MORGAN SINDALL annual report & accounts 2004

MORGAN SINDALL

report and accounts 2004

Morgan Sindall plc is a top ten United Kingdom construction group employing over 5,000 people. Leading businesses operate within four specialist divisions; fit out, construction, infrastructure services and affordable housing. The inherent strength of the Group is derived from this balance of activity and the ability to provide a coordinated approach to integrated solutions.

fit out

Fit Out operates through four businesses. Overbury is the leading office fit out and refurbishment specialist and Morgan Lovell provides a complete office transformation service. Vivid Interiors refurbishes and fits out retail, leisure and entertainment facilities. Backbone Furniture offers supply, refurbishment and move management of commercial furniture.

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 and retail where it undertakes new build, refurbishment and maintenance projects.

MORGAN SINDALL

morgan est

infrastructure services

Morgan Est specialises in complex engineering projects and provides high standards of expertise, commitment and delivery. Operating in both the public and private sectors, its culture of Early Solutions Together underpins its innovative approach to client relationships. Morgan Est operates four business units; Water, Utilities, Tunnelling and Civil Engineering.

LOVELL

affordable housing

Lovell is the country's leading provider of affordable housing, specialising in mixed tenure and major refurbishment opportunities. It works in partnership with social housing providers at the cutting edge of urban regeneration to create sustainable communities.

contents

chairman and chief executive's statement

We are pleased to announce record results for 2004. Turnover was up 7% to £1,219m and profit before tax increased 34% to £27.94m. The Group's strong performance demonstrates the success of our focus on our chosen market places. In particular, growth has been driven from the market leading positions held by our Affordable Housing and Fit Out divisions, whilst we have also enjoyed success in our Construction and Infrastructure Services divisions. In addition, our margin has improved during 2004 underlining the quality of our delivery, whilst cash generation has been strong with cash balances peaking at the year end.

1 Paul Smith
2 John Morgan

1

2

We are pleased to announce record results for 2004 turnover was up 7% to £1,219m and profit before tax increased 34% to £27.94m

board changes

John Bishop will retire from the board at the forthcoming AGM in April. Over the last ten years John has contributed a great deal to the development of the Group and we thank him for his valuable input. As previously announced, David Mulligan joined the board on 1 April 2004 as Finance Director.

In September, Geraldine Gallacher stepped down as a non-executive director from the board having held this position since May 1995. We would like to thank her for her contribution during a period of rapid growth. Gill Barr joined the board as a non-executive director in September. She was formerly Business Development Director of Woolworths plc and we welcome her to the board.

outlook

We start 2005 in an excellent position to build on last year's success. The order book has grown to £2.26bn and we have a number of exciting prospects in the pipeline.

Fit Out is strengthening its market position and geographic coverage and is very well placed to take advantage of the improvement in the commercial property sector. Construction is making progress with its focus on the health and education sectors. Infrastructure Services' longer term prospects are exciting, albeit volumes will be slightly lower in the shorter term. Finally, Affordable Housing's prospects remain excellent and we anticipate another year of strong growth.

Overall we are encouraged by the current state of our chosen markets, with strong Government spending on housing, health and education alongside an improving commercial sector.
We believe we are well placed to take advantage of market opportunities and have already secured some significant contract wins early in 2005. The Group has never been in better shape and we look forward to another successful year.

John Morgan.

John Morgan
Executive Chairman

Paul Smith
Chief Executive

22 February 2005

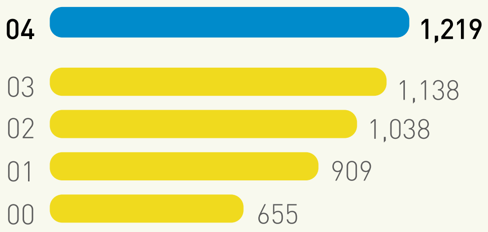
operating and financial review

2004 was a record year for the Group with profit before tax increasing 34% to £27.94m (2003: £20.92m) on turnover of £1,219m (2003: £1,138m). Basic earnings per share adjusted for goodwill grew by 16% to 50.70p (2003: 43.78p). Consequently the board recommends an increase in the final dividend to 13.25p giving a total of 18.50p for the year (2003: 16.50p).

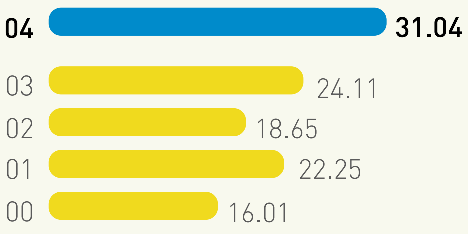
Cash generation during the year was strong at £58.83m giving a cash balance at the end of December of £73.45m (2003: £14.61m).

