morgan sindall report and accounts 2003

MORGAN SINDALL

the construction brands group

MORGAN SINDALL

Morgan Sindall plc is a top ten United Kingdom construction company employing over 5,000 people. Leading brands operate within four specialist divisions targeted at specific growth sectors. The inherent strength of the Group is derived from this balance of activity and the ability to provide a coordinated approach to integrated construction solutions.

OVERBURY

MORGAN LOVELL
THE WORKPLACE SPECIALIST

vivid interiors

backbone furniture

fit out

Overbury is the leading office fit out and refurbishment company and Morgan Lovell provides complete workplace interior design and refurbishment solutions. Vivid Interiors extends the division's activities to include the retail, leisure and entertainment sectors. Backbone Furniture offers advice, supply and installation of commercial furniture.

contents

construction
Through a network of local offices across England and Wales, Bluestone provides consistent, high quality construction solutions to private and public sector clients. Operating under a variety of procurement routes, the division's sector expertise is in education, healthcare, industrial, commercial, retail and residential where it undertakes new build, refurbishment and maintenance projects.

infrastructure services
Morgan Est operates through the core disciplines of water, utilities, tunnelling and specialised civil engineering in both the public and private sectors. A market leader in partnering arrangements, its culture of 'Early Solutions Together' has led to strong, long term client relationships.

affordable housing
Lovell is the country's leading provider of affordable housing, specialising in mixed tenure developments and major refurbishment opportunities. It works in partnership with social housing providers at the cutting edge of urban regeneration to create sustainable communities. Lovell's competitive advantage is its experience in the delivery of the whole range of affordable housing solutions. This includes open market homes, design and build, refurbishment, PFI schemes and its own low cost home ownership, Lovell Choice.

chairman and chief executive's statement

1 John Morgan
2 Paul Smith

1

2003 has been a successful year for the Group. Our long term strategy has been to build a diversified construction group with market leading brands operating in distinct niche sectors to provide the Group with the best opportunity for sustainable growth. This past year has seen subdued demand in many private sectors of the economy, albeit more opportunities have been available in the public sector. The fact that the Group has achieved a record result in both turnover and profit is therefore particularly satisfying and has demonstrated the effectiveness of the Group's strategy.

This year an operating and financial review is included in the annual report for the first time. This review contains a detailed commentary on trading in the year and consequently to avoid duplication we will not include a summary of divisional trading in this section of the report.

> "By increasing the range an
> construction services in wh
> the Group will continue to
> grow for the benefit of our
> and shareholders."

2

Paul Smith joined the Group as chief executive in March 2003. This has allowed greater focus to be brought to operational leadership whilst allowing John Morgan as chairman more opportunity to consider the strategic options for the Group. In the period since March we have considered the succession planning need arising from the fact that John Bishop will reach normal retirement age next year. We are pleased to announce that, after considering both internal and external candidates, we have decided to appoint David Mulligan as finance director with effect from 1 April 2004. David has been with the Group for six years as financial controller and has in particular established a strong working relationship with Paul Smith. For the coming year John Bishop will continue as an executive director, reverting back to his original brief of corporate development, whilst also providing continuity and support to David.

d scope of our
ich we excel,
prosper and
clients, staff

outlook

Looking ahead there is every reason for optimism. Our Fit Out division is starting to see tentative but definite signs of the market improving for the first time in eighteen months. The Construction division is progressing steadily and is benefiting from its restructuring and refocusing programme, and from the same improving market that is being experienced by the Fit Out division. Infrastructure Services made real progress in 2003. It is expected that the growth of this division will be more modest in 2004 as current major projects near completion. Nevertheless its growing market recognition augers well for its longer term development. However it is our Affordable Housing division that enjoys the most exciting prospects. It has the leading position in a market that is projected to grow strongly over an extended period.

This year will mark the tenth anniversary of the creation of Morgan Sindall. Much has changed since 1994 when turnover was running at £100m per annum and the Group employed fewer than 600 people compared to our present £1.1bn turnover and over 5,000 employees. However much remains the same; there is the same commitment to building excellence and to producing outstanding work. There is still a belief that by increasing the range and scope of our construction services in which we excel, the Group will continue to prosper and grow for the benefit of our clients, staff and shareholders. We remain as enthusiastic about the future and excited by the challenges ahead as we were ten years ago.

John Morgan
Chairman

Paul Smith
Chief Executive

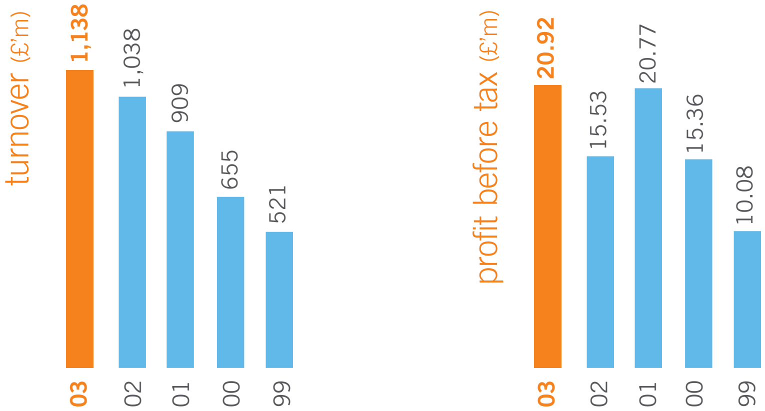
19 February 2004

operating and financial review

2003 has been the most profitable year in the Group's history with profit before tax increasing 35% to £20.92m (2002: £15.53m) on turnover of £1,138m (2002: £1,038m). Earnings per share grew by 42% to 36.04p compared to 25.32p for the previous year. Consequently the board recommends an increase in the final dividend to 11.75p giving a total of 16.50p for the year (2002: 15.00p).

Cash generated during the year totalled £7.76m giving a cash balance at the end of December of £14.61m (2002: £6.85m).

The order book at the start of 2004 stands at a record level of £1,630m compared to £1,350m last year.



general market conditions

The construction industry within the United Kingdom is expected to amount to £49.1bn in 2003, with potential growth towards £52.6bn in 2005. Public sector expenditure on construction is forecast to grow at 5% per annum over the next three years, offering the industry the opportunity to deliver the government's investment programme in transport infrastructure, education and health facilities.

It is the Group's view that construction activity will remain buoyant in the medium term, underpinned by government expenditure and an expectation that the commercial sectors of the market will recover towards the end of 2004 following a downturn in activity in 2002 and 2003.

group strategy

The Group's strategy is to build a diversified construction group with leading brands operating in a number of distinct market sectors to provide sustainable growth. The diversity of activities within the Group has created a balance whereby cash generated from Fit Out and Construction provides funds for investment in Affordable Housing where superior returns are achieved. This diversity also provides a good balance between public and private sectors which helps to reduce the risk to the Group of changes within particular sectors of the economy.

divisional performance

fit out

The Fit Out division operates through four brands, namely Overbury (turnover in 2003 £154m), Morgan Lovell (£28m), Vivid Interiors (£6m), and Backbone Furniture (£1m).

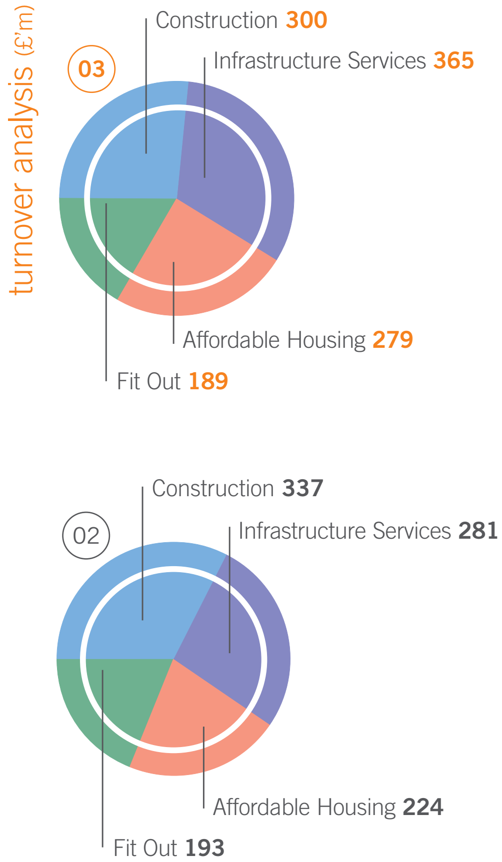
Overbury provides fit out and refurbishment services to the commercial property sector and works for larger clients who employ their own professional teams of project managers and architects. Morgan Lovell provides design and build fit out solutions in the commercial sector, giving advice to clients as to their requirements and managing the building works. Vivid Interiors is a new business started in 2002 focusing specifically on the retail, leisure and entertainment sectors of the fit out market. Backbone Furniture was also established in 2002 and supplies innovative solutions to clients' furniture needs.

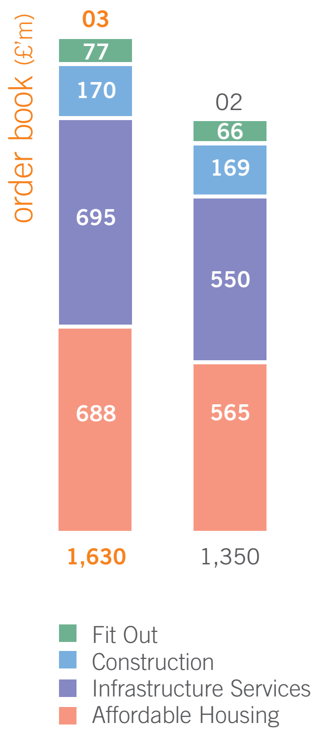
The strategy of the Fit Out division is for each of its brands to be the market leader in its chosen sector through superior quality of service and workmanship. Historically the division has been focused on the commercial property market in South East and Central England. The division is increasingly asked by its clients to undertake contracts in other parts of the country and will therefore expand its service in the United Kingdom during 2004.

In 2003 the division's turnover was £189m (2002: £193m) with an operating profit of £8.41m (2002: £10.48m) and an operating margin of 4.4% (2002: 5.4%). Fit Out has experienced tough trading conditions during 2003 as the ongoing slow down in the commercial property sector dampened demand for new office space. Despite this the division has been successful by undertaking more restack work, where clients' property is refurbished whilst they continue in occupation, and also by working with public sector clients. The public sector workload through 2003 has been about 30% of the total, which is above historic levels of around 20%.

Margins have been maintained at acceptable levels of 4.4% within this division despite the increasing challenges in the market place. This demonstrates the strength of the Fit Out brands and the ability of the management team to adapt swiftly to changing market conditions.

The division starts 2004 with an order book of £77m compared to £66m at this stage last year which gives confidence that Fit Out will move ahead in 2004. Although the market remains challenging the division is beginning to see improvements in the level of enquiries particularly as the financial services sector begins to recover. It is anticipated that public spending will be maintained in the short to medium term, which together with the anticipated gradual recovery of the private sector leads management to believe that the division will return to modest growth in the near future.





construction

This division operates through the Bluestone brand focusing on construction services to the education, health, commercial and industrial market sectors with an emphasis on contracts up to £15m in value. Its network of regional offices provide a national service throughout England and Wales.

The Bluestone brand was created at the start of 2002 from six existing regionally based construction businesses. This major structural change in the division contributed to an operating loss in 2002 of £4.95m. The new structure is in place and the division is better positioned to respond to customer requirements on a local and national basis.

Bluestone's strategy is to gradually move an increasing proportion of its workload towards key clients, where work tends to be more negotiated in nature, and toward framework type arrangements, reducing the reliance upon competitively tendered work and its associated risks. The market in which Bluestone operates is historically competitive due to low barriers to entry. In order to mitigate the inherent risks the division's approach is to be selective in projects undertaken, aligning contract requirements closely to its core skills. As such it is the division's intention to constrain volume growth in the short to medium term.

In 2003 the division's turnover was £300m compared to £337m in 2002 and a peak of £403m in 2001, with an operating profit of £0.60m (2002: a loss of £4.95m). The benefits of restructuring in 2002 continue to be realised and the division is expected to consolidate its position in 2004.

Bluestone begins 2004 with orders of £170m which is at a similar level to last year. This is consistent with the division's approach to hold turnover at a manageable level whilst the focus is placed on margin improvement.

infrastructure services

The Infrastructure Services division operates through the Morgan Est brand and is one of the major civil engineering businesses in the United Kingdom. It is focused on the water, tunnelling, utilities, road and rail sectors.

In bringing key skills and specialists together for complex projects the division has entered into a number of joint venture arrangements with some of Europe's top construction companies. Workload is procured across the full spectrum of contract types, namely traditional contracts, design and build contracts, partnering and framework agreements as well as Private Finance Initiative (PFI) structures.

The division is based in Rugby and has a network of offices around the United Kingdom aligned to its main clients and project commitments.

Morgan Est's strategy is to be a major provider of infrastructure solutions in the United Kingdom to the civil engineering and utilities markets. It delivers these solutions and provides best value through collaborative working and innovative early solutions developed together with its clients and partners.

In 2003 the division's turnover was £365m compared to £281m last year, with operating profit rising 41% to £9.24m (2002: £6.55m). Key factors in the division's growth in 2003 have been its major infrastructure projects as well as expansion of its water and utilities activities. The civil engineering market remains buoyant, reflecting the government's commitment to investment in roads and rail, and the utilities companies' continued investment in their infrastructure.

The division starts the year with an order book of £695m reflecting the long term nature of its major projects and framework agreements. Following a high level of activity in its key projects and an overall strong performance in 2003 it is expected that the growth of this division will be more modest in 2004 as major tunnelling and rail projects draw to a close towards the end of this year and into 2005.

In the water sector the major utility companies are beginning to make the transition from Asset Management Programme ('AMP') 3 to AMP 4 over the next two years. These are five year investment programmes agreed with the water regulator. It is expected that levels of investment will be maintained during this transition.

