Policy Framework.
- Developing organisational structures appropriate to meeting those objectives in each operating location within the subsidiary companies.
- The systematic identification and management of risks to health, safety and the environment.
- Providing the information, instruction, training supervision and consultation with employees and clients as necessary to implement and maintain industry standards of excellence in all matters in the field of health and safety.

Every employee of the Group is expected to give full co-operation and every possible assistance to the successful implementation of the Health and Safety Policies and Procedures within their respective companies, and to take reasonable care for their own safety and that of others involved in or affected by our works"

The following objectives have been established:

### Principal objective

To be best in class in the construction industry in terms of Health and Safety.

### Additional objectives

To provide a safe and healthy working environment.

To execute work in a safe manner.

To identify hazards and reduce risk of accidents through elimination of hazards or by adequate control measures to reduce the risk to health and safety.

To prevent harm to third parties and damage to third party property.

To prevent or minimise any negative impact on the environment resulting from the activities of the Group's companies.

## Report of the Directors

### Major Contractors Group (MCG) Health and Safety Charter

In addition to the objectives listed above, Morgan Sindall is committed to all the objectives included in the MCG Health and Safety Charter which are as follows:

- A target reduction of 10% year on year in the incidence rate of all reportable injuries and dangerous occurrences per 100,000 workers until 2010.
- A fully qualified workforce by the end of 2003.
- A site specific induction process before anyone is allowed to work on site.
- All workers being consulted on health and safety matters in a three-tier system based on project, work gang and individual workers.
- Holding best practice workshops on health and safety practices and setting up a system to disseminate lessons learnt.
- Publishing an annual report of members' safety performance.
- Supporting the Construction Confederation's aim of reducing the incidence rate of work related ill health in the construction industry by 10% year on year from January 2003.

During the year Morgan Sindall commenced participation in the MCG reporting programme and the table below shows a comparison of the Group's health & safety performance in the reporting year 2000/2001 against the industry average:

Accidents	Morgan Sindall	MCG
Fatal (Number)	1	10
Major (Incidents per 100,000 employees)	132	293
Over 3 day (Incidents per 100,000 employees)	627	779
Total of all reportable (Incidents per 100,000 employees)	814	1,077

Morgan Sindall achieved the lowest rates of the 23 companies compared by the MCG in 2000/2001 and therefore was "best in class".

### Creditor payment policy

The Company does not adhere to any formal Code regarding payments to its trade creditors. Its current policy is to:

1. use unamended terms of widely recognised Standard Forms of Contract drawn up by bodies representing participants in the industry;
2. clearly agree and set down the terms of payment with suppliers and subcontractors; and
3. make payments in accordance with its obligations.

Calculated in accordance with Regulations made under the Companies Act 1985, as at 31 December 2001, the Group's number of creditor days outstanding was 33.

### Post balance sheet event

On 2 January 2002 the Company completed the acquisition of Pipeline Constructors Group plc and its subsidiary companies. Details of this addition to the Group's Infrastructure Services Division are shown in Note 27 to the accounts on page 46.

### Political and charitable contributions

During the year charitable contributions amounted to £14,529 (2000: £19,603). No contributions were made to any political parties during the current or preceding years.

### Annual General Meeting

The Annual General Meeting will be held on Wednesday, 10 April 2002. The notice of the meeting is set out on page 49 of this Annual Report. The notice contains items which are special business, being the authority for the Board to allot equity securities. Explanatory notes on the special business items are shown on page 50.

### Auditors

A resolution for the reappointment of Deloitte & Touche as auditors of the Company is to be proposed at the Annual General Meeting.

## Remuneration report

The remuneration committee comprises:

Ms G Gallacher (Chairman)

Mr B H Asher

Mr J J C Lovell

Mr J Walden

### Policy on executive directors' remuneration

The remuneration of the executive directors is determined by the remuneration committee ("the committee") taking full account of the Combined Code appended to The Listing Rules issued by the Financial Services Authority.

The committee seeks to develop remuneration packages which satisfy the following principles:

- to attract, retain and motivate the best possible person for each position;
- to recognise the importance of achieving the expectations of performance in short and long term; and
- to align the interests of executives with those of the shareholders.

The committee reviews salaries annually and seeks independent professional advice when appropriate.

### Remuneration details

Details of the remuneration of all directors who have held office during the year are shown in Note 11 to the Accounts on page 38.

### Bonus arrangements and Long Term Incentive Plan (LTIP)

Performance related bonuses are a key feature of remuneration policy throughout the Group. Performance targets are set against matters in which the individual concerned has a direct influence. In subsidiary companies this means the performance of the relevant individual Brand. For executive directors of Morgan Sindall plc and senior head office personnel cash bonuses are based on the performance of the Group against targets set annually by the committee. The targets comprise a scale that takes into account the previous year's result and growth expectations both internally set and those externally published. The maximum cash bonus which can be achieved by the executive directors who all participate in the LTIP equates to 75% of annual base salary.

The LTIP approved by shareholders is designed to provide additional rewards for consistent out-performance and service over the longer period. It was introduced in 1997 for the executive directors of the Company and certain key Group senior management approved by the committee. Shares are conditionally awarded to participants in each financial year and can be allocated in whole or part after the Group's performance over the next three financial years has been measured and compared to a selected peer group.

The comparison made is of the increase in total shareholder value over those years with the corresponding increase of the fourteen companies listed in the Financial Times as construction companies which the committee consider as having a comparable business to the Group.

At the end of each three year period shares conditionally awarded can be allocated to participants if the Company is ranked first in the peer group and none will be allocated if the ranking is in the middle of the peer group or lower. Shares are allocated on a graduated scale between these two positions.

Participation in the LTIP is voluntary and requires the individual to forego payment of a proportion of the cash bonus. Based on the then market price, the base number of shares which the forgone bonus represents is then flexed up or down by the peer group ranking as detailed above, assuming the base number represents fourth position in the peer group of fifteen. The maximum number of shares which may be conditionally awarded to any particular employee in any year is limited so that the aggregate market value of shares so awarded does not exceed 50% of the participant's annual base salary.

Third position in the peer group was achieved for the measurement period ended 31 December 2000 and an allocation of shares from those conditionally awarded for 1998 was made by the committee on 30 June 2001. The interests of each participating director are shown on page 22, 27,064 shares from the numbers conditionally awarded in 1998 having accordingly lapsed.

## Report of the Directors

	As at 31 December 2001	As at 31 December 2000
Shares conditionally awarded:		
J C Morgan	84,776	88,263
J M Bishop	76,689	82,060
P Whitmore	36,288	13,950
J J C Lovell	59,603	66,769
Shares allocated:		
J C Morgan	39,437	14,212
J M Bishop	35,697	12,274
J J C Lovell	31,193	12,274

Once shares have been allocated, a participant is entitled to receive dividends in respect of those shares and to exercise voting rights. The participant is not entitled to transfer, sell or otherwise deal in the shares until a further two years have elapsed.

Following the resignation on 13 February 2001 of Mr A M Stoddart by reason of ill health the committee resolved to use the discretionary powers granted to it under the rules of the LTIP as a result of which Mr Stoddart received 48,851 shares of the total of 84,656 shares which had been conditionally awarded to him in the years 1997, 1998 and 1999. The number of shares was determined in each case by applying the peer group formula described more fully above but in the case of the years 1998 and 1999 over the respective shorter periods from conditional award to the latest available comparison date of 31 December 2000.

### Service contracts

Executive directors' contracts are terminable on one year's notice. In circumstances of termination by notice (except in cases of removal for misconduct), compensation will be determined by the committee having regard to the particular circumstances of the case.

The committee's guidelines will be to determine an equitable compensation package, while avoiding rewarding poor performance and having regard to the departing director's obligations of mitigating loss.

In ordinary circumstances, base salary and employer pension contributions for the full period of notice of one year would be paid together with accrued bonus entitlements and LTIP shares already allocated in accordance with satisfied performance criteria. Other employee benefits would also be maintained for the notice period subject to the rules of the appropriate Group scheme.