The increase in the Group's order book to £2.26bn reflects a change by Lovell in the calculation of its order book (as explained under Affordable Housing on page 7).
The forward order book without this change would have been £1.74bn (2003: £1.63bn).

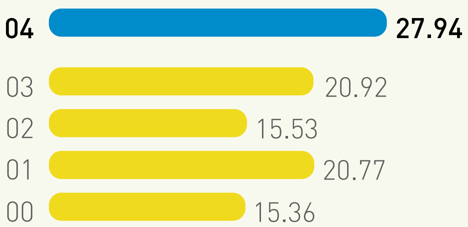
turnover (£'m)



profit before tax adjusted for amortisation (£'m)



profit before tax (£'m)



operating review

general market conditions

Construction industry output, including the repair and maintenance sector, grew by around 3.7% during 2004 and is forecast to grow by 2.1% during 2005. Strong growth is forecast in the health, education, private commercial and public housing sectors, which are key markets for the Group.

group strategy

The strategy is to create a construction group with market leading businesses operating in distinct market sectors in order to provide sustainable growth. This approach also provides a balance between the public and private sectors, which reduces the risk to the Group of changes within particular sectors of the economy.

divisional performance

fit out

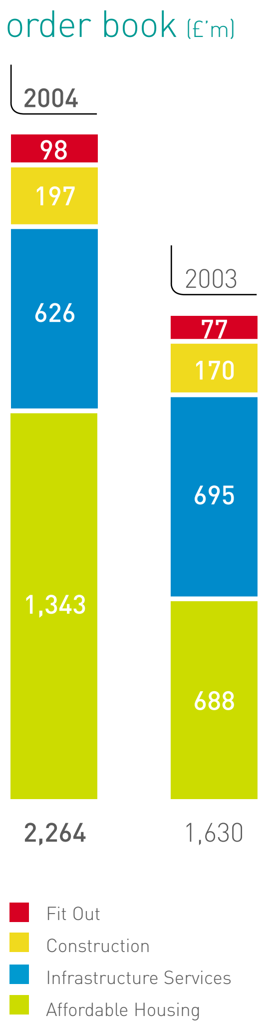
Fit Out operates through four individual businesses namely Overbury, Morgan Lovell, Vivid Interiors and Backbone Furniture. Overbury (turnover of £197m) provides fit out and refurbishment services to the commercial property sector and works for larger clients who employ their own professional teams of project managers and architects. Morgan Lovell (turnover of £46m) provides design and build fit out solutions to the commercial and public sectors, giving advice to clients as to their requirements, providing design services and managing the building works. Vivid Interiors (turnover of £8m) focuses specifically on the retail, leisure and entertainment sectors. Backbone Furniture (turnover of £1m) supplies innovative solutions to clients' furniture needs.

The division's strategy is for each of its businesses to be the market leader in its chosen sector through superior quality, service and workmanship. Its offices cover the South East, Midlands and North of England.

In 2004 Fit Out delivered an operating profit of £11.24m (2003: £8.41m) on a turnover of £252m (2003: £189m) giving an operating margin of 4.5% (2003: 4.4%), which is consistent with the long term margin for this division.

2004 saw a steady recovery in the commercial office fit out market, with demand for new office space rising modestly. This contributed in part to the increase in turnover of this division. However, expansion has largely been achieved through further growth of the division's market share, which demonstrates the strength of its businesses and the ability of management to fully exploit opportunities presented by the market.

The strategy is to create a construction group with market leading businesses operating in distinct market sectors in order to provide sustainable growth



In 2004 the division extended its geographic coverage with Morgan Lovell opening an office in Birmingham in June and Overbury establishing an office in Manchester in October.

The division has started the year well with an order book of £98m compared to £77m last year. Levels of enquiries remain buoyant and further growth is anticipated.

construction

Construction operates through the Bluestone brand and has a national network of 23 offices across England and Wales with an emphasis on contracts up to £20m in value.

The division's strategy is to develop a business where most of its workload is with key clients and is delivered through negotiated and framework contracts, thereby reducing the reliance upon competitively tendered work.

In 2004 Bluestone increased its operating profit to £1.30m (2003: £0.60m) on a lower turnover of £271m (2003: £300m). The benefits of its focused approach to the health, education, industrial and property services sectors are being realised and the division continues to make solid progress.

During the year the division secured two NHS LIFT (Local Improvement Finance Trust) frameworks for Barnsley and for Camden & Islington NHS Trusts.