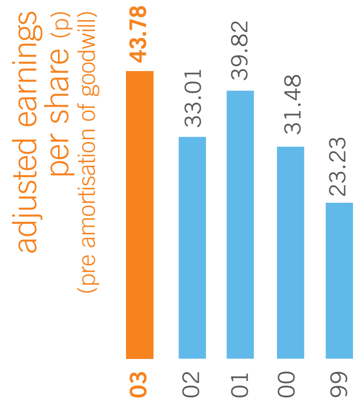
affordable housing

This division operates through the Lovell brand and is the United Kingdom's leading provider of affordable housing. Affordable housing are homes designed for low and moderate income households.The division's strategy is to maintain its market leadership and continue to provide cutting edge affordable housing solutions.

Lovell operates through a structure of nine regions which cover England, Wales and Scotland and provides new build homes and housing refurbishment services. Refurbishment services are typically large scale schemes focused on improvements to kitchens, bathrooms, building exteriors and public areas. New build homes include those for the open market, for local authorities and housing associations. Lovell's particular expertise is in mixed tenure developments which combine both open market properties and homes for public ownership and may also include refurbishment of existing dwellings.

In 2003 the division's turnover was £279m (2002: £224m), with a record operating profit increasing 50% to £8.92m (2002: £5.97m). Lovell's growth has been aided by the government's ongoing investment in the affordable housing sector. In addition local authorities continue to transfer homes to housing associations which provides another source of finance for improvements.

The division's order book stood at £688m at the start of 2004 compared to £565m last year, reflecting the development of Lovell and the long lead times required on affordable housing projects. The sector is expected to expand at a significant rate over the medium to long term reflecting the government's commitment to improving the availability and quality of affordable housing in the United Kingdom.



financial review

turnover and operating profit

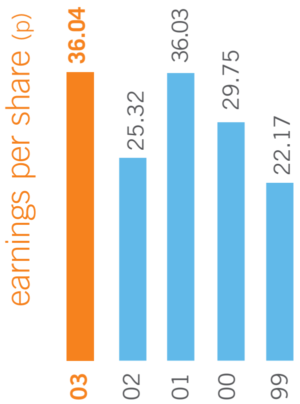
Group turnover increased 10% during the year to £1,138m (2002: £1,038m). The increase was mainly due to growth in Affordable Housing (up 25% to £279m) and Infrastructure Services (up 30% to £365m). Fit Out turnover was in line with the previous year while Construction turnover fell 11% to £300m reflecting the decision to constrain turnover and focus the business more closely on its core activities.

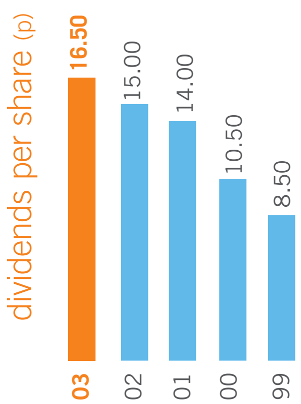
Group operating profit was a record at £21.97m, up 40% on the prior year (2002: £15.69m). This improvement is attributable to the return to profitability of the Construction division which contributed £0.60m during the year (2002: loss of £4.95m) and the significant growth in profitability at Affordable Housing and Infrastructure Services. Affordable Housing increased its profits by 50% to £8.92m (2002: £5.97m) and Infrastructure Services by 41% to £9.24m (2002: £6.55m) driven by margin enhancement and organic growth within both divisions. Fit Out operating profit contracted to £8.41m (2002: £10.48m), reflecting tighter market conditions, however margins achieved were an acceptable 4.4%. The cost of Group activities has increased to £5.20m (2002: £2.35m) reflecting increased PFI bid costs during 2003, payment of performance bonuses and the loss of rental income from the property portfolio following disposal of an investment property during the year.

profit before and after taxation

Profit before taxation of £20.92m was 35% ahead of last year's £15.53m. This reflects a 40% improvement in operating profit partly offset by a net interest charge of £1.18m (2002: £0.76m) due to greater cash borrowings funding the increase of working capital at Affordable Housing as the business grows.

Profit after taxation was £14.91m (2002: £10.39m). The tax charge was £6.01m (2002: £5.14m) giving a current year effective tax rate of 29%, which reflects the utilisation of tax losses brought forward from 2002.





financial reporting changes

The Group has implemented the recommendations of the Accounting Standards Board's statement on operating and financial review issued in January 2003 in expectation of this becoming a reporting requirement.

dividends and earnings per share

Earnings per share have increased 42% to 36.04p (2002: 25.32p) giving 21% compound growth since 1995 following the Group's formation by the reverse takeover of William Sindall plc by Morgan Lovell plc. Earnings per share adjusted for goodwill are 43.78p (2002: 33.01p).

The final dividend is proposed at 11.75p (2002: 10.75p) giving a total dividend of 16.50p up 10% on last year (2002: 15.00p). Over the period since 1995 the compound growth in the dividend is 25%. Earnings cover the ordinary dividend 2.2 times (2002: 1.7 times).

shareholders' funds and capital structure

Shareholders' funds have increased to £77.97m (2002 £70.28m).

The remaining convertible preference shares in issue were redeemed during the year at par totalling £0.62m. The majority of the £5m shares issued in 1988 had converted before the redemption date.

The number of ordinary shares in issue at 31 December 2003 was 42 million. The increase during the year of 754,000 reflects 385,000 as a result of preference shareholders converting and 369,000 issued as a result of share options being exercised. The proceeds from share options amounted to £0.72m. There were no other new issues during the year. In the last five years only one share placing has been undertaken when, in 1999, 3.25 million shares were issued raising £8.2m in conjunction with the acquisition of Lovell Partnerships.

At December 2003 directors hold interests over 30% of the ordinary shares of the Company, further details of which are disclosed on page 68 in the notes to the accounts.

cash flow and treasury

Net cash inflow from operating activities was £22.83m (2002: £0.63m). Capital expenditure was £3.03m (2002: £5.28m) which reflects ongoing investment in the business and £9.21m was raised from the sale of fixed assets. Payments of £6.80m were made during the year to redeem loan notes relating to the acquisition of Pipeline Constructors Group in 2002. The remaining preference shares were redeemed during 2003 for £0.62m. After payments for taxation, dividends and servicing of finance the net increase in cash was £7.76m (2002: net decrease of £27.79m).

During the year additional banking facilities were put in place to fund seasonal movements in working capital. A £25m three year revolving facility is available until June 2006 priced at an agreed margin over prevailing market interest rates. In addition the Group has a £30m overdraft facility with its main clearing bankers, which is annually renewed and priced at an agreed margin over the bank's base interest rate. Banking facilities are subject to normal financial covenants, none of which have been breached in the year.

The Group has established treasury policies setting out clear guidelines as to the use of counterparties and the maximum period of borrowings and deposits. Borrowings are for periods of no longer than three months and are at rates prevailing on the day of the transaction.The Group considers its exposure to interest rate movements is not significant. The Group has no exposure to foreign exchange risk due to its operations being based solely in the United Kingdom. In addition it does not use derivatives as a risk management tool.

fit out

Strong turnover and profit performance despite tough market

Increased level of public sector work

Major framework clients secured

Increasing share of retail, hotel and leisure market sectors

Perfect Delivery established in all four brands

OVERBURY

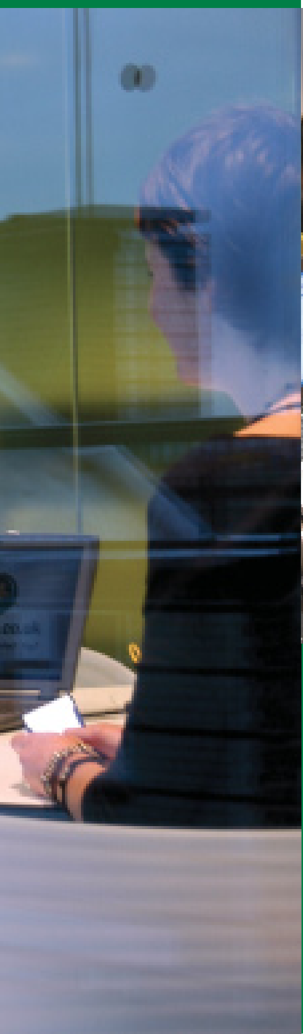
MORGAN LOVELL
THE WORKPLACE SPECIALIST

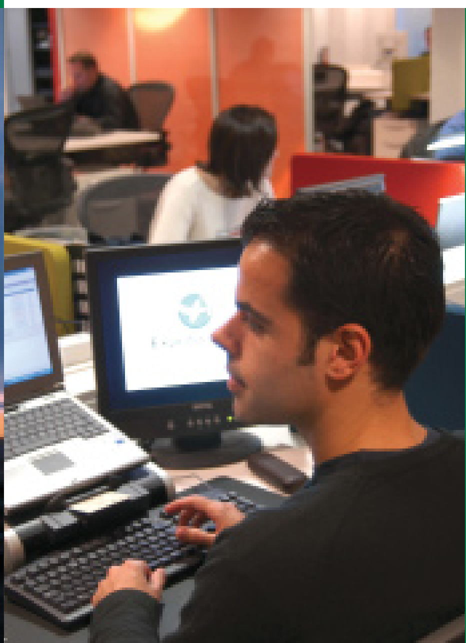
vivid interiors

backbone furniture

Despite the continuing downturn in the commercial sector during 2003, the Fit Out division has maintained its leading market position with turnover of £189m, an operating profit of £8.41m and an operating margin of 4.4%. This solid performance has been achieved by securing record levels of public sector work and further extending the division's penetration into the retail, leisure and entertainment sectors. Fit Out's order book is up 17% on the same time last year and with the commercial sector showing signs of recovery, modest growth is expected in 2004.

Perfect Delivery, Fit Out's ongoing client service initiative, is established across all four brands and continues to drive business improvement and the quality of the service delivered. Overbury set an industry first when it piloted the abolition of its subcontractor retentions, a move which has further improved working relationships and the ability to achieve Perfect Delivery on its projects. Independent market research carried out in the second half of 2003 positioned Overbury as the market leader and contractor of choice in its sector.





Left: Morgan Lovell completed new work spaces for internet travel company Expedia.com in the landmark Landflex building in Soho Square, central London. Expedia.com was the first firm to take offices in the pioneering building, created by Land Securities to give tenants flexible business accommodation through a combination of lease options and specially designed buildings. Backbone Furniture carried out the furnishing.

turnover £'000s 2003: 189,001 2002: 192,934
operating profit £'000s 2003: 8,407 2002: 10,483

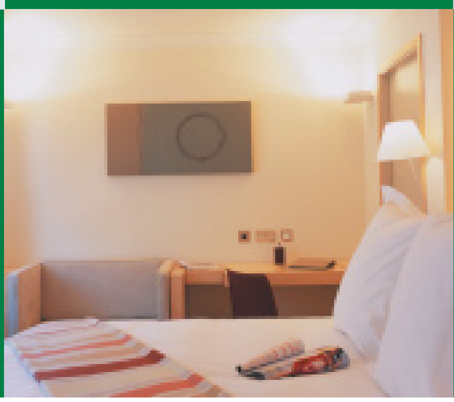
During the year the division improved health and safety awareness across its workforce and supply chain with the introduction of the "Work Safe Home Safe" programme. This health and safety initiative aims to encourage everyone who works for the division to take an active part in looking after the people they work with and ensuring their safe return home every day.

Overbury secured a significant level of new public sector business in 2003, including projects for the Department of Environment, Food and Rural Affairs (Defra) in London and the National Air Traffic Services in Hampshire. Other high profile projects completed included a flagship hi-tech fit out for IBM and a major two year framework refurbishing Jobcentres across London.

As part of the division's commitment to minimising the impact of its business on the environment, Overbury achieved a high environmental assessment rating on the Defra project by creating an environmental plan to minimise energy use and reduce vehicle movements. This incorporated a detailed waste strategy to reduce, re use and recycle materials wherever possible. At the refurbishment of BP's St. James's Square headquarters, Overbury achieved a remarkable 90% recycling rate for construction waste.

Left: Chameleon walls and futuristic projection screen characterise Overbury's hi-tech fit out of IBM's Bedfont Lakes offices near Heathrow. The £2m scheme, completed in 16 weeks, features a 'floating' central mezzanine in the existing atrium and a staircase flanked by floor to ceiling light walls.

Right: Vivid Interiors' £1.8m refurbishment of the Grade II listed Sydney Hotel in Sydney Street, London. The transformation of the mid 19th century townhouse hotel in Chelsea has included the complete refurbishment of 21 luxuriously appointed bedrooms with private glass clad bathrooms using specialist joinery and unique furniture for each room.



Right: Morgan Lovell's fit out of the new UK headquarters of internet retailer ebay, a repeat client.

Long term partnerships, client framework agreements and increasing public sector projects such as the ground breaking 'one stop' shop customer services centre for Bradford Metropolitan Council, have provided a steady workflow during 2003 for Morgan Lovell, specialist in workplace interior design and refurbishment solutions. Morgan Lovell also completed a joint venture project within the Group when it worked with Bluestone in the delivery of Britain's first walk in casualty centre for Casualty Plus.

Now in its second year, Vivid Interiors, the division's retail, leisure and entertainment fit out specialist is already one of the top 40 companies in its sector. This business has been building its London based client portfolio and secured important projects in the fitness, fashion, retail and luxury hotels market, such as the major refurbishment of The Krug Dining Room at the Dorchester Hotel in London.

Backbone Furniture, the division's 'one stop' office furniture service launched in 2002 achieved its first year's sales targets. Whilst still small in the context of the division it expects to double turnover in 2004 as it extends its services.

notable contracts

Overbury

> Department of Environment and Rural Affairs (Defra) £11.5m refurbishment in London.

> National Air Traffic Services (NATS) £12.3m fit out of their offices in Fareham, Hampshire.

> IBM £2.1m hi-tech premises fit out in Feltham, Middlesex.

Morgan Lovell

> T Mobile £2.4m office fit out in Hatfield, Hertfordshire.

> IMI plc £1.3m fit out for the international engineering firm in Birmingham.

> Expedia.com Completion of a £0.5m office fit out for the online travel agent in London.