The service contracts of the directors who are seeking re-election at the Annual General Meeting, Mr J C Morgan, Mr P Whitmore and Mr J Walden, do not have a notice period for termination which is in excess of one year's duration.

### Directors' interests

The shareholdings of all directors are shown in Note 33 to the Accounts on page 48 and their interests in shares under the Long Term Incentive Plan are shown on this page.

### Pensions

The Company contributes 10% of base salary to defined contribution schemes of the individual director's choice. There are no arrangements for the provision of benefits in excess of the Inland Revenue cap.

### Share option schemes

It is the Company's policy not to grant share options to Main Board directors.

Details of options granted to employees in the Group are shown in Note 25 to the Accounts on page 44. The total number of options which may be granted at any time is fixed by the committee.

No further options can be granted under the Company's 1988 Scheme. The exercise of options granted under the 1995 Scheme will be subject to performance targets and will normally be exercisable only if the percentage growth in earnings per share of the Company over a five year period has at least been equal to the percentage growth in earnings per share of at least three-fourths of the constituent companies in the FTSE 100 index over the same period.



**Relationship between Directors and Employee Remuneration Policies**

Remuneration policy for the executive directors of the Company including bonus and incentive arrangements has been set out in detail previously in this report together with an outline of remuneration policy in general terms for other Group employees.

Performance formulas for bonus purposes are tied to financial reporting areas on which the employees concerned are to be expected to have meaningful influence. As appropriate these could relate to specific contracts, management teams, companies or divisions.

Note 25 to the Accounts records that options under two schemes have been granted to a significant number of directors and employees (other than Main Board directors) in the Group. The opportunity to grant more options under the remaining current scheme is limited and the Group continues to review alternative facilities which could offer similar incentive benefits.

Company and Divisional Managing Directors are also offered the opportunity to participate in the LTIP described previously.

By order of the Board

**W R Johnston**

*Company Secretary*

12 February 2002

## Corporate Governance

### Policy statement

Morgan Sindall plc supports the Principles of Good Governance and the Code of Best Practice ("the Combined Code"). Accordingly this report will also deal with the requirements of paragraphs (a) and (b) of FSA Listing Rule 12.43A relating to Section 1 of the Combined Code.

This report sets out how the principles of the Combined Code have been applied.

### Board constitution and procedures

With the resignation of Andy Stoddart as Managing Director on 13 February 2001 and at the same date, John Morgan assuming the position of Executive Chairman, the Company acknowledged that in not having a division of strategic and operational responsibilities between two people it was not in compliance with the Combined Code. The Board believes that the appointment during the reporting period of Jon Walden as a further Non-Executive Director and Jack Lovell taking a Non-Executive role together with a stronger divisional management structure, the underlying principle of Code provision A.2 will be maintained.

As it now stands the Board comprises three executives and five non-executives although Sir Derek Hornby will not be seeking re-election at the forthcoming Annual General Meeting.

All of the Non-Executive Directors, with the exception of Jack Lovell who is a major shareholder and for many years played a leading part in the management and strategic development of the Group, are considered to be independent of management and free from any business or other relationship which could materially affect their independent judgement. Bernard Asher is the senior independent director.

The composition of the Board satisfies the Code of Principles and Provisions that the Board should have a balance of executive and non-executive directors in terms of number and relevant experience to enable it to have effective leadership and control of the Group. It also ensures that the decision making process cannot be dominated by any individual or small group of individuals.

The Board met on ten scheduled occasions during the year in addition to ad hoc meetings convened for particular purposes. The key purposes of these meetings were to review all significant aspects of the Group's activities, supervise the executive management and to make decisions in relation to those matters which are specifically reserved to the Board.

The Company agrees with the Code provision regarding training facilities for directors on first appointment and subsequently as necessary. Adequate provision for these requirements are made annually in an allocated training budget, which also covers senior head office personnel with specific professional responsibilities relating to the proper management and conduct of a listed company.

There are agreed procedures by which directors are able to take independent professional advice, at the expense of the Company, on matters relating to their duties. For certain purposes the Company Secretary is regarded as falling within that category of advisers and has been instructed by the Board to act accordingly. The Board has also resolved that any question of the removal from office of the Company Secretary is a matter to be considered by the Board as a whole.

### Board committees

The Board has established an audit and a remuneration committee.

#### Audit committee

The audit committee comprises Geraldine Gallacher, Jack Lovell and Bernard Asher, who has the Chair. Its duties include keeping under review the scope and results of the audit, its cost effectiveness and the objectivity of the auditors. The committee may request the attendance of any executive director and a representative of the external auditors. The committee meets at least twice yearly.

#### Remuneration committee

The remuneration committee comprises Geraldine Gallacher as Chairman, Bernard Asher, Jack Lovell and Jon Walden. Meetings will usually be held twice in each year to cover all elements of the directors' remuneration. A remuneration report is included in the Directors' Report on pages 21 to 23.

**Nominations committee**

A nominations committee has not been established. The Board considers that because of its small size and the manner in which it conducts its business with a dominant proportion of non-executives, the full Board will deal with matters which might otherwise have been delegated to a committee.

The Board's policy on appointments to it is that every Board member should have the opportunity of individual meetings with prospective candidates.

**Relations with shareholders**

The Company actively seeks to enter into dialogue with institutional shareholders whenever possible. It also endorses the Combined Code principles generally on the conduct of Annual General Meetings including that it be used as an opportunity for effective communication with private shareholders whose participation in the proceedings should be encouraged.

The Company has taken advantage of The Companies Act 1985 (Electronic Communications) Order 2000 allowing communication with shareholders, where individual shareholders so choose, in electronic format.

The Company now makes announcements available on the Company's website as at the dates of release to the London Stock Exchange Regulatory News Service.

**Internal control statement**

All procedures necessary to implement 'Internal Control: Guidance for directors on the Combined Code' were put in place in 1999. These procedures have been subject to further development and refinement and this report therefore follows an approach of full compliance throughout the year with Code Principle D.2.

The Board has formally acknowledged that it has overall responsibility for the Group's system of internal control and for ongoing review of its effectiveness. The internal control system is designed to manage rather than eliminate the risk of failure to achieve certain business objectives. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

**Risk management**

The Board has reserved to itself specific responsibility for the formulation of the risk management strategy of the Group.

A formal process is now in place through which the Board identifies the significant risks attached to its strategic objectives, confirms the control strategy for each risk and identifies the appropriate early warning mechanism for each risk. A risk management policy document has been adopted by the Board setting out the Board's role and responsibilities and its overall approach to management and acceptance of risk. This approach has been communicated to the directors of each Brand business who have in turn undertaken their own risk identification and assessment exercise tailored to their own individual circumstances and carried out continuing annual reviews.

Risk management and internal control are considered by the Board and each Brand business at their monthly meetings. Internal control and risk management systems are embedded in the operations of the businesses.

**Financial information**

The Board recognises that an essential part of the responsibility for running a business is the effective safeguarding of assets, the proper recognition of liabilities and the accurate reporting of profits. The Group has a comprehensive system for monthly reporting to the Board.

**Investment and capital expenditure appraisal**

There are clear policies, detailed procedures and defined levels of authority in relation to investment, capital expenditure, significant cost commitments and asset disposals.

## Corporate Governance

### Computer systems

The Group has established controls and procedures over the security of data held on computer systems. These controls and procedures are reviewed under the rolling examination programme described below under 'Internal audit'.

### Controls over central functions

A number of the Group's key functions, including treasury and insurance are dealt with centrally. Each of these functions have detailed procedure manuals.