Since the year end it was awarded a third framework for East Hants, Fareham & Gosport NHS LIFT and is preferred bidder on a fourth at Doncaster. LIFTs are a partnership between the public and private sectors to deliver primary health and social care facilities in a local area over a prescribed period, typically 25 years.

In December the division augmented its geographic coverage with the £3m acquisition of part of the trade of Benson Limited, a privately owned construction company. The acquisition has provided offices in Hatfield, Reigate and Southampton, strengthening the division's offering in the South and South East. It is expected to be earnings enhancing in 2005.

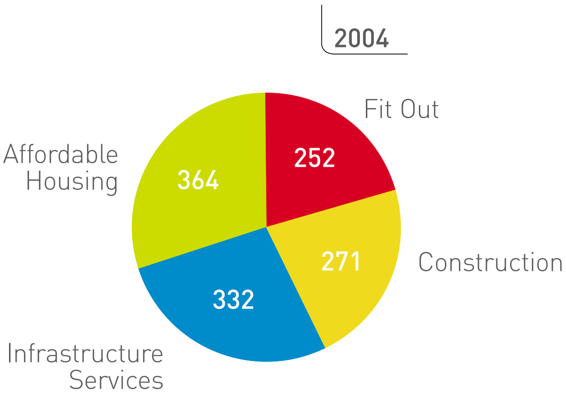
Bluestone starts the year with an order book of £197m (2003: £170m), which comprises the acquired contracts relating to the three new offices and a moderate increase in the underlying business. Looking ahead growth will be modest and controlled as the division continues with its focused approach.

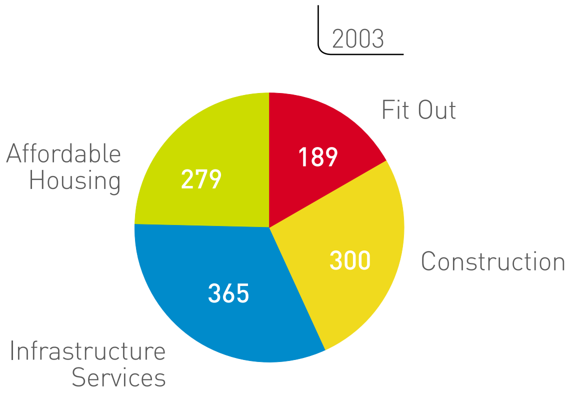
infrastructure services

Infrastructure Services which operates through the Morgan Est brand, is a leading provider of civil engineering solutions in the utilities and transport sectors.

The full spectrum of contractual arrangements are entered into, namely traditional contracts, design and build, partnering and framework agreements as well as Private Finance Initiative (PFI) structures.

turnover analysis (£'m)





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

Infrastructure Services delivered an operating profit of £7.84m (2003: £9.24m) on turnover of £332m which was below that of the previous year (2003: £365m). The reduction in workload was anticipated with a number of the division's larger projects beginning to draw to a close. During the year good progress was made on its key projects at Heathrow Terminal 5 and the A92 in Scotland. In December the Newport Southern Distributor Road was opened concluding the construction phase of this key PFI project.

The division begins the year with an order book of £626m (2003: £695m, 2002: £550m), which includes a water framework under Asset Management Programme 4 for Severn Trent Water and a gas utility contract for National Grid Transco, securing its position in the water and gas utilities markets. Looking ahead, the division expects volumes again to be lower in 2005 with modest growth returning in 2006.

affordable housing

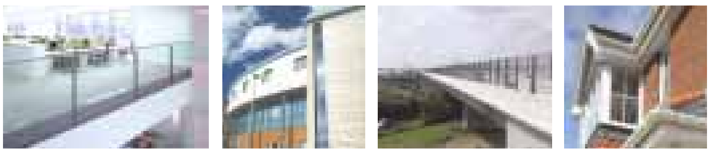
The division's brand, Lovell, is the United Kingdom's leading provider of affordable housing which are homes designed for low income households. The division's strategy is to strengthen its market leading position and continue to provide innovative affordable housing solutions.

The division achieved a record operating profit in 2004 of £13.45m, an increase of 51% on the previous year (2003: £8.92m) on turnover of £364m (2003: £279m). Lovell has continued to grow strongly as a result of its success in delivering mixed tenure and refurbishment solutions to local authorities and housing associations.

Lovell operates through nine regions which cover England, Scotland and Wales and provides new build homes and housing refurbishment services. Refurbishments 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, 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.