> Kent County Council £0.3m call centre refurbishment in Maidstone, Kent.

Vivid Interiors

> Sydney Hotel, Chelsea £1.8m luxury hotel refurbishment of a Grade II listed hotel.

> Dorchester Hotel, London major refurbishment of The Krug Dining Room.

Above: A panoramic view over London from Grosvenor Place offices in SW1 of offshore stockbrokers and investment advisors Capital International Limited. Overbury carried out the strip out and refit of approximately 105,000 sq ft of building space which included the creation of cellular and open plan office accommodation, conferencing facilities, meeting rooms and a reception area.

construction

Return to profit

Strong forward order book

Significant increase in high quality, long term public sector work

A leaner, more efficient and streamlined business

Bluestone's operating profit of £0.60m for the year is in line with expectations and demonstrates the turnaround in the business. At the start of 2004 the forward order book stands at £170m. With a focus on key market sectors and the development of strategic client relationships this division is expected to make further progress in 2004.

Bluestone is also well placed to take advantage of the opportunities for growth from increased public sector expenditure, a significant proportion of which is now let under framework arrangements. Bluestone has already established a strong position in both the health and education sectors.

Recently, Bluestone has been appointed as construction partner for a major NHS Local Initiative Finance Trust (NHS LIFT) scheme to build primary health and social care facilities in Barnsley. Bluestone will carry out construction work totalling some £50m over the first five years of a 20 year framework period. Bluestone is also preferred construction partner for two further NHS LIFT schemes at Camden & Islington and East Hampshire.

Bluestone's award winning £5.5m refurbishment of The Lighthouse in Poole, Dorset, the largest arts centre outside London, was completed in 2003.

turnover £'000s 2003: 300,313 2002: 337,027
operating result £'000s 2003: 599 2002: (4,952)

In the education sector, Bluestone has increased its market share and secured further new and repeat work including additional student accommodation for Unite in Nottingham and at Brunel University in Middlesex where the division is carrying out a £6.5m library extension.

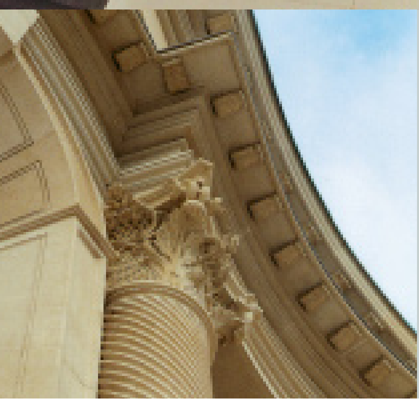
On projects ranging from new build to conservation and repair, Bluestone is working with the University of Oxford and is continuing to strengthen its well established links with the Universities of Cambridge, Nottingham and Southampton and University College London.

Bluestone also has framework agreements with local authorities in Norfolk and Warwickshire and is one of six companies selected by Devon County Council for a five year £200m programme to upgrade schools, libraries and care centres across the county.

In the private sector, Bluestone has secured a number of repeat projects with key clients including BUPA, St Modwen, Langtree Group and Pegasus.

Left: The nation's first private walk in casualty centre built by Bluestone and fitted out by Morgan Lovell for private sector healthcare provider Casualty Plus opened in Brentford, West London. The three storey £5m centre allows patients with minor injuries to be treated immediately and avoid long waiting times in hospital accident and emergency.

Below: Two of five Quinlan Terry Villas built by Bluestone along the Regent's Canal in Regent's Park London. The Corinthian Villa (below left) is the most elegant and finely detailed of the five new Villas. The elaborate spiral fluted columns and capitals are hand carved by specialist stone masons. This new Regency Villa (below) features an elaborate portico in keeping with the Nash style facade. Built with load bearing brickwork and reconstituted Portland stone.



Other important achievements for Bluestone during 2003 include:-

- The Bluestone built Theatre Royal (TR2) in Plymouth which was voted 2003 *Building of the Year* by the Royal Institute of British Architects.
- The launch of Bluestone's "Work Safe Home Safe" health and safety programme which seeks to create and maintain a culture of caring and well being. Bluestone is also working with external organisations to tackle the occupational health problems which lead to many workers leaving the construction industry.
- The development of a dedicated recruitment website targeting graduates and complementing Bluestone's drive to forge stronger links with universities and colleges.

notable contracts

> Defence Estates Bluestone is one of three construction partners in a £500m seven year framework agreement to carry out construction and maintenance work at over 120 Ministry of Defence sites for Defence Estates in the South West of England.

> Dorset County Council £9m scheme to build special needs schools in Dorset.

> WilliamsF1 Bluestone is building a new generation wind tunnel for WilliamsF1 in Oxfordshire which is set to shape the future of Williams Formula One racing cars. The building will be ready for use in April 2004.

> Barnsley NHS LIFT £50m primary health and social care facilities over the first five years of a 20 year framework period.

> Preferred construction partner on two 20 year NHS LIFT schemes at Camden & Islington and East Hampshire.

Left: International House, a £6.5m four storey student accommodation facility built for the University of Surrey in Guildford.

Below: Portsmouth Dermatology Centre at St Mary's Hospital in Portsmouth is a dedicated outpatient unit with consulting suites, minor surgery theatres, a laboratory and administrative offices.

Left: Bluestone's leading expertise in large industrial warehouse construction is showcased in this £14m 350,000 sq ft distribution centre completed for leading mail order and online DIY equipment supplier Screwfix Direct. It has the capacity to accommodate up to eight football pitches and is the first fully automated high-bay warehouse in the country.

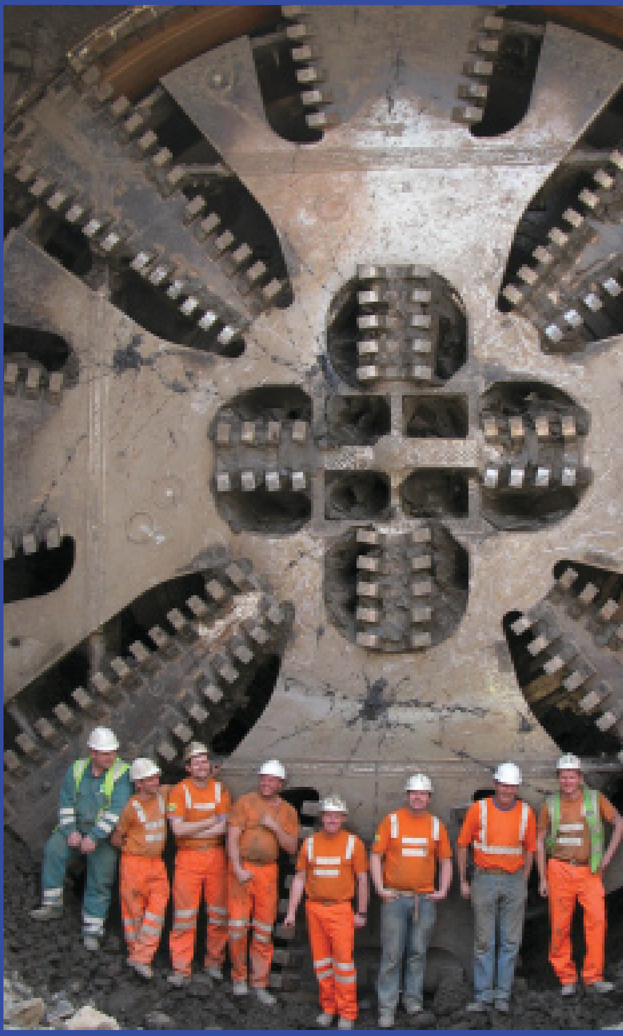
infrastructure services

Operating profit up 41% to £9.24m

Substantial forward order book of £695m

Key player in £1.8bn Scottish Water improvements framework

Successful entry into the gas market

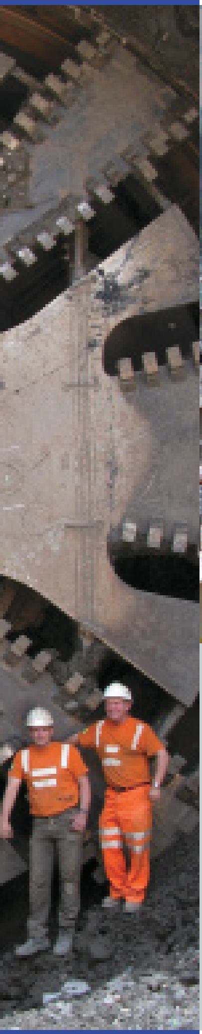


morgan est

Morgan Est with business activities in water, utilities, tunnelling and specialised civil engineering works, continued to perform well in 2003. Turnover for the year rose by 30% to £365m with an operating profit up 41% to £9.24m. The division now employs over 2,700 people and enters 2004 with a strong order book of £695m.

Morgan Est's civil engineering business is set to continue its growth over the next few years triggered by the Government's ten year, £180bn, national road and railway improvement programme. Recent wins include principal contractor for the £300m Lincolnshire highways framework, an Early Contractor Involvement (ECI) scheme, and the £51m A92 Dundee to Arbroath PFI Scheme.

Investment in the United Kingdom water industry, over £3bn annually in England and Wales, is set to increase until the end of the decade. This creates significant growth opportunities for Morgan Est, which carries out water engineering and utilities activities for most of the United Kingdom's major water companies.



Left: Eurostar breaks the record for the United Kingdom's fastest train after reaching 208mph running through Kent on Section 1 of the Morgan-Vinci built Channel Tunnel Rail Link in September 2003.

Left: The construction team of Morgan-Vinci, Morgan Est's joint venture with French owned Vinci Construction Grands Projets, in front of a 600 tonne tunnel boring machine after the second breakthrough in June 2003 on the new twin bore Airside Road Tunnel running under Heathrow Airport.

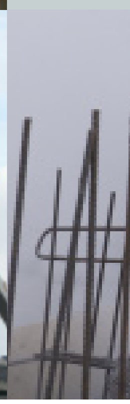
The £130m, 1.3km twin 8.1 metre diameter bore tunnel, will provide private road access from the central terminal area to aircraft stands located on the western edge of the airport. Morgan-Vinci is carrying out the design and construction of the supporting tunnel network for Heathrow Airport's new terminal 5, which includes extensions to the Piccadilly Line and Heathrow Express tunnels.

turnover £'000s 2003: 365,108 2002: 280,565
operating profit £'000s 2003: 9,241 2002: 6,548

Morgan Est was appointed one of eight partners in a United Utilities led consortium chosen by Scottish Water to carry out a £1.8bn upgrade of Scotland's water and waste services for 2.2 million homes and businesses. Other major projects include a £7m per annum five year framework agreement for installing water meters in homes across the South of England for Thames Water, the world's third largest water service provider. Morgan Est is also carrying out an £80m three year maintenance and repairs framework in the Midlands for Severn Trent Water.

In the utilities sector, the division has made a successful entry into the growing gas market with the award of a £9m three year contract to carry out gas mains replacement for National Grid Transco in the North West of England.

Right: Construction of this Morgan-Vinci built bowstring arch bridge which crosses the River Usk in Wales is due for completion in June 2004.



In tunnelling, Morgan Vinci, the joint venture between Morgan Est and Vinci Construction Grands Projets continued to make good progress on Heathrow Airport's new Terminal 5. It is designing and constructing the supporting tunnel network, Airside Road Tunnel and the Piccadilly Line and Heathrow Express railway extension tunnels for BAA plc. Morgan Est's tunnelling business is also carrying out design and enabling works as part of the proposed redevelopment at Kings Cross Underground Station in preparation for an increase in pedestrian traffic from the Channel Tunnel Rail Link (CTRL).

Over the past year Morgan Est has been awarded two Green Apple awards sponsored by the Chartered Institute of Environmental Health for environmental achievements at CTRL Contract 310 and the PFI Newport Southern Distributor Road. The division also received a Royal Society for the Prevention of Accidents (RoSPA) Gold Award for safety.

Morgan Est's strategy of focusing on quality, environment, health and safety and customer service will be key drivers in taking the business forward in 2004 and beyond.

notable contracts

> United Utilities £250m, three year joint venture framework for a major segment of United Utilities AMP3 improvement programme.

> Channel Tunnel Rail Link (CTRL) Contract 310, a £178m civil engineering works programme, the largest contract yet awarded on CTRL.

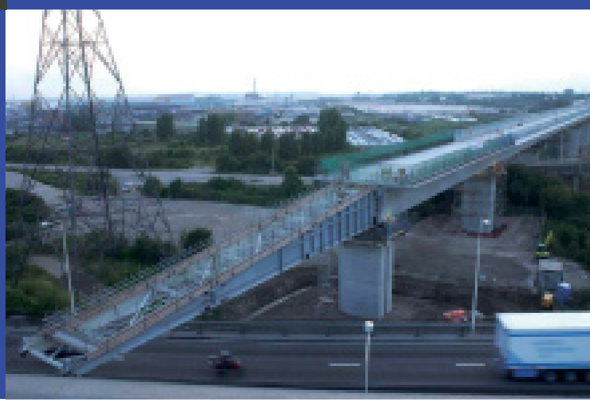
> Scottish Water A three year framework to modernise Scotland's water infrastructure worth an estimated £150m.

> A92 Dundee to Arbroath £51m road improvement construction PFI.

> Lincolnshire County Council, principal contractor for a ten year £300m highways framework. An Early Contractor Involvement (ECI) scheme.

Left: For Severn Trent Water, Morgan Est is undertaking an £80m three year framework for maintenance and repairs to water systems in Warwickshire, Leicestershire, Derbyshire and Nottinghamshire.

Right: Progress on the £178m Channel Tunnel Rail Link Contract 310 continued and in July 2003 Morgan-Vinci undertook one of the most complex launch stages of the 1km long Thurrock Viaduct, pushing the concrete deck in 45m long sections over the exit road from the Dartford Tunnel and beneath the QEII bridge at Thurrock.



affordable housing

Operating profits up 50% from 2002

Record forward order book of £688m

Continued commitment to affordable housing from the government with their Communities Plan and Decent Homes Standard social housing initiatives

Lovell continues to maintain its position as the country's leading provider of affordable housing. Turnover is up 25% to £279m and the forward order book is up 22% to £688m. Operating profit was up 50% to £8.92m. With the creation of a ninth region in the East Midlands, based in Nottingham, Lovell is well placed to meet the increasing demand for affordable housing across England, Scotland and Wales. During the year Lovell's workforce rose 14% to over 1,100 employees.