### Internal audit

The Board continues to review the need or otherwise for an internal audit function and remains of the opinion that such a function is not essential. Instead, led by specialist central Group personnel, there is a rolling programme of peer group examination in which selected staff participate in the examination and review of the practices and procedures of Brand businesses other than their own. It is felt that this programme not only provides many of the benefits to be derived from an internal audit function but also assists in the professional development of the individual staff concerned whilst at the same time identifying and providing a mechanism for the cross-fertilisation of ideas and best practice throughout the Group.

### Annual review

The Board has conducted a review of the effectiveness of the system of internal financial control for the year ended 31 December 2001 and for the period to the date of this report. The review was performed on the basis of the criteria set out in the Guidance for Directors 'Internal Control and Financial Reporting' issued in December 1994.

The process included a formal review conducted by the Board of a consolidated report of the Brand Risk Framework reviews undertaken by the boards of each operating subsidiary, together with the Group Risk Framework document originally approved by the Board in November 1999 and re-appraised and updated annually. In addition, the Board has also reviewed the results of the internal financial control reviews which have taken place during the year in a number of operating subsidiaries in the course of an agreed rolling programme.

### Compliance statement

The Company has throughout the year been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance appended to the Listing Rules issued by the Financial Services Authority.

### Going Concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern basis in preparing the financial statements.

## Directors' Responsibilities and Independent Auditors' Report

### Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

1. Select suitable accounting policies and then apply them consistently.

2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group, for the Group systems of internal control and for the prevention and detection of fraud and other irregularities.

### Independent Auditors' Report to the Members of Morgan Sindall plc

We have audited the financial statements of Morgan Sindall Plc for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

We read the Directors' Report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

#### Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

#### Deloitte & Touche

*Chartered Accountants and Registered Auditors*  
Stonecutter Court, Stonecutter Street, London EC4A 4TR

12 February 2002

## Group Profit and Loss Account for the year ended 31 December 2001

	Notes	2001		2000	
		£'000s	£'000s	£'000s	£'000s
<b>Turnover</b>					
Continuing operations			795,854		655,980
Acquisitions			114,912		–
Less share of joint venture turnover			(1,598)		(1,144)
<b>Group turnover</b>	1		909,168		654,836
Cost of sales	1		(820,004)		(588,180)
<b>Gross profit</b>			89,164		66,656
Administrative expenses	1		(70,709)		(52,804)
Other operating income	2		1,133		897
<b>Operating profit</b>					
Continuing operations			16,848		14,749
Acquisitions			2,740		–
<b>Total operating profit</b>	1,3		19,588		14,749
Share of profits of joint venture	14		17		–
Exceptional loss on closure of discontinued business			–		(684)
Net interest receivable	4		1,165		1,295
<b>Profit on ordinary activities before taxation</b>			20,770		15,360
Tax charge on profit on ordinary activities	5		(6,536)		(3,964)
<b>Profit on ordinary activities after taxation</b>			14,234		11,396
Dividends on equity and non-equity shares	6		(5,824)		(4,163)
<b>Retained profit for the year</b>			8,410		7,233
<b>Earnings per ordinary share</b>	7		36.03p		29.75p
<b>Diluted earnings per ordinary share</b>	7		34.87p		28.58p

## Group Balance Sheet at 31 December 2001

	Notes	2001		2000	
		£'000s	£'000s	£'000s	£'000s
<b>Fixed assets</b>					
Intangible assets	12		40,009		11,218
Tangible assets	13		19,887		11,865
Share of joint venture gross assets		22,151		17,929	
Share of joint venture gross liabilities		(20,551)		(16,840)	
Investment in joint venture	14		1,600		1,089
Investment in own shares	14		1,366		1,245
			62,862		25,417
<b>Current assets</b>					
Stocks	15		36,028		35,355
Debtors	16		155,261		117,964
Cash at bank and in hand	17		34,639		23,474
			225,928		176,793
<b>Creditors: amounts falling due within one year</b>	18		(224,418)		(156,510)
<b>Net current assets</b>			1,510		20,283
<b>Total assets less current liabilities</b>			64,372		45,700
<b>Creditors: amounts falling due after more than one year</b>	19		(629)		–
<b>Net assets</b>			63,743		45,700
<b>Capital and reserves</b>					
Called up share capital	25		4,993		5,686
Share premium account			22,896		13,064
Revaluation reserve	26		4,627		4,259
Profit and loss account			31,227		22,691
<b>Total shareholders' funds</b>			63,743		45,700
<b>Shareholders' funds are attributable to:</b>					
Equity shareholders' funds			60,779		41,907
Non-equity shareholders' funds			2,964		3,793
			63,743		45,700

Approved by the Board on 12 February 2002

J C Morgan

J M Bishop

## Company Balance Sheet at 31 December 2001

	Notes	2001 £'000s	2000 £'000s
<b>Fixed assets</b>			
Tangible assets	13	7,442	7,727
Investments	14	92,540	63,880
		<b>99,982</b>	71,607
<b>Current assets</b>			
Stocks	15	3,767	14,797
Debtors	16	12,981	15,382
Cash at bank and in hand	17	375	343
		<b>17,123</b>	30,522
<b>Creditors: amounts falling due within one year</b>	18	<b>(40,757)</b>	(36,090)
<b>Net current liabilities</b>		<b>(23,634)</b>	(5,568)
<b>Net assets</b>		<b>76,348</b>	66,039
<b>Capital and reserves</b>			
Called up share capital	25	4,993	5,686
Share premium account		22,896	13,064
Revaluation reserve	26	2,948	3,074
Special reserve		13,644	13,644
Profit and loss account		31,867	30,571
<b>Total shareholders' funds</b>		<b>76,348</b>	66,039
<b>Shareholders' funds are attributable to:</b>			
Equity shareholders' funds		73,384	62,246
Non-equity shareholders' funds		2,964	3,793
		<b>76,348</b>	66,039

Approved by the Board on 12 February 2002

**J C Morgan**

**J M Bishop**



## Group Cash Flow Statement for the year ended 31 December 2001

	Notes	2001 £'000s	2000 £'000s
<b>Net cash inflow from operating activities</b>	29	<b>36,159</b>	8,211
<b>Returns on investments and servicing of finance</b>			
Interest received		1,434	1,411
Interest paid		(727)	(615)
Dividends paid to preference shareholders		(190)	(253)
Interest paid on finance lease charges		(62)	–
		455	543
<b>Taxation</b>			
Corporation tax paid		(6,079)	(2,563)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(3,330)	(2,288)
Receipts from sale of tangible fixed assets		551	8
Payments to acquire fixed asset investments		(311)	(155)
		(3,090)	(2,435)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	27	(25,658)	750
Net cash acquired with subsidiary undertakings	27	4,720	–
		(20,938)	750
<b>Equity dividends paid</b>			
		(4,368)	(3,316)
<b>Net cash inflow before financing</b>		<b>2,139</b>	1,190
<b>Financing</b>			
Issue of shares, net of expenses		9,139	242
Capital element of finance leases		(113)	–
<b>Net cash inflow from financing activities</b>		<b>9,026</b>	242
<b>Increase in cash</b>	30,31	<b>11,165</b>	1,432

## Combined Statement of Movements in Reserves and Shareholders' Funds

for the year ended 31 December 2001

Group	Share premium account £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	2001 Shareholders' funds £'000s	2000 Shareholders' funds £'000s
Balance at 1 January	13,064	4,259	22,691	40,014	5,686	45,700	37,929
Retained profit for year	–	–	8,410	8,410	–	8,410	7,233
New shares issued	8,270	–	–	8,270	95	8,365	–
Converted preference shares	812	–	–	812	(812)	–	–
Options exercised	750	–	–	750	24	774	242
Surplus realised on property	–	(126)	126	–	–	–	–
Surplus on revaluation	–	494	–	494	–	494	296
<b>Balance at 31 December</b>	22,896	4,627	31,227	58,750	4,993	<b>63,743</b>	45,700

Included within the profit and loss account balance at 31 December 2001 is an amount for unrealised goodwill totalling £7,034,000 (2000: £7,034,000).