Lovell starts 2005 with a forward order book of £1.3bn, which now reflects the full anticipated workload for the duration of its framework agreements. Previously, Lovell had only recognised the first year's workload from such agreements in its order book. This change in approach adds £525m to the order book and brings Lovell into line with industry practice. The Government's investment in affordable housing through its Decent Homes and Sustainable Communities programmes is expected to be maintained for the foreseeable future. As a result we anticipate further growth and improvement in the operating margin for this business in 2005.



Group operating profit was a record at £26.85m, up 22% on the prior year (2003: £21.97m)

financial review

turnover and operating profit

Group turnover increased by 7% during the year to £1,219m (2003: £1,138m). The increase was mainly due to growth in Fit Out, up 33% to £252m and Affordable Housing, up 31% to £364m. Both Construction and Infrastructure Services' turnovers were around 10% down on the previous year at £271m and £332m respectively.

Group operating profit was a record at £26.85m, up 22% on the prior year (2003: £21.97m). This improvement is attributable to the impressive growth in profitability at Affordable Housing and Fit Out. Affordable Housing again significantly increased its profit, by 51% to £13.45m (2003: £8.92m) and Fit Out by 34% to £11.24m (2003: £8.41m) driven by margin enhancement at Affordable Housing and organic growth within both divisions. Construction continued with its focus on key sectors with profit more than doubling to £1.30m (2003: £0.60m). Infrastructure Services' operating profit reduced to £7.84m (2003: £9.24m) reflecting lower workload. The cost of Group activities has increased to £6.98m (2003: £5.20m) as the result of a larger executive team during the year, payment of performance bonuses and the cessation of the rental income stream following the disposal of investment properties in 2003.

profit before and after taxation

Profit before taxation of £27.94m was 34% ahead of last year's £20.92m. This includes a net interest receipt of £0.82m (2003: charge of £1.18m) reflecting higher cash balances maintained by the Group.

Profit after taxation was £18.05m (2003: £14.91m). The tax charge was £9.89m (2003: £6.01m) giving a current year effective tax rate of 35%.

international financial reporting standards (IFRS)

In 2001 the European Commission (EC) took the decision to require the use of IFRS for all entities listed on European stock exchanges. The EC has set 1 January 2005 as the date for this transition and as a result the Group will report its 2005 results under IFRS commencing with its interim statement in August 2005.

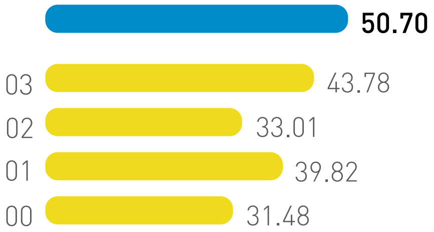
During 2004 the Group has taken steps to consider the impact of the transition to reporting under IFRS and has identified the key areas which will impact the Group's report and accounts. These include accounting for goodwill, pensions, share based payments and deferred tax.

Currently goodwill is capitalised and amortised over 20 years. Under IFRS goodwill is required to be carried at cost and is not amortised but will be subject to annual impairment reviews. Existing goodwill will therefore be carried forward and will be reviewed annually from the date of transition.

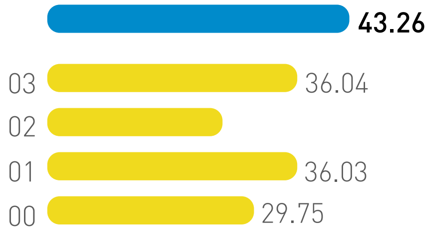
Under existing accounting standards information regarding pensions is disclosed by way of note and does not impact the accounts. In future pension assets and deficits will need to be recognised in the Group balance sheet and movements in those balances will be recognised in the profit and loss account (to be renamed the income statement).

adjusted basic eps (p)

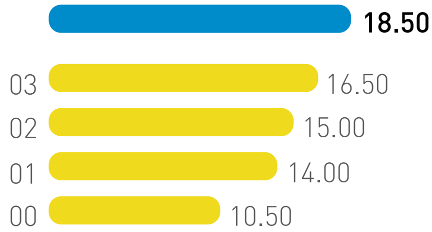
(pre amortisation of goodwill)



basic eps (p)



dividends per share (p)



Under IFRS the current pension deficit will be recognised in the balance sheet and any future change in the scheme's assets and liabilities will be shown in the income statement.

With regard to share based payments the fair value of options and share based incentives issued to employees is to be accounted for in the income statement. This will impact the Group with regard to any options issued after 7 November 2002.