The affordable housing market in mixed tenure regeneration and refurbishment continues to grow, with the government committing an additional £22bn of investment by 2006 through the Sustainable Communities Plan. As part of this overall plan the government has set a target that the Decent Homes Standard should be met by 2010.

Left and above: In Birmingham, Lovell completed a £20m housing regeneration project for Castle Vale Housing Action Trust. The scheme involved the construction of 237 homes and a children's home on the 21 acre Farnborough Road site previously occupied by six high rise blocks of flats.

Above: An example of Lovell's housing developments is Regents Meadows in South Wales. It features 63 two, three and four bedroom homes near Monmouth town centre. Regents Meadow is one of many developments featured on Lovell's home buyers website which provides house hunters with the facility to search for properties online by location, price and house size.

turnover £'000s 2003: 278,814 2002: 223,558
operating profit £'000s 2003: 8,920 2002: 5,965

In part, this government target will be met through stock transfer, PFI or Arms Length Management Organisations (ALMOs) and Lovell is currently working on thirteen major schemes totalling £375m. They include two of the nation's largest stock transfer programmes for Whitefriars Housing Group in Coventry and Glasgow Housing Association. Other major schemes are a five year £50m housing modernisation programme which is part of a rolling contract with Pennine Housing 2000 to refurbish former council housing in Calderdale, West Yorkshire, and a seven year £20m refurbishment of 2,460 homes in the Croxteth and Fazakerley areas of Liverpool. At its peak in 2003, Lovell was refurbishing 2,000 properties per month.

In addition during 2003 Lovell secured over £100m of new mixed tenure work which included the Five Links estate in Basildon a £21m redevelopment providing 300 new homes. Lovell has also been appointed as development partner on a number of major urban renewal schemes including 500 units for New East Manchester and 300 units at Raffles Estate, Carlisle.

Above: Lovell completed year two of a major five year kitchen and bathroom replacement programme, worth £15m a year, in partnership with Whitefriars Housing Group in the North of Coventry. So far, the division has installed over 3,500 new kitchens and bathrooms with residents remaining in their homes as the work took place. The continuing success of the kitchen and bathroom programme has resulted in Whitefriars Housing Group also awarding Lovell additional work including re roofing of properties, replacement of soffits and fascias, installation of door entry systems and demolition work.

Other important achievements for Lovell during 2003 include:-

- The launch of a new and hard hitting business wide health and safety campaign "Your Life Their Loss" highlighting that it is not just the injured person whose life is affected through work related accidents.
- Piloting an off site fabrication scheme which has halved construction time through the use of timber frame kitchen and bathroom pods designed and built off site.
- Hosting the industry's first Company Mentoring and Construction Training Conference at Nottingham University highlighting Lovell careers and the benefits to the industry of working with schools at an early stage.
- Launch of Lovell Choice an innovative form of low cost home ownership where council nominees can buy a proportional interest of the property with the council retaining the remaining equity.

notable contracts

> Cardiff, St Mary's Field £14m scheme to build 123 houses for open market sale and 30 low cost homes.

> Calderdale, West Yorkshire £50m five year housing refurbishment scheme for Pennine Housing 2000.

> Herefordshire Refurbishment of 5,600 former council homes in Herefordshire under a £26m five year refurbishment and planned maintenance scheme.

> Birmingham Construction of 237 homes in a £20m regeneration project at Farnborough Road, one of Birmingham's largest housing estates.

> Liverpool £30m Lovell housing regeneration scheme to build 300 new homes for rent and open market sale in Garston under the Bridge.

Above: A modern kitchen, one of many attractive kitchen designs offered by Lovell to homebuyers.

Above: As part of the company's efforts to encourage more women into construction careers, Lovell has been providing 13 week placements for trainee carpenters and plumbers at two of its London housing sites through the Building Work for Women Partnership.

board of directors

1 John Morgan
2 Paul Smith
3 John Bishop
4 Paul Whitmore
5 Bernard Asher
6 Geraldine Gallacher
7 Jack Lovell
8 Jon Walden

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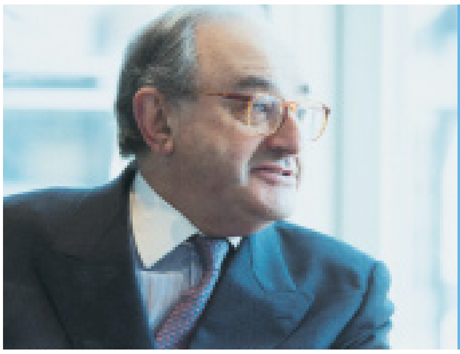

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John Morgan (48) Executive Chairman
Retirement by rotation 2005

Founded Morgan Lovell together with Jack Lovell in 1977. He was appointed chief executive of Morgan Sindall plc in 1994 and executive chairman in 2000. John is a chartered surveyor with an MBA.

Paul Smith (44) Chief Executive Officer
Retirement by rotation 2006

Joined Morgan Sindall in March 2003 from support services specialist Accord plc where he had been group managing director since 2000. Paul is a chartered engineer with an MBA.

John Bishop (58) Finance Director
Retirement by rotation 2004

On the creation of Morgan Sindall in 1994, he joined the board as corporate development director, and became finance director in June 1998. He is a chartered accountant with 20 years board experience in United Kingdom quoted companies.

Paul Whitmore (49) Commercial Director
Retirement by rotation 2006

Joined the Morgan Sindall board in April 2000 having undertaken various roles during 27 years in the construction industry, latterly as chief executive of Laing Construction plc. Paul is a chartered surveyor.

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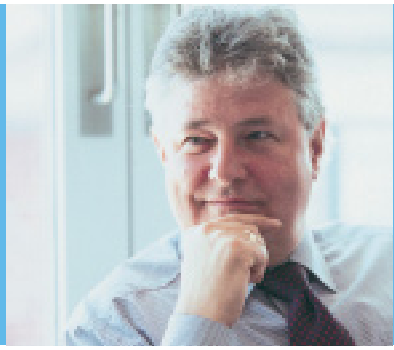

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Bernard Asher (67) Senior Non Executive

Retirement by rotation 2004

Appointed to the board in February 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 SA and Randgold Resources Ltd. Formerly a director of HSBC plc.

Geraldine Gallacher (44) Non Executive

Retirement by rotation 2007

Appointed to the board in April 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 (48) Non Executive

Retirement by rotation 2007

Co founder with John Morgan of Morgan Lovell in 1977 and a member of the board of Morgan Sindall plc since October 1994. He took a non executive role from August 2001. Jack is a chartered surveyor with an MBA.

Jon Walden (50) Non Executive

Retirement by rotation 2005

Joined the board with effect from 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 LLP).

report of the directors

introduction

The directors have pleasure in submitting their report to the members together with the audited accounts for the year ended 31 December 2003.

principal activities

Morgan Sindall is a construction group with four divisions - Fit Out, Construction, Infrastructure Services and Affordable Housing. The principal subsidiary companies operating within this divisional structure are shown on page 68. The principal activities are carried out in the United Kingdom and the Channel Islands.

results and dividends

The Group made a profit, after taxation, for the year of £14.91m (2002: £10.39m). The final dividend for the year recommended by the directors is 11.75p per ordinary share which together with the interim dividend of 4.75p per ordinary share gives a total dividend for the year of 16.50p per ordinary share (2002: 15.00p). Preference dividends paid amounted to £0.06m (2002: £0.13m).

review of business and future developments

A general review of the Group's activities, development and future prospects is included in the chairman and chief executive's statement on pages 2 and 3, in the operating and financial review on pages 4 to 9 and in the divisional reviews on pages 10 to 25.

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 69. With the exception of Paul Smith who was appointed on 3 March 2003, all of the directors held office throughout the year. Further information on the Group board's constitution, policies and procedures is set out under corporate governance on pages 40 to 43.

John Bishop and Bernard Asher are the directors to retire by rotation and, being eligible, offer themselves for re-election. The requirement for Mr Asher to retire by rotation in 2004 was taken into account by the chairman in conducting Mr Asher's performance review under the board evaluation process. Biographical details of the retiring directors are shown on pages 26 and 27.

non executive directors

A short biographical note on each non executive director is shown on page 27. 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 40 to 43.

substantial shareholdings

Excluding directors, whose shareholdings are shown on page 68, the following shareholdings representing 3% or more of the issued ordinary share capital have been notified to the Company as at 19 February 2004:-

	Number of Shares	Percentage Holding
BNY (OCS) Nominees Limited	2,530,979	6.03%
Stanlife Nominees Limited	1,660,866	3.95%

employment policies

The Company insists that a policy of equal opportunity employment is demonstrably evident throughout the Group. Selection criteria, 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. The Group will not tolerate sexual, mental or physical harassment in the workplace. Subject to the nature of its businesses in the construction industry, the policy of the Group is to ensure that there are fair opportunities for the employment, training and career development of disabled persons, including continuity of employment with re training where appropriate

The Group recognises the need to ensure effective communication with employees. Policies and procedures have been developed which takes account of factors such as location and numbers employed.

pensions

Details of the pension scheme operated for the permanent salaried staff of the Group are shown in Note 28 on pages 65 and 66. A stakeholder pension facility is provided for employees not eligible for membership of that pension scheme.

corporate social responsibility

During 2003 the Group has continued to improve standards in its approach to environmental, health and safety and human resources issues with the aim being to establish a fully integrated management system within each of its divisions. These key areas of activity are now covered by a consolidated corporate social responsibility policy document, which is available to employees on the Group's intranet and website.

In 2002 Morgan Sindall established a Corporate Social Responsibility Forum ('CSR Forum'), chaired by Geraldine Gallacher, a non executive director, and supported by commercial director, Paul Whitmore. Representatives of the four divisions complete the CSR Forum.

The CSR Forum has established three committees as set out below.

Corporate Social Responsibility Forum
Chairman – Geraldine Gallacher

Health and Safety Committee | Human Resources Committee | Environmental Committee

The CSR Forum has set each division a target to achieve accreditation under each of the following internationally recognised schemes:-

BS EN ISO 9001	Quality Management System
BS EN ISO14001	Environmental Management System
OHSAS 18001	Occupational Health and Safety System

The first division to complete its registration programme in respect of all of the above is Infrastructure Services. The remainder of the Group are at varying stages of accreditation and have individual plans to achieve a comparable position by the end of 2005.

human resources

The human resources committee consists of the four divisional human resources managers. The committee regularly reviews human resources policies and procedures across the Group to ensure that they are in line with current legislation, represent best practice and have a degree of consistency whilst reflecting the specific needs and requirements of individual divisions.

Social concerns form a regular part of the committee's agenda to ensure that Morgan Sindall is achieving its aim of becoming an 'Employer of Choice' and is supporting and liaising with local communities. It has also put in place appropriate measures to monitor progress.

The Group's first employee climate survey was conducted in February 2003. The results of the survey have been disseminated throughout the Group and workshops have been held with employees to prioritise the issues raised by the survey and to develop processes for dealing with them.

Bluestone and Lovell have introduced an Employee Assistance Programme run by Coutts Care. This provides employees with access to either a confidential help line or, on referral, face to face counselling through which they can discuss a range of issues including personal, legal, tax and financial matters and aspects of their work and career. A wider application of the service elsewhere in the Group is being considered.

A further initiative undertaken by Lovell involves taking a more active role in the community through the introduction of a Company Mentoring Scheme which, working in partnership with a national network of schools and colleges, aims to develop construction skills and career aspirations for 14 to 18 year olds. This specialised project based learning approach ensures that students acquire a first hand insight into the challenging careers the industry has to offer while developing skills which would enable them to move more effectively into a career in the construction industry.

health and safety

The board recognises and acknowledges the fundamental importance of health and safety and has nominated Paul Whitmore as the executive director responsible for Group health and safety matters. The other members of the committee are the divisional health and safety directors. The terms of reference of this committee are enshrined in the policy statement given below and the policy itself is available to all employees on the Group's intranet.

The Group's Health and Safety policy states:-

"Morgan Sindall plc and its subsidiary companies are committed to providing a healthy and safe working environment for all the Group's 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 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 Group's policy*
- *Developing organisational structures within the subsidiary companies appropriate to meeting those objectives in each operating location*
- *The systematic identification and management of risks to health and 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 Group has set the objective of becoming 'best in class' in terms of health and safety performance within the construction industry.

Through an active programme of continuous improvement, the Group remains committed to the objectives of the Major Contractors Group (MCG) Health and Safety Charter, the key components of which are:-

- A target reduction of 10% year on year in the incidence rate of all reportable injuries and dangerous occurrences until 2010
- A fully qualified workforce on all sites and an ongoing commitment to continue driving the initiative throughout the supply chain
- 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 projects, work gangs and individual workers
- Holding best practice workshops on health and safety practices and setting up systems to disseminate lessons learnt
- Publishing annual reports of safety performance
- Reducing the incidence rate of work related ill health in the construction industry by health surveillance, education, rehabilitation and exposure reduction

The Group continues to participate in the MCG reporting programme on a monthly basis. The table below shows a comparison of the Group's performance against the MCG average of all their members:-

Accident Category	MCG Member Average 2003	MCG Member Average 2002	Morgan Sindall 2003	Morgan Sindall 2002
Fatal (number)	6	8	–	–
Major incidents(AIR)*	323	313	176	208
Over 3 day incidents(AIR)*	758	791	787	787
Total of all reportable incidents (AIR)*	1,080	1,201	963	995

These figures relate to years ending on 31 March.
*Accident Incidence Rate (AIR) is per 100,000 employees and is calculated as:-

$$\frac{\text{number of reported incidents}}{\text{average number of persons}} \times 100{,}000$$

The Group continues to perform above the average of its peer group and while the Group performance has improved, it has fallen short of its planned annual reduction target of 10% in respect of reportable accidents and dangerous occurrences.