Company	Share premium account £'000s	Special reserve £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	2001 Shareholders' funds £'000s	2000 Shareholders' funds £'000s
Balance at 1 January	13,064	13,644	3,074	30,571	60,353	5,686	66,039	60,179
Retained profit for year	–	–	–	1,170	1,170	–	1,170	5,618
New shares issued	8,270	–	–	–	8,270	95	8,365	–
Converted preference shares	812	–	–	–	812	(812)	–	–
Options exercised	750	–	–	–	750	24	774	242
Surplus realised on property	–	–	(126)	126	–	–	–	–
<b>Balance at 31 December</b>	22,896	13,644	2,948	31,867	71,355	4,993	<b>76,348</b>	66,039

## Other Primary Statements for the year ended 31 December 2001

### Statement of Total Recognised Gains and Losses

	2001 £'000s	2000 £'000s
Profit for the financial year before dividends	14,234	11,396
Share of joint venture's surplus on revaluation of investment property	494	296
<b>Total recognised gains and losses</b>	<b>14,728</b>	11,692

### Note of Historical Cost Profits and Losses

	2001 £'000s	2000 £'000s
Profit on ordinary activities before taxation	20,770	15,360
Realisation of property valuation gains of prior years	126	–
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	70	73
Historical cost profit on ordinary activities before taxation	20,966	15,433
<b>Historical cost profit on ordinary activities after taxation and dividends</b>	<b>8,606</b>	7,306

## Principal Accounting Policies

### Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed asset properties, and in accordance with applicable accounting standards. Compliance with SSAP19 accounting for investment properties requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation is given below. Where the Group is party to a joint arrangement which is not an entity, the Group accounts for its part of the income and expenditure, assets, liabilities and cash flows of the joint arrangement.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings.

### Acquisitions and disposals

The results of subsidiaries are included in the consolidated profit and loss account from the date of acquisition. Goodwill is the difference between the fair value of consideration given on acquisition of a business and the aggregate fair value of its separable net assets. Goodwill is capitalised and written off in equal instalments over its useful economic life of 20 years.

Goodwill that arose on acquisitions prior to 31 December 1997 is eliminated against the profit and loss reserve. Amounts will be charged or credited to the profit and loss account on subsequent disposal of the business to which it relates.

### Turnover

Turnover is defined as the value of goods and services rendered excluding VAT.

### Fixed asset investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment in value. In the consolidated accounts the Group's share of the results of the joint venture is shown each year in the profit and loss account and the Group's share of retained profits and reserves is added to the cost of the investment in the balance sheet.

### Fixed assets and depreciation

By adopting Financial Reporting Standard 15, non-investment properties are now held at cost. Under the transitional rules of the Standard, the Group has retained the book amounts of certain revalued properties and the valuation has not been updated.

No depreciation is provided on freehold land. On other assets depreciation is provided at rates calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

Freehold buildings	–	2% per annum
Leasehold property	–	period of the lease
Plant, machinery, motor vehicles and equipment	–	between 10% and 33% per annum

No depreciation is provided in respect of freehold investment properties which are revalued annually and the aggregate surplus or deficit is transferred to revaluation reserve. The Companies Act 1985 requires all properties to be depreciated, however this requirement conflicts with the generally held accounting principle set out in SSAP19. The directors consider that as these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view and that it is necessary to adopt SSAP19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation.

## Principal Accounting Policies

### Stocks

Stocks are valued at the lower of cost and net realisable value. Interest incurred on borrowings to finance specific developments is capitalised.

### Contract accounting

Contracts are accounted for as long term contracts. Anticipated net sales value of contracts include a proportion of attributable profit where a profitable outcome can be foreseen, provision being made for foreseeable losses. Turnover less progress payments is recorded in "amounts recoverable on contracts" within debtors. Where progress payments exceed turnover and other contract balances the excess is shown as "payments on account" in creditors.

### Deferred taxation

Provision under the liability method is made for deferred taxation at the current rate of corporation tax on all timing differences to the extent that they are expected to crystallise.

### Leased assets

Assets acquired under finance leases are included in tangible fixed assets at equivalent cost. Depreciation is provided at rates designed to write-off this amount using the straight line method over the shorter of the estimated useful lives of the assets or the period of the leases. The capital element of the future rentals is treated as a liability in the balance sheet and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the leases.

### Pensions

The Group contributes to The Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements which are of a defined contribution type. Subject to the circumstances referred to in Note 28 on page 46, the annual costs are charged to the profit and loss account.

## Notes to the Accounts

## 1 Analysis of turnover, cost of sales, administrative expenses, operating profit and net assets

	2001			2000		
	Turnover £'000s	Profit/ (loss) £'000s	Net assets £'000s	Turnover £'000s	Profit/ (loss) £'000s	Net assets £'000s
Fit out	232,513	10,717	(12,077)	229,350	8,716	(13,817)
Regional construction	402,609	4,034	1,118	317,605	4,542	(2,366)
Affordable housing	155,971	4,292	19,833	107,709	2,715	16,879
Infrastructure services	95,384	2,662	15,202	–	–	–
Group activities and investments	22,691	(2,117)	5,882	172	(1,224)	21,530
	<b>909,168</b>	<b>19,588</b>	<b>29,958</b>	654,836	14,749	22,226
Net funds (note 20)			<b>33,785</b>			23,474
Net assets			<b>63,743</b>			45,700

Segmental net assets are stated after deducting interest bearing net funds. All activities are carried out in the United Kingdom and Channel Islands.

Included within cost of sales is an amount of £106,658,000 derived from acquisitions and £713,346,000 from continuing operations. Administrative expenses includes an amount of £4,051,000 relating to acquisitions and £66,658,000 to continuing operations.

## 2 Other operating income

	2001 £'000s	2000 £'000s
Rent receivable (all from continuing operations)	1,133	897

## 3 Operating profit

Operating profit is stated after charging/(crediting)

	2001 £'000s	2000 £'000s
Depreciation – owned assets	2,978	2,082
– leased assets	141	–
Profit on sale of fixed assets	(80)	(360)
Amortisation of goodwill	1,478	650
Hire of plant and machinery	13,002	8,388
Operating lease costs – land and buildings	2,481	2,338
– other	2,998	2,460
Auditors' remuneration	270	194

## Notes to the Accounts

## 4 Net interest receivable

	2001 £'000s	2000 £'000s
Interest payable on bank overdrafts	(727)	(615)
Interest payable on finance leases	(62)	–
Interest capitalised	520	499
	(269)	(116)
Bank interest receivable	1,434	1,411
	1,165	1,295

## 5 Tax charge on profit on ordinary activities

	2001 £'000s	2000 £'000s
Corporation tax payable at 30% (2000: 30%)	6,286	4,073
Under provision in prior years	250	96
Share of tax of joint venture	–	–
Tax on exceptional loss	–	(205)
	6,536	3,964

There are taxation losses to carry forward of approximately £5m (2000: £8m).

## 6 Dividends on equity and non-equity shares

	2001 £'000s	2000 £'000s
Non-equity dividends on preference shares		
Paid	144	197
Accrued	46	46
	190	243
Equity dividends on ordinary shares		
Interim paid	1,542	1,133
Final proposal	4,151	2,839
	5,693	3,972
Total dividends	5,883	4,215
Dividends on shares held in trust relating to the Long Term Incentive Plan	(59)	(52)
	5,824	4,163

## 7 Earnings per ordinary share

The calculation of the earnings per share is based on the weighted average number of 38,974,000 (2000: 37,494,000) ordinary shares in issue during the year and on the profits for the year attributable to ordinary shareholders of £14,043,000 (2000: £11,153,000).