With effect from March 2004 the MCG members will be adding to the existing strategy by introducing an occupational health element involving the monitoring of the health of employees in respect of occupational diseases prevalent in the construction industry.

With regard to achieving a fully qualified workforce, the Group had secured by the year end certified compliance of 89% of its direct employees having passed the health and safety test comprising part of the Construction Skills Certification Scheme. This is compared with an average of 79% for the MCG as a whole. The supply chain recorded 45% certified compliance and, in keeping with the MCG objective, improvement upon this level provides the focus of attention and action in 2004.

The Group is continuing the development of its health and safety programmes. The "Your Life Their Loss" initiative in Lovell and the "Work Safe Home Safe" initiative in the remaining divisions are both entering their second year. In each case there has been marked success in the adoption of a health and safety culture on construction sites. There are also initiatives to enlist the support of spouses and partners in identifying issues affecting construction employees. The programmed development of material to support daily safety briefings and bi monthly key health and safety themes is continuing with full participation from all divisions.

No prosecutions were commenced against the Group in the year and all local Health and Safety Executive (HSE) improvement and prohibition notices issued to sites in the period have been promptly responded to and fully actioned to the satisfaction of the HSE.

report of the directors

environmental report

The Group is in the process of developing strategic plans and programmes of action that support the concept of sustainable development. This first environmental report is issued with the knowledge that although much has been achieved, there is still more to do in the future.

environmental policy

The Group is committed to minimising the impact of its businesses and its processes on the natural environment and the community at large. To achieve this the Group has committed each division to implementing an effective environmental management system to the acknowledged standard BS EN ISO14001 that will:-

- Identify and implement operational controls to ensure detrimental environmental impacts are minimised
- Implement a systematic process for monitoring operational centres to ensure that suitable controls are being introduced
- Organise appropriate training for all relevant staff
- Implement processes to identify and remedy non compliance with both system and legal requirements
- Set criteria to measure and review environmental performance
- Set standards year on year for improving the Group's performance
- Establish procedures for publishing information regarding the Group's progress

environmental management

The Group has appointed Paul Whitmore as the executive director responsible for environmental affairs. The environmental committee was established in 2003 and is responsible for agreeing the Group's environmental management procedure and consists of the environmental managers of each division. The committee is responsible for:-

- Developing and maintaining a corporate register of relevant legislation and reviewing any changes as well as ensuring that operational controls throughout the Group remain compliant
- Defining and identifying environmental incidents, monitoring trends and ensuring that effective controls are implemented to prevent recurrence
- Disseminating information on best practice through the board and management teams of each division
- Reporting annually on the Group's environmental performance

divisional environmental reviews

For detailed information on the four divisions' environmental performance please see the report on Morgan Sindall's website at www.morgansindall.co.uk > investor relations > corporate social responsibility.

corporate environmental review

The table below sets out the five principal risks identified from a review to assess the overall risk that key processes posed to the environment and sets out the objectives for 2004.

Risk Item	Discussion	2004 Objectives
Nuisance from construction processes.	The Group's construction processes may give rise to noise, vibration, dust and mud on roads which could create nuisance to the local community.	To be managed through the progressive implementation of each division's environmental management system (EMS).
Energy consumption and associated greenhouse gas emissions.	Through the movement of people and goods and the operation of plant and buildings the Group consumes energy and potentially contributes to greenhouse gas emissions.	The divisions are required to commence a review of areas of energy consumption and to start implementing systems to reduce consumption.
Creation of waste and potential inappropriate disposal.	The Group's construction processes have the potential to create significant volumes of waste. There is a risk that this waste is disposed of inappropriately.	Both issues are to be managed through the progressive implementation of each each division's EMS.
Procurement of materials from non sustainable sources or those that are potentially environmentally harmful.	The divisions procure a large volume of materials including timber, paper, solvents and aggregates. Some of these products may be harmful to the environment or be procured from unsustainable sources.	The environmental committee will be tasked with identifying those commodities. They will report on the Group's performance in the report and accounts for the year ended 31 December 2004.
Employment of poorly performing subcontractors.	Subcontractors undertake a significant proportion of the Group's construction processes. The Group recognises that if it selects subcontractors who disregard environmental controls this could lead to an increase in the risk of nuisance and pollution occurring.	The divisions will examine how to assess the environmental performance of their subcontractors and take steps to implement procedures to promote improvement.

The key indicators established by the environmental committee to monitor the Group's environmental performance are set out in the table below.

Measure	2003 Performance	2004 Objectives
1. Proportion of Group by turnover with certified environmental management systems	37%	82%
2. Number of environmental prosecutions	Nil	Nil
3. Number of environmental notices or cautions served:-		
• Noise and vibration (s60 notice)	3	Nil
• Pollution to watercourse (caution)	1	Nil
• Waste disposal (caution)	1	Nil
4. Number of incidents identified by enforcement bodies where no formal action taken	3	Nil
5. Proportion of Group by turnover reporting on waste	27%	55%
6. Proportion of Group by turnover reporting on CO_2 emissions	0%	55%

report of the directors

creditor payment policy

The Company's policy is to:-

- Use unamended terms of widely recognised standard forms of contract drawn up by bodies representing participants in the industry
- Clearly agree and set down the terms of payment with suppliers and subcontractors
- Make payments in accordance with its obligations

As at 31 December 2003 the Group's number of creditor days outstanding was 32.

political and charitable contributions

During the year charitable contributions amounted to £28,341 (2002: £14,335). 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 24 March 2004. The notice of the meeting is set out in the document accompanying this annual report. The notice contains items which are special business, being the authority for the board to allot equity securities, the cancellation of preference shares as authorised share capital and consequential amendments to the Articles of Association and the adoption of a new bonus scheme. Explanatory notes on the special business items are shown in the notice of annual general meeting.

auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming annual general meeting.

By order of the board

W R Johnston

Company Secretary

19 February 2004

introduction

This report is prepared in accordance with The Directors' Remuneration Report Regulations.

The regulations require the auditors to report to the Company's members on the auditable part of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). This report has therefore been divided into separate sections for unaudited and audited information.

unaudited information

The remuneration committee comprises:-

G Gallacher (chairman)

B H Asher

J Walden

During the year Sykes and Company were engaged as consultants to provide remuneration advice on executive directors and top level management in the construction sector.

Included in their report was a review of base salary levels and short and long term performance incentives. A key recommendation was that the existing Long Term Incentive Plan be discontinued as experience had shown that it was not an effective incentive scheme in terms of impact on individual performance.

It was recommended that the key driver in incentive terms be the concentration on annual bonuses linked closely to individual performance and to targets in the specific area of responsibility of each individual.

Such annual measures would self evidently drive short term performance. The longer term aspect is catered for by the compulsory deferral of 25% of the achieved cash bonus into nil cost options of shares exercisable after two years. The number of options will be determined by the market value of the underlying shares at the date of grant.

Taxation advice on the new scheme was taken from KPMG with legal advice on the detailed rules from Charles Russell. The new scheme will be put to shareholders for approval and further details together with the committees reasoning are given in the chairman's letter and notes to the accompanying notice of the annual general meeting.

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 the short and long term
- To ensure the success of the Group relative to other UK businesses of similar size and complexity
- To reward directors fairly for their contributions whilst remaining within the range of benefits offered by similar companies in the sector
- To align the interests of executives with those of the shareholders

The remuneration committee will ensure that directors' remuneration is the subject of regular review in accordance with this policy.

basic salary

The basic salary of individual executive directors is determined by the committee at the beginning of each year and, if appropriate, if an individuals position or responsibilities change. As has been the case this year, as described above, in setting basic salary levels the committee will, as appropriate, use objective external research or consultants to compare the Group to comparator companies in the sector.

bonus arrangements, new bonus scheme and long term incentive plan (“LTIP”)

Performance related bonuses are a key feature of remuneration policy throughout the Group and are intended to give executive directors the potential to receive annual benefits equal to their base salary, performance being linked to the delivery of significant value to shareholders. Performance targets are set against matters in which the individual concerned has a direct influence. In the operating divisions this means the performance of the business unit or part thereof over which they are judged to have a direct management influence. 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 remuneration committee. The targets comprise a scale of the Group’s pre tax profits on ordinary activities that take into account the previous year's result and growth expectations both internally set and those externally published.

For 2003 the maximum cash element of the total bonus which could be achieved by the executive directors equated to 75% of annual base salary with, as shown below, a further equivalent of 25% of that salary converted into share nominations in the LTIP.

For the year ended 31 December 2003 the Group’s pre tax profits on ordinary activities achieved 89% of the target set by the committee and accordingly cash bonuses accrued as set out in the audited section of this report represent figures equal to 67% of annual base salary.

Under the LTIP, shares were 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.

Fourteenth position in the peer group was achieved for the measurement period ended 31 December 2002 and accordingly no allocation of shares from those conditionally awarded for 2000 was made by the committee on 30 June 2003. The interests of each participating director are shown on page 39 with all of the shares from the numbers conditionally awarded in 2000 having accordingly lapsed.

The peer group comparison is confirmed each year by the Company’s brokers. Preliminary figures for the year to 31 December 2003 indicate that the Group ranking will be sixth and that an allocation of 26,526 shares will be made in the current year.

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 when the shares are vested in the participant’s own name. Details of shares conditionally awarded, allocated and vested are shown in the audited section of this report.

As from the current year, the LTIP is to be discontinued except as regards entitlements already accrued which will be dealt with in accordance with its rules. Full details of these rules have been included in previous year’s Remuneration Reports, are available on the Company’s website and are available in hard copy from the Company Secretary.

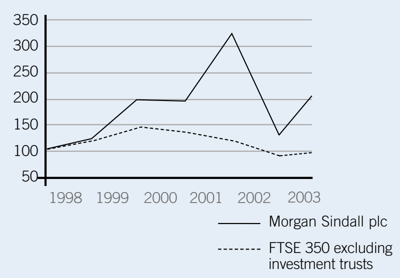
The new bonus scheme will simply increase the annual performance related bonus target from 75% of base salary to 100%. The proviso is that 25% of the achieved bonus will be deferred and taken in the form of nil cost share options. The number of options will be determined by 25% of the bonus referred to above being divided by the market price of the underlying shares at the date of grant and which will become exercisable by the option holder in two years’ time from that date.

No further performance criteria will apply to the two year period with the option holder retaining the exercise rights in all circumstances except for dismissal for gross misconduct.

performance graph

The graph shows a comparison of the total shareholder return for the Company’s shares for each of the last five financial years against the total shareholder return for the companies comprised in the FTSE 350 index excluding investment trusts. This was considered by the committee to be the most suitable comparable broad index against which the Company’s performance should be measured.

Cumulative total shareholder return for the five years to 31st December based on original notional value of 100



share option schemes

Details of options granted to directors are included in the audited section of this report on page 39.

Details of options granted to employees in the Group are shown in Note 25 to the Accounts on page 64. The total number of options which may be granted at any time is fixed by the committee within the approved limits of the scheme.

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.

The relevant calculation relating to the performance target will be carried out and certified by the Company's brokers. Preliminary figures for the period to 31 December 2003 indicate that the performance target will be achieved.

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 and other bonus scheme 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 terms of appointment of the two directors, John Bishop and Bernard Asher who are seeking re-election at the annual general meeting do not have a notice period for termination which is in excess of one year's duration.

The dates of the directors' contracts are:-

J C Morgan	28 October 1994	B H Asher	4 February 1998
P R Smith	3 March 2003	G Gallacher	28 April 1995
J M Bishop	28 October 1994	J J C Lovell	2 August 2001
P Whitmore	21 March 2000	J Walden	1 May 2001

non executive directors

All non executive directors have specific terms of engagement being an initial period of three years which thereafter may be extended by mutual consent for periods not exceeding one year. Their remuneration is determined by the board within the limits set by the Articles of Association and is based on surveys together with external advice as appropriate as to fees paid to non executive directors of similar companies. The basic fee paid to each non executive director is set out in tabular form later in this report. No additional fees have been paid to any non executive in respect of membership of any board committees. Non executive directors cannot participate in any Company share option or other share linked incentive plan and are not eligible to join the Company's pension scheme.

directors' interests

The shareholdings of all directors are shown in Note 32 to the Accounts on page 68 and their interests in shares under the Long Term Incentive Plan and share option scheme are shown on page 39.

remuneration report

audited information

aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:-

	2003	2002
	£'000s	£'000s
Emoluments	**1,453**	684
Amounts receivable under long term incentive schemes	**225**	115
Money purchase pension contributions	**78**	55

directors' emoluments

Name of Director	Fees/basic salary £'000s	Benefits £'000s	Cash bonuses £'000s	**Total 2003 £'000s**	Total 2002 £'000s
Executive					
J C Morgan	202	16	135	**353**	211
P R Smith	217	13	145	**375**	–
J M Bishop	180	13	120	**313**	188
P Whitmore	178	15	119	**312**	185
	777	**57**	**519**	**1,353**	**584**
Non executive					
B H Asher	25	–	–	**25**	25
G Gallacher	25	–	–	**25**	25
J J C Lovell	25	–	–	**25**	25
J Walden	25	–	–	**25**	25
	100	**–**	**–**	**100**	**100**
Totals	**877**	**57**	**519**	**1,453**	**684**
Fees to third parties				25	25

Fees to third parties comprise amounts paid to the Executive Coaching Consultancy for the services of Geraldine Gallacher. These same amounts are also shown against her name in the table above.

There were no elements of remuneration other than basic salary which were pensionable.

During the year no compensatory awards were made to any person who was formerly a director of the Company.

pensions

The Company contributes 10% of base salary to defined contribution personal pension plans of the individual executive directors. The contributions paid by the Company to these plans were:-

	2003	2002
	£'000s	£'000s
J C Morgan	**20**	20
P R Smith	**22**	–
J M Bishop	**18**	18
P Whitmore	**18**	17

long term incentive plan ("LTIP")

A summary of the LTIP is included in the unaudited information earlier in this report.