In calculating the diluted earnings per share, earnings are adjusted for the preference dividend of £191,000 (2000: £243,000) making adjusted earnings of £14,234,000 (2000: £11,396,000). The weighted average number of ordinary shares are adjusted for the dilutive effect of the convertible preference shares by 1,185,000 (2000: 1,517,000), share options by 561,000 (2000: 554,000) and contingent Long Term Incentive Plan shares by 94,000 (2000: 290,000) giving an adjusted number of ordinary shares of 40,814,000 (2000: 39,855,000).

## Notes to the Accounts

## 8 Profit of parent company

The Company has taken advantage of s230 of the Companies Act 1985 and consequently the profit and loss account of the parent company is not presented as part of these accounts. The profit of the parent company for the financial year amounted to £6,994,000 (2000: £9,781,000).

## 9 Employees

The average number of people employed by the Group during the year was:

	2001 No.	2000 No.
Fit out	471	471
Regional construction	1,475	1,612
Affordable housing	727	443
Infrastructure services	682	–
Other	22	29
	<b>3,377</b>	2,555

## 10 Staff costs

	2001 £'000s	2000 £'000s
Wages and salaries	91,882	67,950
Social security costs	9,637	7,195
Pension costs	2,505	1,637
	<b>104,024</b>	76,782

## 11 Directors' remuneration

	Salary and fees £'000s	Bonus £'000s	Benefits £'000s	Pension £'000s	2001 Totals £'000s	2000 Totals £'000s
J C Morgan	185	117	16	19	337	310
J M Bishop	165	104	13	17	299	274
P Whitmore	150	95	15	15	275	172
A M Stoddart (to 13 February 2001)	29	161*	3	3	196	304
J J C Lovell (to 31 July 2001)	73	46	8	7	134	209
Executive directors	602	523	55	61	<b>1,241</b>	1,269
B H Asher	20	–	–	–	20	20
G Gallacher	20	–	–	–	20	20
Sir D P Hornby	20	–	–	–	20	23
J J C Lovell (from 1 August 2001)	8	–	–	–	8	–
J Walden (from 1 May 2001)	13	–	–	–	13	–
Non-executive directors	81	–	–	–	<b>81</b>	63
Totals	683	523	55	61	<b>1,322</b>	1,332

The totals of directors' remuneration shown above include fees of £81,000 (2000: £63,000). Pension contributions made on behalf of the executive directors are made to money purchase pension schemes. Further details of the directors' remuneration are contained in the Directors' Report on pages 21 to 23.

## Long Term Incentive Plan

A Long Term Incentive Plan has been established as explained in detail in the Directors' Report on pages 21 and 22. Conditional awards which have been made are shown therein. Excluded from the above table is an amount of £143,000 which has been accrued for potential awards relating to 2001. \*During the year an award under the Long Term Incentive Plan was made to A M Stoddart totalling £161,000, the details of which are shown on page 22 of the Directors' Report and the cost for which was provided in previous years.



## Notes to the Accounts

## 12 Intangible fixed assets

Goodwill

Group £'000s

<b>Cost or valuation</b>	
At 1 January 2001	12,438
Additions (note 27)	30,269
<b>At 31 December 2001</b>	<b>42,707</b>
<b>Amortisation</b>	
At 1 January 2001	1,220
Provided in the year	1,478
<b>At 31 December 2001</b>	<b>2,698</b>
<b>Net book value at 31 December 2001</b>	<b>40,009</b>
Net book value at 31 December 2000	11,218

## 13 Tangible fixed assets

## (a) Group

	Owned plant, machinery & equipment £'000s	Leased plant, machinery & equipment £'000s	Motor vehicles £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
<b>Cost or valuation</b>						
At 1 January 2001	8,129	–	662	6,080	3,403	18,274
Acquisition of subsidiary undertaking	13,758	2,065	–	–	–	15,823
Additions	2,567	–	20	–	799	3,386
Disposals	(390)	(186)	(241)	–	(275)	(1,092)
<b>At 31 December 2001</b>	<b>24,064</b>	<b>1,879</b>	<b>441</b>	<b>6,080</b>	<b>3,927</b>	<b>36,391</b>
<b>Depreciation</b>						
At 1 January 2001	5,197	–	570	234	408	6,409
Acquisition of subsidiary undertaking	6,737	860	–	–	–	7,597
Provided in the year	2,348	141	52	45	533	3,119
Disposals	(212)	(156)	(234)	–	(19)	(621)
<b>At 31 December 2001</b>	<b>14,070</b>	<b>845</b>	<b>388</b>	<b>279</b>	<b>922</b>	<b>16,504</b>
<b>Net book value at 31 December 2001</b>	<b>9,994</b>	<b>1,034</b>	<b>53</b>	<b>5,801</b>	<b>3,005</b>	<b>19,887</b>
Net book value at 31 December 2000	2,932	–	92	5,846	2,995	11,865

## Notes to the Accounts

## 13 Tangible fixed assets (continued)

(b) Company	Owned plant, machinery & equipment £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
<b>Cost or valuation</b>				
At 1 January 2001	257	6,059	1,875	8,191
Additions	163	–	–	163
Disposals	(36)	–	(275)	(311)
<b>At 31 December 2001</b>	<b>384</b>	<b>6,059</b>	<b>1,600</b>	<b>8,043</b>
<b>Depreciation</b>				
At 1 January 2001	142	226	96	464
Provided in the year	67	43	82	192
Disposals	(36)	–	(19)	(55)
<b>At 31 December 2001</b>	<b>173</b>	<b>269</b>	<b>159</b>	<b>601</b>
<b>Net book value at 31 December 2001</b>	<b>211</b>	<b>5,790</b>	<b>1,441</b>	<b>7,442</b>
Net book value at 31 December 2000	115	5,833	1,779	7,727

The net book value of land and buildings comprises:

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
<b>Investment properties</b>				
Freehold	3,655	3,655	3,655	3,655
Short leasehold	1,441	1,521	1,441	1,521
	<b>5,096</b>	5,176	<b>5,096</b>	5,176
<b>Other properties</b>				
Freehold	2,146	2,191	2,135	2,178
Short leasehold	1,564	1,474	–	258
	<b>3,710</b>	3,665	<b>2,135</b>	2,436
<b>Total net book value</b>	<b>8,806</b>	8,841	<b>7,231</b>	7,612

Land and buildings at cost or valuation are stated:

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Investment properties at valuation	5,250	5,250	5,250	5,250
Other properties at valuation	1,351	1,626	1,351	1,626
Other properties at cost	3,406	2,607	1,058	1,058
	<b>10,007</b>	9,483	<b>7,659</b>	7,934

An independent valuation of the Group's investment properties was undertaken by Healey & Baker Real Estate Consultants as at 31 December 1999 on the basis of Existing Use Value in accordance with the RICS Appraisal and Valuation Manual. The directors have considered these valuations as at the balance sheet date and have concluded that no change is required to their carrying value.

## Notes to the Accounts

Comparable amounts determined according to the historical cost convention:

	Cost	Accumulated depreciation	Net book value	Net book value
	2001 £'000s	2001 £'000s	2001 £'000s	2000 £'000s
Land and buildings	7,556	1,698	5,858	5,767

## 14 Investments

## (a) Group

	Joint venture £'000s	Own shares at cost £'000s
At 1 January 2001	1,089	1,245
Additions	–	311
Allocations	–	(190)
Share of results for the year	17	–
Share of revaluation reserve	494	–
<b>At 31 December 2001</b>	<b>1,600</b>	<b>1,366</b>

## Investment in joint venture

The Group's joint venture investment is in Primary Medical Property Limited, which has a portfolio of primary care health centres. Morgan Sindall's involvement in the management of Primary Medical Property Limited is restricted to the appointment of two directors under the terms of a shareholder agreement under which certain matters require the approval of all directors. At 31 December 2001 the fixed assets of Primary Medical Property Limited were £43.3m, current assets £1.0m, current liabilities £1.9m and long term liabilities £39.2m.

## Investment in own shares

The own shares at cost represent 591,041 Morgan Sindall plc ordinary shares held in trust in connection with the Long Term Incentive Plan as detailed in the Directors' Report on pages 21 and 22. Based on the Company's share price on 31 December 2001 of £4.68 the market value of the shares was £2,766,072.

## (b) Company

	Own shares at cost £'000s	Subsidiary undertakings Shares £'000s	Loans £'000s	Joint venture shares £'000s	Total £'000s
Cost at 1 January 2001	1,245	63,266	1,340	4	65,855
Additions	311	50,774	3,055	–	54,140
Allocations	(190)	–	–	–	(190)
Disposals	–	(21,976)	–	–	(21,976)
<b>Cost at 31 December 2001</b>	<b>1,366</b>	<b>92,064</b>	<b>4,395</b>	<b>4</b>	<b>97,829</b>
Provisions at 1 January 2001	–	660	1,311	4	1,975
Disposals	–	(126)	–	–	(126)
Provisions created in year	–	356	3,084	–	3,440
<b>Provisions at 31 December 2001</b>	<b>–</b>	<b>890</b>	<b>4,395</b>	<b>4</b>	<b>5,289</b>
<b>Net book value at 31 December 2001</b>	<b>1,366</b>	<b>91,174</b>	<b>–</b>	<b>–</b>	<b>92,540</b>
Net book value at 31 December 2000	1,245	62,606	29	–	63,880

The disposals during the year represent the shareholdings in the regional construction companies transferred to Bluestone plc on 30 December 2001.

## Notes to the Accounts

## 15 Stocks

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Development works and building land	34,879	33,534	3,767	14,217
Trading properties	871	1,693	-	580
Materials and equipment	278	128	-	-
	<b>36,028</b>	35,355	<b>3,767</b>	14,797

Included within development works and building land is £241,000 (2000: £900,000) in respect of interest capitalised.

## 16 Debtors

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Trade debtors	64,043	51,915	252	183
Amounts recoverable on contracts	85,416	51,975	-	-
Amounts owed by subsidiary undertakings	-	-	10,329	11,572
Amounts owed by joint venture	12	46	-	40
Corporation tax recoverable	-	-	-	326
Other debtors	3,422	11,598	1,521	1,862
Prepayments and accrued income	2,368	2,430	879	1,399
	<b>155,261</b>	117,964	<b>12,981</b>	15,382

## 17 Cash at bank and in hand

The Group's financial instruments comprise cash and various short-term items such as trade debtors and trade creditors that arise directly from its operations. In particular the Group holds cash in the form of sterling deposits with counterparties, which are at a fixed interest rate and for periods not exceeding three months.

The objective of placing these deposits with financial institutions approved by the Board is to maximise interest received. The Group's treasury policy sets out lending limits and minimum liquidity requirements to be met. By lending surplus funds to counterparties the Group's risk profile is not significantly changed from maintaining funds with the Group's clearing bank.

During the period under review the Group did not enter into derivative transactions and has not undertaken trading in any financial instruments.

## 18 Creditors: amounts falling due within one year

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Bank overdraft	-	-	7,737	9,864
Obligations under finance leases and hire purchase contracts (note 20)	225	-	-	-
Payments on account	11,221	7,559	-	-
Trade creditors	73,429	47,132	413	486
Amounts owed to subsidiary undertakings	-	-	22,451	18,865
Other creditors	3,897	3,444	678	1,821
Corporation tax	4,034	2,789	454	-
Other tax and social security	7,711	5,773	109	41
Accruals and deferred income	119,793	86,928	4,807	2,128
Dividend	4,108	2,885	4,108	2,885
	<b>224,418</b>	156,510	<b>40,757</b>	36,090

## Notes to the Accounts

## 19 Creditors: amounts falling due after more than one year

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Obligations under finance leases (note 20)	629	-	-	-

## 20 Borrowings

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
The maturity of obligations under finance leases are as follows:				
Within one year	225	-	-	-
Within two to five years	629	-	-	-
After five years	-	-	-	-
	629	-	-	-
Total obligations under finance leases	854	-	-	-

The finance leases are secured on the assets they relate to.

## 21 Provisions for liabilities and charges

The amounts of deferred taxation provided and not provided in the accounts are as follows:

Group	Provided		Not provided	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Capital allowances in excess of depreciation	-	-	588	426
Taxation loss relief and other timing differences	-	-	(588)	(426)
	-	-	-	-

There are taxation losses to carry forward of approximately £5m (2000: £8m).

## 22 Operating lease commitments

At 31 December 2001 the Group was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	2001			2000		
	Land and buildings £'000s	Other £'000s	Total £'000s	Land and buildings £'000s	Other £'000s	Total £'000s
Leases which expire:						
Within one year	171	746	917	192	1,015	1,207
Within two to five years	491	2,259	2,750	671	1,830	2,501
After five years	1,763	2	1,765	1,610	3	1,613
	2,425	3,007	5,432	2,473	2,848	5,321

## Notes to the Accounts

## 23 Financial commitments

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Capital expenditure Authorised and contracted	6	120	-	-

## 24 Contingent liabilities

Group bank accounts and performance bond facilities are supported by cross-guarantees given by the Company and participating trading companies in the Group. The overdraft facility of the joint venture is supported by a Group guarantee.

## 25 Called up share capital

	2001		2000	
	No. '000s	£'000s	No. '000s	£'000s
Authorised				
Ordinary shares of 5p each	50,000	2,500	50,000	2,500
5.625% Convertible cumulative redeemable preference shares of £1 each	5,000	5,000	5,000	5,000
	55,000	7,500	55,000	7,500
Issued and fully paid				
Ordinary shares of 5p each	40,592	2,029	37,854	1,893
5.625% Convertible cumulative redeemable preference shares of £1 each	2,964	2,964	3,793	3,793
	43,556	4,993	41,647	5,686

*Ordinary shares*

The ordinary shares of 5p each of the Company issued during the year are shown below. Details of the share option schemes referred to are given later in this note.

- 194,675 ordinary shares in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £306,738.25.
- 318,650 ordinary shares in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £471,035.50.
- 331,914 ordinary shares in respect of conversion rights attached to 829,785 convertible preference shares exercised as at 30 June 2001.
- 1,892,711 ordinary shares in respect of a placing of shares on 11 June 2001 for a total consideration of £8,365,211.00 net of expenses.

*Preference shares*

The convertible preference shares are convertible at the option of the holder on 30 June in each of the years 1991 to 2003 inclusive on the basis of 40 ordinary shares for every 100 convertible preference shares. After conversion of 75% of the convertible preference shares the Company has the right to require the conversion of the outstanding balance. The convertible preference shares are redeemable at par at the Company's option after the last date of conversion in 2003 and are finally redeemable on 30 June 2005. There is no premium payable on a return of capital on a winding up and the convertible preference shares do not entitle the holders to any participation in the profits or assets of the Company beyond their preference dividend entitlement.

*Options*

The company has two share option schemes. The first scheme ('the 1988 Scheme') was introduced on 21 January 1988 and the second scheme ('the 1995 Scheme') received shareholders' approval on 24 May 1995. Options granted under the 1988 Scheme are exercisable between three and ten years from the date of grant and under the 1995 Scheme are exercisable between five and seven years from the date of grant. The period for the granting of options under the 1988 Scheme expired in January 1998. As at 31 December 2001 there remain 65,225 options outstanding under that Scheme exercisable at prices between £0.73 and £1.71. At the same date there were 1,377,450 options outstanding under the 1995 Scheme exercisable at prices between £0.73 and £ 3.88

## Notes to the Accounts

## 26 Revaluation reserve

	Group		Company	
	2001 £'000s	2000 £'000s	2001 £'000s	2000 £'000s
Investment property revaluation reserve	2,854	2,854	2,854	2,854
Other property revaluation reserve	1,773	1,405	94	220
	<b>4,627</b>	4,259	<b>2,948</b>	3,074

## 27 Acquisitions

## Morgan Est (formerly Miller Civil Engineering Services)

On 10 May 2001 the Company acquired Miller Civil Engineering Services which now trades as Morgan Est. The cash consideration was £20.2m. The financial results for the business for the year to 31 December 2000 and for the period to the date of acquisition were as follows:

	Turnover £'000s	Operating profit £'000s	Profit before taxation £'000s	Profit after taxation £'000s
Financial year to 31 December 2000	135,038	3,755	–	–
1 January 2001 to date of acquisition	46,112	2,019	2,163	1,375

For the twelve month period to 31 December 2000 the business was a division within its former parent's group and as a result profit before and after taxation are not separately identifiable.