The executive directors' interests in shares under the LTIP are:-

Shares conditionally awarded:-

	2003	Awarded	Lapsed	2002
J C Morgan	**86,643**	40,850	(25,754)	71,547
J M Bishop	**77,345**	36,401	(22,893)	63,837
P Whitmore	**74,138**	35,896	(13,950)	52,192
J J C Lovell	**18,615**	–	(17,170)	35,785

The market value per share of the shares conditionally awarded in the year was £2.83 as at the date of award.

Shares allocated:-

	2003	Allocated	Vested	2002
J C Morgan	**13,470**	–	(25,225)	38,695
J M Bishop	**12,508**	–	(23,423)	35,931
P Whitmore	**–**	–	–	–
J J C Lovell	**10,194**	–	(18,919)	29,113

Shares vested:-

	2003	Vested	2002
J C Morgan	**39,437**	25,225	14,212
J M Bishop	**35,697**	23,423	12,274
J J C Lovell	**31,193**	18,919	12,274

The market value of the Company's shares at the date of vesting in the year was £3.33.

For details of the qualifying conditions under the LTIP see page 36.

share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted or held by the directors. Details of options for directors who served during the year are:-

Director	Scheme	Granted	Date granted	Exercise price	Date from which exercisable	Expiry date
P R Smith	1995 unapproved	100,000	10.3.2003	£2.07	10.3.2008	9.3.2010

These shares were granted to Paul Smith as part of his initial employment package and in lieu of his non participation in the LTIP scheme in 2003.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

The market price of the ordinary shares at 31 December 2003 was £3.65 and the range during the year was £1.86 to £3.80.

No share options have been granted to any other main board director.

By order of the board

W R Johnston
Company Secretary

19 February 2004

corporate governance

policy statement

The board remains committed to maintaining high standards of corporate governance throughout the Group. The Listing Rules of the Financial Services Authority require UK listed companies to report on the manner in which they comply with the provisions set out in the Combined Code on Corporate Governance ("the Code").

application of the principles of good governance

The Company has applied the Principles of Good Governance set out in section 1 of the Code. An explanation of how these principles have been applied is set out below and in connection with directors' remuneration in the directors' remuneration report.

The Group continues to support the Principles of Good Governance and the Code of Best Practice. Accordingly, this report deals with the requirements of the Code and also of paragraphs (a) and (b) of the FSA Listing Rule 12.43A relating to Section 1 of the Code.

board constitution and procedures

As a result of the continued growth of the Group it was decided in the year that the additional experience and presence of another executive director was required. Consequently, Paul Smith was appointed to the board as chief executive on 3 March 2003. This change in the board structure brought the Group in line with the Code provision A.2 with John Morgan as chairman taking responsibility for the overall strategy and direction of the business and Paul Smith responsible for managing and running operations on a day to day basis. The board has set out and agreed a schedule that details their individual roles and responsibilities.

The board now comprises four executives and four non executives. All of the non executive directors, with the exception of Jack Lovell, are considered to be independent of management and free from any business or other relationship which could materially affect their independent judgement. Jack Lovell is a former executive director and thus is not deemed independent under the criteria laid down by the National Association of Pension Funds. Bernard Asher is the senior independent director. The composition of the board satisfies the Code 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.

Code Principle A.6 requires that every director submits for re election at least every three years. The Articles of Association of the Company reflect this Code provision.

The board met on ten scheduled occasions during the year. A formal agenda for each meeting is agreed with the chairman and is circulated well in advance of the meeting to allow time for proper consideration with the company secretary being responsible for the timeliness and quality of the information. In addition, ad hoc meetings were convened for specific purposes. Overall attendance at the scheduled meetings totalled 94% for the year with no individual director falling below an attendance of 80% (see details below).

Meetings attendance:-

	Board	Remuneration Committee	Audit Committee	Nominations Committee
No. of meetings held in year	10	4	3	1
Attendance				
J C Morgan	10			1
P R Smith *	8			
J M Bishop	9			
P Whitmore	9			
B H Asher	10	4	3	1
G Gallacher	8	4	3	1
J J C Lovell	10			
J Walden	10	4	3	1

* Eight board meetings held since appointment.

The key purposes of the scheduled 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 formal schedule of matters reserved to the board has been reviewed and updated as part of the board's review of corporate governance. It includes the approval of the Company's strategic plans, annual budget, capital expenditure and investment proposals, internal control arrangements and annual and interim results. Other specific responsibilities are delegated to the board committees which operate within clearly defined terms of reference, reporting regularly to the board. Information on these committees is given below.

The Company conforms with the Code provision regarding training facilities for directors on first appointment and subsequently as necessary. Adequate provision for training is made annually in an allocated 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 three committees; audit, remuneration and nominations.

audit committee

The audit committee comprises Geraldine Gallacher, Jon Walden and Bernard Asher, who has the chair. All committee members are independent non executive directors. Biographical details of each member of the committee are listed on page 27. The audit committee has terms of reference that are closely modelled on the Codes provisions. These terms of reference are available for review on request and on the Company's website under the investor relations section.

The audit committee's duties include keeping under review the scope and results of the audit, its cost effectiveness and the objectivity of the auditors. In addition the committee is responsible for reviewing the Company's internal financial controls and audit process. The committee may request the attendance of any executive director and a representative of the external auditors. The committee meets at least three times a year (see table on page 40 for attendance details).

The audit committee has undertaken a review of the Group's arrangements by which staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. As a result of this review a formal Public Interest Disclosure policy has been adopted. Employees have been made aware of the policy in the Morgan Sindall newsletter and a copy is available from the company secretary.

The auditors, Deloitte & Touche LLP, have confirmed to the committee that they have policies and safeguards in place to ensure that they are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. In particular, they have rotated audit partners and key audit principals to the extent required by the ICAEW's Additional Guidance on Independence for Auditors.

remuneration committee

The remuneration committee comprises Geraldine Gallacher as chairman, Bernard Asher and Jon Walden. The remuneration committee's terms of reference are available for review on request and on the Company's website under the investor relations section. Four meetings were held in the year to cover all elements of the directors' remuneration (see table on page 40 for attendance details).

A report to shareholders on directors' remuneration is shown on pages 35 to 39.

nominations committee

Due to the increased size of the board following Paul Smith's appointment in March 2003, the board has undertaken a review of the need for a nominations committee and have decided that it is now appropriate for a nominations committee to be formed. The committee comprises John Morgan as chairman, Bernard Asher, Geraldine Gallacher and Jon Walden. The terms of reference for the committee establish a framework through which they can review the balance and effectiveness of the board to ensure suitable candidates are identified and recommended for appointment to the board and the various board committees. These terms of reference are available for review on request and on the Company's website.

board evaluation

A rigorous process of board evaluation has been undertaken in the year by the chairman using detailed questionnaires followed by one to one meetings with each executive and non executive director. In the case of the chairman, the meeting was held with the senior independent director. The results of this process have been influential in the ongoing development of how the board operates. The process of board evaluation will continue to be conducted on an annual basis.

relations with shareholders

The Company actively seeks to enter into dialogue with institutional shareholders whenever possible. It also endorses the 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 executive directors undertake a programme of communication with institutional shareholders at regular intervals which is co ordinated by the Company's brokers. In addition, the executive directors meet with analysts covering the construction industry arranged through the Company's financial public relations consultants. Written feedback from all these meetings is distributed to the non executive directors.

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's Registrars have a system of electronic proxy voting in place which will be available for this year's annual general meeting. Details of proxy votes submitted for this year's annual general meeting will be available on the Company's website.

The Company now makes announcements available on its 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 continued to be in place for the year under review and up to the date of approval of the annual report and accounts. These procedures have been regularly reviewed and this report therefore follows an approach of full compliance throughout the year with Code Principle D.2. The board acknowledges 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 in place through which the Company identifies the significant risks attached to its strategic objectives, confirms the control strategy for each risk and identifies the appropriate early warning mechanisms. 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. 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 flowing through each division 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.

computer systems

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

controls over central functions

A number of the Group's key functions including treasury, risk management 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 in the commonly understood form 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 divisions 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 while 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 2003 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'. The process included a formal review conducted by the board of a consolidated report of the Divisional Risk Framework reviews together with the Group Risk Framework which is re appraised and updated annually. In addition the board has also reviewed the results of the internal control peer reviews referred to above.

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 Group 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

directors' responsibilities

United Kingdom 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:-

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps 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 2003 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, statement of total recognised gains and losses, note of historical cost profits and losses, the statement principal of accounting policies, the related notes 1 to 33 together with the statement of movements in reserves and shareholders' funds. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in our auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you 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 regarding directors' remuneration and transactions with the Company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Code specified for our review by the Listing Rules of the Financial Services Authority, 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.

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

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 and the part of the directors' remuneration report described as having been audited. 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 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

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 2003 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

19 February 2004

group profit and loss account

for the year ended 31 december 2003

	Notes	2003 £'000s	2002 £'000s
Turnover			
Continuing operations		**1,139,456**	1,040,646
Less share of joint ventures turnover		**(1,919)**	(2,259)
Group turnover	1	**1,137,537**	1,038,387
Cost of sales		**(1,030,719)**	(942,782)
Gross profit		**106,818**	95,605
Administrative expenses		**(85,276)**	(80,672)
Other operating income	2	**428**	758
Operating profit from continuing operations	1,3	**21,970**	15,691
Share of profit of joint ventures	13	**132**	603
Net interest payable	4	**(1,182)**	(764)
Profit on ordinary activities before taxation		**20,920**	15,530
Tax charge on profit on ordinary activities	5	**(6,006)**	(5,138)
Profit on ordinary activities after taxation		**14,914**	10,392
Dividends on equity and non-equity shares	6	**(6,830)**	(6,254)
Retained profit for the year		**8,084**	4,138
Earnings per ordinary share	7	**36.04p**	25.32p
Diluted earnings per ordinary share	7	**35.45p**	25.00p

group balance sheet
at 31 december 2003

	Notes	2003 £'000s	2003 £'000s	2002 £'000s	2002 £'000s
Fixed assets					
Intangible assets	11		**53,002**		54,395
Tangible assets	12		**13,375**		21,308
Share of joint ventures gross assets		**59,509**		31,771	
Share of joint ventures gross liabilities		**(53,711)**		(27,287)	
Investment in joint ventures	13		**5,798**		4,484
Other investments	13		**1,197**		1,337
			73,372		81,524
Current assets					
Stocks	14		**65,411**		49,644
Debtors	15		**195,546**		176,491
Cash at bank and in hand	16		**14,613**		6,849
			275,570		232,984
Creditors: amounts falling due within one year	18		**(267,401)**		(243,657)
Net current assets/(liabilities)			**8,169**		(10,673)
Total assets less current liabilities			**81,541**		70,851
Creditors: amounts falling due after more than one year	19		**(1,569)**		(571)
Net assets			**79,972**		70,280
Capital and reserves					
Called up share capital	25		**2,100**		3,646
Share premium account			**25,392**		24,375
Capital redemption reserve			**623**		–
Revaluation reserve	26		**5,507**		6,941
Profit and loss account			**46,350**		35,318
Total shareholders' funds			**79,972**		70,280
Shareholders' funds are attributable to:					
Equity shareholders' funds			**79,972**		68,696
Non-equity shareholders' funds			**–**		1,584
			79,972		70,280

Approved by the board on 19 February 2004

J C Morgan

P R Smith

company balance sheet
at 31 december 2003

	Notes	2003 £'000s	2002 £'000s
Fixed assets			
Tangible assets	12	**631**	7.468
Investments	13	**123,239**	110.405
		123,870	117,873
Current assets			
Stocks	14	**–**	1,240
Debtors	15	**17,868**	16,592
Cash at bank and in hand	16	**–**	–
		17,868	17,832
Creditors: amounts falling due within one year	18	**(46,042)**	(45,286)
Net current liabilities		**(28,174)**	(27,454)
Net assets		**95,696**	90,419
Capital and reserves			
Called up share capital	25	**2,100**	3,646
Share premium account		**25,392**	24,375
Revaluation reserve	26	**–**	2,948
Special reserve		**14,267**	13,644
Profit and loss account		**53,937**	45,806
Total shareholders' funds		**95,696**	90,419
Shareholders' funds are attributable to:			
Equity shareholders' funds		**95,696**	88,835
Non-equity shareholders' funds		**–**	1,584
		95,696	90,419

Approved by the board on 19 February 2004

J C Morgan

P R Smith

group cash flow statement

for the year ended 31 december 2003

	Notes	2003 £'000s	2002 £'000s
Net cash inflow from operating activities	29	**22,832**	630
Dividend received from joint venture		**355**	–
Returns on investments and servicing of finance			
Interest received		**2,021**	821
Interest paid		**(3,127)**	(1,557)
Dividends paid to preference shareholders		**(62)**	(128)
Interest paid on finance lease charges		**(80)**	(56)
		(1,248)	(920)
Taxation			
Corporation tax paid		**(6,946)**	(6,349)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(3,034)**	(5,282)
Receipts from sale of tangible fixed assets		**9,205**	416
Payments to acquire fixed asset investments		**–**	(103)
		6,171	(4,969)
Acquisitions and disposals			
Purchase of subsidiary undertakings		**(6,801)**	(10,606)
Net cash acquired with subsidiary undertakings		**–**	506
		(6,801)	(10,100)
Equity dividends paid		**(6,357)**	(5,755)
Net cash inflow/(outflow) before financing		**8,006**	(27,463)
Financing			
Issue of shares, net of expenses		**717**	132
Redemption of preference shares		**(623)**	–
Capital element of finance leases		**(336)**	(459)
Net cash outflow from financing activities		**(242)**	(327)
Net cash inflow/(outflow)	30, 31	**7,764**	(27,790)
Management of liquid resources		**421**	3,917
Increase/(decrease) in cash		**7,343**	(31,707)
		7,764	(27,790)

combined statement of movements in reserves and shareholders' funds

for the year ended 31 december 2003

Group	Share premium account £'000s	Capital redemption reserve £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	**2003 Share-holders' funds £'000s**	2002 Share-holders' funds £'000s
Balance at 1 January	24,375	–	6,941	35,318	66,634	3,646	**70,280**	63,743
Retained profit for the year	–	–	–	8,084	8,084	–	**8,084**	4,138
Converted preference shares	942	–	–	–	942	(942)	**–**	–
Redeemed preference shares	(623)	623	–	–	–	(623)	**(623)**	–
Options exercised	698	–	–	–	698	19	**717**	132
Realised revaluation surplus	–	–	(2,948)	2,948	–	–	**–**	–
Share of joint venture revaluation surplus	–	–	1,514	–	1,514	–	**1,514**	2,314
Unrealised loss on deemed disposal of joint venture interest	–	–	–	–	–	–	**–**	(47)
Balance at 31 December	25,392	623	5,507	46,350	77,872	2,100	**79,972**	70,280