The following table analyses the book value of the major categories of assets and liabilities acquired :

	Book value at date of acquisition £'000s	Provisional fair value adjustments £'000s	Notes	Provisional fair value of net assets £'000s
Intangible fixed assets	19,667	(19,667)	a	–
Tangible fixed assets	8,282	–		8,282
Work in progress	384	–		384
Trade debtors	17,023	–		17,023
Other debtors	2,925	2,166	a	5,091
Cash at bank	4,720	–		4,720
Trade creditors	(25,717)	–		(25,717)
Corporation tax	–	(788)	b	(788)
Other creditors and accruals	(7,616)	(1,230)	b	(8,846)
Net assets	19,668	(19,519)		149
Consideration				20,001
Acquisition costs				202
Total cost				20,203
Goodwill				20,054

The acquisition has been accounted for by the acquisition method of accounting. The provisional fair value adjustments are explained as follows:

- a: Adjustment to carrying value of assets
- b: Provision for known liabilities.

## Notes to the Accounts

### 27 Acquisitions (continued)

#### Carillion Housing

On 31 July 2001 the Group acquired the Carillion Housing business which included the assets and liabilities of certain housing long term contracts. The cash consideration was £5.3million.

The following table analyses the book value of the major categories of assets and liabilities acquired :

	Book value at date of acquisition £'000s	Provisional fair value adjustments £'000s	Note	Provisional fair value of net assets £'000s
Trade debtors	2,263	–		2,263
Other debtors	2,939	–		2,939
Trade creditors	(1,362)	–		(1,362)
Other creditors and accruals	(4,498)	(4,102)	a	(8,600)
Net liabilities	(658)	(4,102)		(4,760)
Cash consideration				5,260
Acquisition costs				195
Total cost				5,455
Goodwill				10,215

The acquisition has been accounted for by the acquisition method of accounting. The provisional fair value adjustments are explained as follows:

a: Provision for known liabilities

#### Cash flow

During the year acquisitions contributed £11,074,000 to the Group's net operating cash flows, received £204,000 in respect of net returns on investment and servicing of finance, paid £970,000 in respect of corporation tax and paid £711,000 on investing activities.

#### Pipeline Constructors Group plc

On 2 January 2002 the Company acquired the whole issued share capital of Pipeline Constructors Group plc for an initial consideration of £16.45m satisfied by £9.3m of cash and £7.15m of loan notes. The final consideration is subject to agreement of a completion balance sheet with the initial consideration based on provisional net assets of £1.88m.

### 28 Pensions

#### Defined contribution and hybrid schemes

The Morgan Sindall Retirement Benefits Plan (MSRBP) scheme was established on 31 May 1995 and operates on defined contribution principles where contributions are invested to accumulate capital sums to provide members with retirement and death benefits. MSRBP includes some defined benefit liabilities and transfers of funds representing the accrued benefit rights of former active and deferred members of pension plans of companies which are part of the Group as it now stands. These include final salary related benefits for the members of the former Sindall Group Pension Fund in respect of benefits accrued before 31 May 1995. No further defined benefit membership rights can accrue after that date and consequently there is no service cost for such benefits in the year.

The last triennial valuation of the MSRBP was undertaken on 5 April 2001. For the purposes of reporting under FRS 17 a valuation of the scheme was undertaken on 31 December 2001, and details are given below.

Valuation date	31 December 2001	
Valuation method	Projected unit	
	Notes	£'000s
Fair value of the scheme assets	a	5,485
Present value of scheme liabilities		(5,379)
Scheme surplus		106
Related deferred taxation		–
Net pension asset		106
Funding level		102%



## Notes to the Accounts

## Actuarial assumptions

Inflation assumption	3.0%
Increase for pensions – members who left before 1 June 1995	3.5%
Increase for pensions – members who left after 31 May 1995	3.0%
Increase for non-GMP deferred pensions	2.5%
Salary scale increase per annum	4.0%
Discount rate for liabilities	6.0%

## Expected Investment Returns

Asset Class	Proportion Invested	Expected Return
Equities	65%	7.0%
Fixed Interest	28%	5.0%
Other	7%	4.0%
Overall	100%	6.2%

The total pension costs for the Group were:

	Notes	£'000s
Employer contribution to MSRBP (defined benefits)	b	–
Employer contribution to MSRBP and other plans (money purchase)	b	2,505
		<b>2,505</b>

## Notes

a: Represents the ongoing value of assets invested in managed funds operated by Scottish Equitable at the valuation date. The assets and liabilities relating to money purchase members are in addition to these figures.

b: In view of the funding position of the defined benefit section of MSRBP there was no requirement for an employer's contribution in the year and this is not expected to change. Employer's contribution for money purchase benefits remains unchanged at agreed standard rates.

## 29 Reconciliation of operating profit to net cash inflow from operating activities

	2001 £'000s	2000 £'000s
Operating profit	19,588	14,749
Depreciation of tangible fixed assets	3,119	2,082
Amortisation of goodwill	1,478	650
Profit on sale of fixed assets	(80)	(360)
Decrease/(increase) in stocks and work in progress	231	(10,044)
Increase in debtors	(4,825)	(28,564)
Increase in creditors	16,648	30,382
Exceptional loss	–	(684)
Net cash inflow from operating activities	<b>36,159</b>	8,211

## 30 Analysis of net funds

	31 December 2000 £'000s	Cash flow £'000s	Acquisition of subsidiary undertaking £'000s	31 December 2001 £'000s
Cash at bank	23,474	11,165	–	34,639
Finance leases	–	113	(967)	(854)
Total	23,474	11,278	(967)	<b>33,785</b>

## Notes to the Accounts

## 31 Reconciliation of net cash flow to movement in net funds

	£'000s
Increase in cash	11,165
Cash outflow from decrease in finance leases	113
	11,278
Finance leases acquired with subsidiary undertaking	(967)
	10,311
Net funds at 1 January 2001	23,474
<b>Net funds at 31 December 2001</b>	<b>33,785</b>

## 32 Additional information on subsidiary undertakings and joint venture

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings and joint venture which affected the Group's results or net assets.

<i>Subsidiary undertakings</i>	<i>Activity</i>
Lovell Partnerships Limited	Affordable housing
Morgan Lovell plc	The workplace specialist
Overbury plc	Fitting out and refurbishment specialist
*Barnes & Elliott Limited	Construction
Bluestone plc	Construction
*Hinkins & Frewin Limited	Construction
*Roberts Construction Limited	Construction
*Sindall Limited	Construction
*Snape Roberts Limited	Construction
*Stansell Limited	Construction
*Stansell QVC Limited	Construction
*Wheatley Construction Limited	Construction
Morgan Est plc	Infrastructure services
<i>Joint venture</i>	
Primary Medical Property Limited (50%)	Development and investment of medical properties

All subsidiary undertakings are wholly owned unless shown otherwise and with the exception of companies marked \* all shareholdings are in the name of Morgan Sindall plc. With the exception of Stansell QVC Limited, registered and operating in Jersey, all undertakings are registered in England, which is the principal place of business.

## 33 Directors' interests

According to the register maintained as required by the Companies Act 1985, the interests of the directors in office at the end of the year are shown below and their interests in shares under the Long Term Incentive Plan are shown in the Remuneration Report on page 22.