Goodwill arising on acquisitions prior to 31 December 1997 was written off against reserves. Cumulative goodwill written off to the profit and loss account in prior years amounts to £7,034,000 (2002: £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	**2003 Share-holders' funds £'000s**	2002 Share-holders' funds £'000s
Balance at 1 January	24,375	13,644	2,948	45,806	86,773	3,646	**90,419**	76,348
Retained profit for the year	–	–	–	5,183	5,183	–	**5,183**	13,939
Converted preference shares	942	–	–	–	942	(942)	**–**	–
Redeemed preference shares	(623)	623	–	–	–	(623)	**(623)**	–
Options exercised	698	–	–	–	698	19	**717**	132
Realised revaluation reserve	–	–	(2,948)	2,948	–	–	**–**	–
Balance at 31 December	25,392	14,267	–	53,937	93,596	2,100	**95,696**	90,419

statement of total recognised gains and losses

	2003 £'000s	2002 £'000s
Profit for the financial year before dividends	**14,914**	10,392
Share of joint venture revaluation surplus	**1,514**	2,314
Unrealised loss on deemed disposal of joint venture interest	**–**	(47)
Total recognised gain since last annual report	**16,428**	12,659

note of historical cost profits and losses

	2003 £'000s	2002 £'000s
Profit on ordinary activities before taxation	**20,920**	15,530
Realisation of property valuation gains of prior years	**2,948**	–
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**20**	65
Historical cost profit on ordinary activities before taxation	**23,888**	15,595
Historical cost profit on ordinary activities after taxation and dividends	**11,052**	4,203

other primary statements
for the year ended 31 december 2003

principal accounting policies
for the year ended 31 december 2003

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 United Kingdom 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 account 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 ventures are shown each year in the profit and loss account and the Group's share of retained profit 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 frozen 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 property	– 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.

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.

Attributable 'pre-contract' costs, that are incurred prior to the time that there is virtual certainty of future recovery, are expensed.

deferred taxation

The Group has adopted Financial Reporting Standard 19, Deferred Tax. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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.

notes to the accounts

1 analysis of turnover, operating profit and net assets

	2003 Turnover £'000s	2003 Profit/(loss) £'000s	2003 Net assets/(liabilities) £'000s	2002 Turnover £'000s	2002 Profit/(loss) £'000s	2002 Net assets/(liabilities) £'000s
Fit Out	**189,001**	**8,407**	**(3,221)**	192,934	10,483	(9,109)
Construction	**300,313**	**599**	**(690)**	337,027	(4,952)	2,241
Infrastructure Services	**365,108**	**9,241**	**31,153**	280,565	6,548	27,769
Affordable Housing	**278,814**	**8,920**	**24,393**	223,558	5,965	12,032
Group activities	**4,301**	**(5,197)**	**16,024**	4,303	(2,353)	38,461
	1,137,537	**21,970**	**67,659**	1,038,387	15,691	71,394
Net funds/(debt) (note 30)			**12,313**			(1,114)
Net assets			**79,972**			70,280

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

2 other operating income

	2003 £'000s	2002 £'000s
Rent receivable	**428**	758

3 operating profit

Operating profit is stated after charging/(crediting);

		2003 £'000s	2002 £'000s
Depreciation	– owned assets	**3,669**	3,375
	– leased assets	**623**	712
Profit on sale of fixed assets		**(1,056)**	(166)
Amortisation of goodwill		**3,191**	3,116
Operating lease costs	– plant and machinery	**4,669**	2,502
	– other	**5,500**	4,231
Auditor's remuneration	– audit	**315**	305
	– other audit related services	**8**	7
	– non audit related services	**2**	1

4 net interest payable

	2003 £'000s	2002 £'000s
Interest payable on bank overdrafts	**(3,028)**	(1,553)
Interest payable on finance leases	**(80)**	(56)
Other interest payable	**(98)**	(4)
Interest capitalised	**7**	28
	(3,199)	(1,585)
Bank interest receivable	**1,457**	821
Other interest receivable	**560**	–
	2,017	821
Net interest payable	**(1,182)**	(764)

5 tax charge on profit on ordinary activities

	2003 £'000s	2002 £'000s
Current taxation:-		
UK corporation tax charge for the year	**6,697**	5,525
Adjustment in respect of prior years	**24**	199
Share of taxation of joint ventures	**(23)**	–
Total current tax	**6,698**	5,724
Deferred taxation (note 21):-		
Origination and reversal of timing differences	**(692)**	(572)
Share of taxation of joint ventures	**–**	(14)
Tax charge on profit on ordinary activities	**6,006**	5,138

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 30%. The actual tax charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation.

	2003 £'000s	2002 £'000s
Profit on ordinary activities before tax	**20,920**	15,530
Tax on profit on ordinary activities at standard rate	**6,276**	4,659
Factors affecting charge for the year:-		
Capital allowances for the year in excess of depreciation	**512**	(199)
Expenses not deductible for tax purposes	**275**	770
Utilisation of tax losses	**(850)**	(715)
Accounting profit in excess of chargeable gain	**(468)**	–
Adjustments in respect of prior years	**24**	199
Amortisation not deductible for tax purposes	**957**	935
Other short term timing differences	**(28)**	75
Total actual amounts of current tax	**6,698**	5,724

The total amount of deferred tax assets that are not recognised in the financial statements in relation to losses carried forward amounted to £822,000 (2002: £1,332,000) due to the uncertainty of the availability of future profits against which the losses can be recovered.

notes to the accounts

6 dividends on equity and non-equity shares

	2003 £'000s	2002 £'000s
Non-equity dividends on preference shares:-		
Paid	**62**	82
Accrued	**–**	46
	62	128
Equity dividends on ordinary shares:-		
Interim paid	**1,944**	1,736
Final proposed	**4,824**	4,390
	6,768	6,126
	6,830	6,254

7 earnings per ordinary share

The calculation of the earnings per share is based on the weighted average number of 41,207,000 (2002: 40,535,000) ordinary shares in issue during the year and on the profits for the year attributable to ordinary shareholders of £14,852,000 (2002: £10,264,000).

In calculating the diluted earnings per share, earnings are adjusted for the preference dividend of £62,000 (2002: £128,000) making adjusted earnings of £14,914,000 (2002: £10,392,000). The weighted average number of ordinary shares is adjusted for the dilutive effect of the convertible preference shares by 313,000 (2002: 634,000), share options by 311,000 (2002: 398,000) and contingent Long Term Incentive Plan shares by 243,000 (2002: nil) giving an adjusted number of ordinary shares of 42,074,000 (2002: 41,567,000).

8 profit of parent company

The Company has taken advantage of section 230 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 £12,013,000 (2002: £20,193,000).

9 employees

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

	2003 No.	2002 No.
Fit Out	**389**	452
Construction	**1,227**	1,402
Infrastructure Services	**2,400**	1,975
Affordable Housing	**1,129**	989
Other	**29**	26
	5,174	4,844

10 staff costs

	2003 £'000s	2002 £'000s
Wages and salaries	**158,644**	140,566
Social security costs	**17,811**	13,978
Pension costs	**3,975**	3,602
	180,430	158,146

11 intangible fixed assets

Group	Goodwill £'000s
Cost	
At 1 January 2003	60,209
Additions (note 27)	1,798
At 31 December 2003	**62,007**
Amortisation	
At 1 January 2003	5,814
Provided in the year	3,191
At 31 December 2003	**9,005**
Net book value at 31 December 2003	**53,002**
Net book value at 31 December 2002	54,395

notes to the accounts

12 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
Cost or valuation						
At 1 January 2003	29,412	2,028	405	6,059	4,431	42,335
Additions	2,928	1,145	20	2	84	4,179
Transfers	(329)	329	–	–	–	–
Disposals	(3,783)	–	(96)	(5,842)	(1,600)	(11,321)
At 31 December 2003	**28,228**	**3,502**	**329**	**219**	**2,915**	**35,193**
Depreciation						
At 1 January 2003	17,937	984	361	311	1,434	21,027
Provided in the year	3,614	221	38	17	402	4,292
Disposals	(2,868)	–	(95)	(281)	(257)	(3,501)
At 31 December 2003	**18,683**	**1,205**	**304**	**47**	**1,579**	**21,818**
Net book value at 31 December 2003	**9,545**	**2,297**	**25**	**172**	**1,336**	**13,375**
Net book value at 31 December 2002	11,475	1,044	44	5,748	2,997	21,308

(b) Company

	Owned plant, machinery & equipment £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
Cost or valuation				
At 1 January 2003	658	6,059	1,600	8,317
Additions	308	2	–	310
Disposals	(15)	(5,842)	(1,600)	(7,457)
At 31 December 2003	**951**	**219**	**–**	**1,170**
Depreciation				
At 1 January 2003	301	311	237	849
Provided in the year	193	17	20	230
Disposals	(2)	(281)	(257)	(540)
At 31 December 2003	**492**	**47**	**–**	**539**
Net book value at 31 December 2003	**459**	**172**	**–**	**631**
Net book value at 31 December 2002	357	5,748	1,363	7,468

12 tangible fixed assets *(continued)*

The net book value of land and buildings comprises:-

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Investment properties				
Freehold	**160**	3,655	**160**	3,655
Short leasehold	**–**	1,363	**–**	1,363
	160	5,018	**160**	5,018
Other properties				
Freehold	**12**	2,093	**12**	2,093
Short leasehold	**1,336**	1,634	**–**	–
	1,348	3,727	**12**	2,093
Total net book value	**1,508**	8,745	**172**	7,111

Land and buildings at cost or valuation are stated:-

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Investment properties at valuation	**207**	5,250	**207**	5,250
Other properties at valuation	**–**	1,351	**–**	1,351
Other properties at cost	**2,927**	3,889	**12**	1,058
	3,134	10,490	**219**	7,659

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.

Comparable amounts determined according to the historical cost convention:-

	Cost 2003 £'000s	Accumulated depreciation 2003 £'000s	Net book value 2003 £'000s	Net book value 2002 £'000s
Land and buildings	**3,134**	**1,626**	**1,508**	5,862

notes to the accounts

13 investments

(a) Group

	Joint ventures £'000s	Own shares at cost £'000s	Trade investment £'000s
Cost at 1 January 2003	4,484	1,234	103
Share of profit for the year	132	–	–
Share of taxation	23	–	–
Share of revaluation surplus	1,514	–	–
Shares vested	–	(140)	–
Dividends from joint venture	(355)	–	–
At 31 December 2003	**5,798**	**1,094**	**103**

Investment in joint ventures

	Share at 47.50% Primary Medical Property Limited £'000s	Share at 50% Morgan-Vinci Limited £'000s	Share at 50% Claymore Roads (Holdings) Limited £'000s	**2003 Total £'000s**
Profit and loss account				
Share of turnover	1,919	–	–	**1,919**
Current year share of pre tax profit/(loss)	330	(200)	2	**132**
Balance sheet				
Share of gross assets	25,360	25,869	8,280	**59,509**
Share of gross liabilities	(19,364)	(26,069)	(8,278)	**(53,711)**
Share of net assets/(liabilities)	5,996	(200)	2	**5,798**

Primary Medical Property Limited

Primary Medical Property Limited has a portfolio of primary care health centres. The Group'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 and as such the Group has maintained joint control.

Morgan-Vinci Limited

Morgan-Vinci Limited is responsible for the construction of the Newport Southern Distributor Road which is being undertaken in part by Morgan Est plc on its behalf. Morgan-Vinci Limited is funded primarily by bank finance.

Claymore Roads (Holdings) Limited

Claymore Roads (Holdings) Limited is responsible for the A92 upgrade between Dundee and Arbroath in Scotland. The construction is being undertaken by Morgan Est plc on its behalf. Claymore Roads (Holdings) Limited is funded primarily by bank finance.

Investment in own shares

The own shares at cost represent 458,641 Morgan Sindall plc ordinary shares held in The Morgan Sindall Employee Benefit Trust in connection with the Long Term Incentive Plan ('LTIP') as detailed in the Remuneration Report on pages 35 to 39. The trustee, the Legis Trust, purchases the Company's ordinary shares in the open market with financing provided by the Company on the basis of regular reviews of the share liabilities of the LTIP. The unallocated shares number 409,151 and dividends on these shares have been waived. Dividends on allocated shares are paid to the participants. The cost of the shares expected to be awarded are charged over the three year period to which the award relates. Based on the Company's share price on 31 December 2003 of £3.65 the market value of the shares was £1,674,000.