	2001 No.	5p Ordinary Beneficial 2000 No.
J C Morgan	6,226,801	6,226,801
J M Bishop	17,814	17,814
P Whitmore	2,250	2,250
B H Asher	5,000	5,000
G Gallacher	3,000	3,000
Sir D P Hornby	5,425	5,452
J J C Lovell	6,223,581	6,223,581
J Walden	-	-

No director had any non-beneficial interest in the ordinary shares or any interest in the preference shares of the Company or the shares of any Group company. There have been no changes in the interests of the directors between the year end and 12 February 2002. No director had any material interest in any contract with the Company.

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held in the Conference Room, College Hill Associates, 4th floor, 78 Cannon Street, London, EC4N 6HH at 12 noon on Wednesday 10 April 2002 for the following purposes:

### Ordinary business

1. To receive the Reports of the Directors and the Auditors and the Accounts for the year ended 31 December 2001.
2. To declare a dividend of 10 pence per Ordinary Share.
3. To re-elect Mr J C Morgan
4. To re-elect Mr P Whitmore
5. To re-elect Mr J Walden
6. To re-appoint Deloitte & Touche as Auditors
7. To authorise the Directors to fix the Auditors' remuneration.

### Special business

To consider and if thought fit pass the following resolutions of which resolution 8 will be proposed as an Ordinary Resolution and 9 will be proposed as a Special Resolution.

8. That the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") to exercise all of the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate amount of £470,391.35 such authority (unless previously revoked or varied) to expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.
9. That subject to the passing of the previous resolution, the Directors be and they are hereby authorised and empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority given in the previous resolution as if section 89(1) of the Act did not apply to such allotment, provided that such power be limited to:
  - i) the allotment of equity securities which are offered to all the holders of equity securities of the Company (at a date specified by the Directors) where the equity securities respectively attributable to the interests of such holders are as nearly as practicable in proportion to the respective number of equity securities held by them, but subject to such exclusions and other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical problems under any laws, or requirements of any regulatory body or stock exchange in any territory or otherwise; and
  - ii) the allotment (otherwise than pursuant to sub-paragraphs i) above and iii) below) of equity securities up to an aggregate nominal amount of £101,480.43; and
  - iii) the allotment of equity securities up to a total nominal amount of £59,270.30 in connection with the satisfaction of conversion rights attached to the 5.625% Convertible Cumulative Redeemable Preference Shares of £1 each currently in issue

and this power shall expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make an offer or enter into an agreement before the expiry of that date which would or might require equity securities to be allotted after that date and the Directors may allot equity securities in pursuance of such an offer as if the power conferred hereby had not expired.

By order of the Board

**W R Johnston**  
Company Secretary  
12 February 2002

*Registered Office*  
77 Newman Street  
London  
W1T 3EW

## Notice of Annual General Meeting

### Notes

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on a poll in his place. A proxy need not also be a member of the Company. A form of proxy accompanies this notice.
2. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
3. In the case of a corporation the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or a duly authorised officer of the corporation.
4. To be effective, the form of proxy, together with any power of attorney or other authority under which it is executed or a notarially certified copy thereof must be sent to Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU to arrive no later than 12 noon on 8 April 2002.
5. Short biographical details of the directors seeking re-election are shown on pages 16 and 17.
6. Service contracts of Directors will be available for inspection at 77 Newman Street, London, W1T 3EW during usual business hours on any business day from the date of this notice until the date of the meeting and for 15 minutes prior to the meeting at the Conference Room, College Hill Associates, 4th Floor, 78 Cannon Street, London, EC4N 6HH.
7. If no indication of how the proxy shall vote is given, the proxy will exercise discretion as to voting or abstention there from.
8. The Company, pursuant to regulation 34 of The Uncertificated Securities Regulations 1995, specifies that only those Ordinary Shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
9. **Resolution 8**  
When resolution 8 in the notice of the Annual General Meeting is passed, the Board will have general and unconditional authority to allot 9,407,827 Ordinary Shares, which authority will expire fifteen months from the date on which this resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting. Of that number, 2,628,081 authorised but unissued Ordinary Shares will be reserved in respect of share options granted under the two Share Option Schemes which members have approved and to provide for the conversion of Preference Shares. Accordingly, following the passing of this resolution 6,779,746 Ordinary Shares, representing approximately 17 per cent of the issued Ordinary Share capital of the Company, will remain authorised, unissued and unreserved.
10. **Resolution 9**  
In addition to the above, on the passing of resolution 9, the Board will have authority to allot equity securities up to an aggregate value of £101,480.43, representing approximately 5 per cent of the issued Ordinary Share capital of the Company, for cash otherwise than pro-rata to existing shareholders, which authority will expire fifteen months from the date on which the resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting of the Company. The Board will also have authority to allot equity securities in order to satisfy the conversion rights attaching to the Preference Shares. However, currently there is no intention to issue any further share capital otherwise than pursuant to the exercise of conversion rights in respect of the Preference Shares in issue and in the exercise of any options under the two Share Option Schemes.

## Notice of Annual General Meeting

### 11. Institutional Shareholders

Facilitated by the Company's brokers, regular presentations are made to institutional shareholders to further mutual understanding of the Company's objectives.

### 12. Private Shareholders

For ease of reference paragraph C.2 of the Principles of Good Governance as set out in Section 1 of the Combined Code is reproduced below.

#### C.2 Constructive Use of the AGM

##### Principle

Boards should use the AGM to communicate with private investors and encourage their participation.

##### Code Provisions

- C.2.1 Companies should count all proxy votes and, except where a poll is called, should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands.
- C.2.2 Companies should propose a separate resolution at the AGM on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts.
- C.2.3 The chairman of the board should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM.
- C.2.4 Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

## Corporate Directory

### Directors

J C Morgan (Chairman)  
 J M Bishop  
 P Whitmore  
 B H Asher (Non-Executive)  
 Sir D P Hornby (Non-Executive)  
 G Gallacher (Non-Executive)  
 J J C Lovell (Non-Executive)  
 J Walden (Non-Executive)

### Secretary

W R Johnston

### Registered Office

77 Newman Street, London W1T 3EW  
 Tel: 020 7307 9200  
 Fax: 020 7307 9201  
 Registration No. 521970

### Solicitors

Charles Russell,  
 8-10 New Fetter Lane, London EC4 1RS

### Auditors

Deloitte & Touche,  
 Stonecutter Court, Stonecutter Street,  
 London EC4A 4TR

### Tax Advisors

Grant Thornton,  
 Grant Thornton House, Melton Street, Euston Square,  
 London NW1 2EP

### Clearing Bankers

Lloyds TSB Bank plc,  
 Po Box 17328, 11-15 Monument Street, London EC3V 9JA

### Merchant Bankers

Close Brothers Corporate Finance Limited,  
 10 Crown Place, Clifton Street, London EC2A 4FT

### Brokers

KBC Peel Hunt Ltd,  
 62 Threadneedle Street, London EC2R 8HP

### Registrars

Capita IRG plc,  
 Bourne House, 34 Beckenham Road,  
 Beckenham, Kent BR3 4TU

### Shareholder communication

Enquiries and information – please contact the Company Secretary, W R Johnston, at the registered office.  
 Direct line: 0207 307 9230  
 Direct fax: 0207 307 9202  
 E-mail: ray.johnston@morgansindall.co.uk

### Website

www.morgansindall.co.uk

### Share prices (FT Cityline)

Current buying and selling prices of the Company's shares, can be obtained by dialling 0906 843 4027.

The EPIC code as used in the Topic and Datastream Share Price information services is MGNS.

## Financial Calendar

Annual General Meeting 10 April 2002

### Ordinary shares

Final dividend:  
 Ex-dividend date 13 March 2002  
 Record date 15 March 2002  
 Payment date 12 April 2002

Interim results announcement August 2002

### Preference shares

Dividend payment dates: 15 April 2002  
 15 October 2002  
 Next conversion date 30 June 2002