(b) Company

	Own shares at cost £'000s	Subsidiary undertakings Shares £'000s	Subsidiary undertakings Loans £'000s	Joint venture shares £'000s	Total £'000s
Cost at 1 January 2003	1,234	110,061	4,405	4	115,704
Additions	–	12,974	–	–	12,974
Shares vested	(140)	–	–	–	(140)
Cost at 31 December 2003	**1,094**	**123,035**	**4,405**	**4**	**128,538**
Provisions at 1 January 2003 and 31 December 2003	**–**	**890**	**4,405**	**4**	**5,299**
Net book value at 31 December 2003	**1,094**	**122,145**	**–**	**–**	**123,239**
Net book value at 31 December 2002	1,234	109,171	–	–	110,405

14 stocks

	Group		Company	
	2003 £'000s	2002 £'000s	**2003 £'000s**	2002 £'000s
Development works and building land	**62,661**	46,574	**–**	1,240
Trading properties	**–**	587	**–**	–
Materials and equipment	**2,750**	2,483	**–**	–
	65,411	49,644	**–**	1,240

15 debtors

	Group		Company	
	2003 £'000s	2002 £'000s	**2003 £'000s**	2002 £'000s
Trade debtors	**70,691**	54,749	**4**	159
Amounts recoverable on contracts	**111,672**	112,870	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**9,118**	15,168
Amounts owed by joint ventures	**–**	483	**–**	3
Corporation tax recoverable	**–**	–	**620**	462
Deferred tax asset (note 21)	**1,264**	572	**–**	–
Other debtors	**2,476**	4,480	**1,073**	330
Prepayments and accrued income	**9,443**	3,337	**7,053**	470
	195,546	176,491	**17,868**	16,592

16 cash at bank and in hand

The Group's only financial instruments are cash. The Group holds part of this cash as sterling deposits with counterparties, which are at a fixed interest rate based on LIBOR 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. By placing surplus funds with approved counterparties the Group's risk profile is not significantly changed from maintaining funds with the Group's clearing bank. Included within cash at bank and in hand is £7,350,000 (2002: £6,929,000) which is not accessible within 24 hours without penalty and has been classified as liquid resources in the cash flow statement in accordance with FRS1 (revised). During the period under review the Group did not enter into derivative transactions and has not undertaken trading in any financial instruments.

17 loan notes

Loan notes totalling £360,000 were issued in 2002 as part consideration for the acquisition of Pipeline Constructors Group plc. Their interest rate is determined by reference to a six month sterling money market deposit and as such varies every six months. They are redeemable by the loan note holders at six monthly intervals which commenced on 2 January 2003.

notes to the accounts

18 creditors: amounts falling due within one year

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Bank overdraft	–	–	3,251	6,048
Loan notes (note 17)	360	7,161	360	7,161
Obligations under finance leases (note 20)	371	231	–	–
Payments on account	20,487	13,798	–	–
Trade creditors	91,003	67,192	5,402	549
Amounts owed to subsidiary undertakings	–	–	29,410	25,386
Other creditors	3,173	4,632	193	468
Corporation tax	2,185	2,410	–	–
Other tax and social security	11,752	9,259	255	113
Accruals and deferred income	133,180	134,495	2,281	1,082
Dividend	4,890	4,479	4,890	4,479
	267,401	243,657	46,042	45,286

19 creditors: amounts falling due after more than one year

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Obligations under finance leases (note 20)	1,569	571	–	–

20 borrowings

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Borrowings are repayable as follows:-				
Finance leases within one year	371	231	–	–
Within two to five years	1,191	471	–	–
After five years	378	100	–	–
	1,569	571	–	–
Total obligations under finance leases	1,940	802	–	–
Loan notes within one year	360	7,161	360	7,161
Total obligations	2,300	7,963	360	7,161

The finance leases are secured on the assets to which they relate. The loan notes are secured by a corresponding cash deposit.

21 deferred taxation

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Balance at 1 January	**572**	–	**–**	–
Profit and loss account credit	**692**	572	**–**	–
Deferred tax asset at 31 December	**1,264**	572	**–**	–

Provision for deferred taxation consists of the following amounts:-

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Capital allowances in excess of depreciation	**976**	328	**–**	–
Taxation loss and other timing differences	**288**	244	**–**	–
	1,264	572	**–**	–

22 operating lease commitments

At 31 December 2003 the Group was committed to making the following payments during the next year in respect of non cancellable operating leases:-

	2003			2002		
Leases which expire:-	**Land and buildings £'000s**	**Other £'000s**	**Total £'000s**	Land and buildings £'000s	Other £'000s	Total £'000s
Within one year	**739**	**542**	**1,281**	304	976	1,280
Within two to five years	**933**	**2,370**	**3,303**	711	2,928	3,639
After five years	**2,230**	**3**	**2,233**	2,273	4	2,277
	3,902	**2,915**	**6,817**	3,288	3,908	7,196

23 financial commitments

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Capital expenditure authorised and contracted	**54**	–	**–**	–

24 contingent liabilities

Group bank accounts and performance bond facilities are supported by cross-guarantees given by the Company and participating companies in the Group.

notes to the accounts

25 called up share capital

	2003 No. '000s	2003 £'000s	2002 No. '000s	2002 £'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	**41,996**	**2,100**	41,242	2,062
5.625% Convertible cumulative redeemable preference shares of £1 each	**–**	**–**	1,584	1,584
	41,996	**2,100**	42,826	3,646

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.

1. 14,600 ordinary shares in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £24,966.00.
2. 355,575 ordinary shares in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £691,715.25.
3. 384,925 ordinary shares in respect of conversion rights attached to 960,742 convertible preference shares exercised as at 30 June 2003.

Preference shares
The convertible preference shares were 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. The remaining convertible preference shares were redeemed at par at the Company's option on 15 October 2003 following the last date of conversion of 30 June 2003.

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 2003 there remain 38,725 options outstanding under that Scheme exercisable at prices between £0.73 and £1.71. At the same date there were 1,707,375 options outstanding under the 1995 Scheme exercisable at prices between £1.71 and £4.95.

26 revaluation reserve

	Group 2003 £'000s	Group 2002 £'000s	Company 2003 £'000s	Company 2002 £'000s
Investment property revaluation reserve	**–**	2,854	**–**	2,854
Other property revaluation reserve	**–**	94	**–**	94
Share of joint venture revaluation surplus	**5,507**	3,993	**–**	–
	5,507	6,941	**–**	2,948

27 acquisitions

Morgan Utilities Group plc (formerly Pipeline Constructors Group plc).
On 2 January 2002 the Company acquired Morgan Utilities Group plc. The final cash consideration was £10.4m with acquisition costs of £0.2m. The final net assets were £0.1m following additional fair value adjustments of £1.8m made during 2003.

28 pensions

The Morgan Sindall Retirement Benefits Plan (MSRBP) 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 and was prepared using the assumptions of rate of investment return of 6.0% per annum, rate of earnings escalation of 5.0% per annum and rate of inflation of 3.0% per annum. The ongoing liabilities of the MSRBP were assessed using the attained age method whereas the assets were taken at realisable market value. The actuarial valuation referred to showed that the defined benefit liabilities were fully funded and on an ongoing basis, the value of the assets of £6.035m represented 106% of the value of these liabilities. The actuarial valuation also showed that the realisable market value of the Plan's assets was in excess of its minimum liabilities when assessed on the Minimum Funding Requirement basis (as defined in the Pensions Act 1995). The next triannual valuation will be carried out as at 5 April 2004 when the funding position will be re-appraised.

For the purposes of reporting under Financial Reporting Standard 17, Retirement Benefits, a valuation of the scheme was undertaken on 31 December 2003 and details are given below.

Valuation date		**31 December 2003**	31 December 2002
Valuation method		**Projected unit**	Projected unit
	Notes	**£'000s**	£'000s
Fair value of the scheme assets	a	**3,924**	4,473
Present value of scheme liabilities		**(4,660)**	(5,358)
Scheme shortfall		**(736)**	(885)
Related deferred taxation at 30.0%		**221**	266
Net pension liability		**(515)**	(619)
Funding level		**89%**	88%

Actuarial assumptions:-	Notes	**2003**	2002
Inflation per annum		**2.75%**	2.5%
Increase for pensions – members who left before 1 June 1995		**3.5%**	3.5%
Increase for pensions – members who left after 31 May 1995	b	**3.0%**	3.0%
Increase for non guaranteed minimum pension deferred pensions		**2.75%**	2.5%
Salary scale increase per annum		**3.75%**	3.5%
Discount rate for liabilities		**5.75%**	5.5%

Expected investment returns:-	Proportion invested		Expected return	
	2003	2002	**2003**	2002
Asset class:-				
Equities	**68%**	67%	**8.0%**	8.0%
Fixed interest	**23%**	16%	**5.0%**	5.0%
Other	**9%**	17%	**4.0%**	4.0%
Overall	**100%**	100%	**7.0%**	6.8%

The total pension costs for the Group were:-	Notes	**2003 £'000s**	2002 £'000
Employer contribution to MSRBP (defined benefits)	c	**–**	–
Employer contribution to MSRBP and other plans (money purchase)	c	**3,975**	3,602

notes to the accounts

28 pensions *(continued)*

Under the transitional arrangements of FRS17 the effect of the standard is included by note only. The effects on the financial statements, when FRS17 is fully adopted, will be as follows:-

Amounts included within operating profit:-

There are no amounts to be included within the operating profit for current or past service costs in either 2003 or 2002.

Amounts to be included in other finance costs:-

	2003 £'000s	2002 £'000s
Expected return on scheme assets	**272**	341
Interest on pension scheme liabilities	**(267)**	(322)
Net finance return	**5**	19

Amounts to be included in the Statement of Total Recognised Gains and Losses (STRGL):-

	2003 £'000s	% asset or liability value	2002 £'000s	% asset or liability value
Difference between actual and expected return of scheme assets	**179**	4.6%	(1,153)	25.8%
Experience (loss)/gain arising on scheme liabilities	**(187)**	4.0%	29	0.6%
Effects of changes in assumptions underlying the present value of scheme liabilities	**152**	3.3%	114	2.5%
Total gain/(loss) to be recognised in the STRGL	**144**		(1,010)	

Balance sheet presentation:-

	2003 £'000s	2002 £'000s
Net assets	**79,972**	70,280
Amount relating to defined benefit pension scheme liability, net of related deferred tax	**(515)**	(619)
Net assets including FRS17 disclosure	**79,457**	69,661
Profit and loss reserve	**46,350**	35,31
Amount relating to defined benefit pension scheme liability, net of related deferred tax	**(515)**	(619)
Profit and loss reserve including FRS17 disclosure	**45,835**	34,699

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: Any pension which accrues in respect of service after 6 April 1997 will increase in line with inflation, subject to a maximum of 5% per annum.

c: 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 the position will be reviewed following the next triennial valuation as at 5 April 2004. 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

	2003 £'000s	2002 £'000s
Operating profit	**21,970**	15,691
Depreciation of tangible fixed assets	**4,292**	4,069
Amortisation of goodwill	**3,191**	3,116
Profit on sale of fixed assets	**(1,056)**	(166)
Increase in stocks and work in progress	**(15,767)**	(11,292)
Increase in debtors	**(18,367)**	(5,480)
Increase/(decrease) in creditors	**28,569**	(5,308)
Net cash inflow from operating activities	**22,832**	630

30 analysis of net funds

	31 December 2002 £'000s	Cash flow £'000s	Non cash movement £'000s	Acquisition of subsidiary undertaking £'000s	31 December 2003 £'000s
Cash at bank	6,849	7,764	–	–	**14,613**
Finance leases	(802)	336	(1,474)	–	**(1,940)**
Loan notes	(7,161)	–	–	6,801	**(360)**
Total	(1,114)	8,100	(1,474)	6,801	**12,313**

31 reconciliation of net cash flow to movement in net funds

	£'000s
Increase in cash	**7,764**
Cash outflow from decrease in finance leases	**336**
Changes in net funds from cashflows	**8,100**
Loan notes redeemed	**6,801**
Non cash movement	**(1,474)**
	13,427
Net debt at 1 January 2003	(1,114)
Net funds at 31 December 2003	**12,313**

32 directors' remuneration, interests and transactions

directors' remuneration

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on pages 38 to 39.

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 directors' remuneration report on page 39.

	5p Ordinary Beneficial	
	2003 No.	2002 No.
J C Morgan	**6,266,238**	6,241,013
P R Smith	**2,876**	–
J M Bishop	**19,231**	25,178
P Whitmore	**2,250**	2,250
B H Asher	**5,000**	5,000
G Gallacher	**3,000**	3,000
J J C Lovell	**6,254,774**	6,235,855
J Walden	**–**	–

No director had any non beneficial interest in the ordinary shares or in the preference shares of the Company or in any shares of any Group company. As stated in the directors' remuneration report on page 39, 100,000 share options were granted to Paul Smith on 10 March 2003 as part of his initial employment package and in lieu of his non participation in the LTIP scheme in 2003. No share options have been granted to any other main board director.

There have been no changes in the interests of directors between 31 December 2003 and 19 February 2004.

directors' transactions

There have been no related party transactions with any director either during the year or in the subsequent period to 19 February 2004.

directors' material interests in contracts with the company.

No director had any material interest in any contract with the Company or any Group company in the year or in the subsequent period to 19 February 2004.

33 additional information on subsidiary undertakings and joint ventures

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

Subsidiary undertakings	*Activity*
Lovell Partnerships Limited	Affordable housing
Morgan Lovell plc	The workplace specialist
Overbury plc	Fitting out and refurbishment specialist
Vivid Interiors Limited	Retail and leisure fit out specialist
Backbone Furniture Limited	Furniture suppliers
Bluestone plc	Construction
Morgan Est plc	Infrastructure services
Morgan Utilities Limited	Infrastructure services
Magnor Plant Hire Limited	Construction plant hire
*Stansell QVC Limited	Construction
Newman Insurance Company Limited	Insurance
Joint ventures	
Primary Medical Property Limited (47.5%)	Development and investment of medical properties
*Morgan-Vinci Limited (50%)	Infrastructure services
*Claymore Roads (Holdings) Limited (50%)	Infrastructure services

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 and Newman Insurance Company Limited registered in Bermuda, all undertakings are registered in England, which is the principal place of business.

corporate directory

directors

J C Morgan (chairman)
P R Smith
J M Bishop
P Whitmore
B H Asher (non executive)
G Gallacher (non executive)
J J C Lovell (non executive)
J Walden (non executive)

secretary

W R Johnston

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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.

telephone share dealing service

Details of a low cost telephone dealing service with Stocktrade are available on the Company's website under Investor Relations.

financial calendar

Annual General Meeting	24 March 2004
Ordinary shares	
Final dividend:	
Ex-dividend date	3 March 2004
Record date	5 March 2004
Payment date	6 April 2004
Interim results announcement	August 2004

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