Deferred taxation has a wider scope under IFRS with the most significant impact for the Group being in relation to revaluation gains on which deferred taxation will now be recognised.

earnings per share and dividends

Basic earnings per share have increased 20% to 43.26p (2003: 36.04p) giving 21% compound growth since 1995. Basic earnings per share adjusted for goodwill amortisation are 50.70p (2003: 43.78p). The final dividend is proposed at 13.25p (2003: 11.75p) giving a total dividend of 18.50p up 12% on last year (2003: 16.50p). Over the period since 1995 the compound growth in the dividend is 24%. Earnings cover the ordinary dividend 2.3 times (2003: 2.2 times).

shareholders' funds and capital structure

Shareholders' funds have increased to £93.22m (2003 restated: £78.88m). The number of ordinary shares in issue at 31 December 2004 was 42.15m. The increase of 151,000 is due to the exercise of share options. There were no other new issues during the year.

At December 2004 directors held interests over 22% of the ordinary shares of the Company, further details of which are disclosed in the notes to the accounts.

cash flow and treasury

Net cash inflow from operating activities was £78.69m (2003: £22.83m). Capital expenditure was £4.30m (2003: £3.03m), which reflects ongoing investment in the business particularly in information technology. Payments of £3.41m were made during the year to acquire part of the trade relating to three offices from Benson Limited.

After payments for taxation, dividends and servicing of finance the net increase in cash and short term deposits was £58.83m (2003: £7.76m). It is anticipated that these resources will be utilised in the Affordable Housing division as it focuses on larger mixed tenure regeneration schemes.

In addition to its cash resources the Group has a £25m three year revolving facility, available until June 2006 and a £30m overdraft facility with its main clearing bankers, which is renewed annually. Banking facilities are subject to normal financial covenants, all of which have been met 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 that 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 performance and increased market share

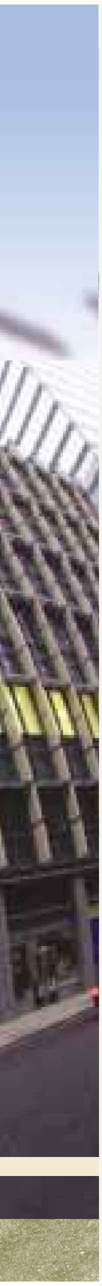
Balanced portfolio of private and public sector work

Expansion into the Midlands and North of England

Named Fit Out Specialist of the Year

overbury
a passion for perfection

Morgan Lovell
inspiring office transformation



turnover 2004: £252m 2003: £189m
operating profit 2004: £11.24m 2003: £8.41m

The division delivered a strong performance for the year with turnover up 33% to £252m and profit increasing by 34% to £11.24m. Its order book is up 27% from £77m to £98m. Fit Out has made good progress and increased its market share.

In 2004 Overbury has undertaken a number of larger high profile fit out projects. These include a prestigious head office for Reuters in London Docklands, a £15m refurbishment for the Civil Aviation Authority and a £13m office fit out for Accenture in the City. It has also opened a new office in Manchester.

Morgan Lovell's new Birmingham office made a strong start in its first year of operation winning major projects with clients including law firm Martineau Johnson and DTZ. Long term frameworks with a number of property developers have also boosted the business' performance in the South East and London.

Vivid Interiors continued to extend its reach, strengthening its position in the retail, leisure and entertainment sectors which are seeing increased investment. The business has won a number of high profile projects including Wigmore Hall and Cameron Mackintosh's Prince Edward Theatre and it has strengthened its relationships with a number of major department stores including Selfridges. Vivid Interiors has also won its second major fit out project with the Dorchester Hotel in London.

Backbone Furniture continues to extend its services within the division supporting key clients such as Barclays as well as other members of the Morgan Sindall Group.

Far left: in the City, Overbury is carrying out a £13m office and café fit out for global management consulting, technology services and outsourcing company Accenture.

Below left: Overbury's award winning fit out of CBRE Investors in Marble Arch took top prize from the British Council for Offices for Best Small Project Fit Out in 2004.

Below right: Backbone Furniture at Barclays.

fit out

The division begins 2005 with a balanced portfolio of public and private sector clients and a strong order book. The year ahead is likely to see changes in the commercial office fit out sector as more UK organisations consider selling or outsourcing their office estates to commercial property management and development firms. With many large UK organisations like the BBC, British Telecom and the Department for Work and Pensions already doing this, the Fit Out division through its work with Land Securities and framework arrangements with other commercial property developers is well positioned to take advantage of new opportunities for growth in 2005. Perfect Delivery, its continuous improvement programme, remains at the heart of the operating strategy for the business.

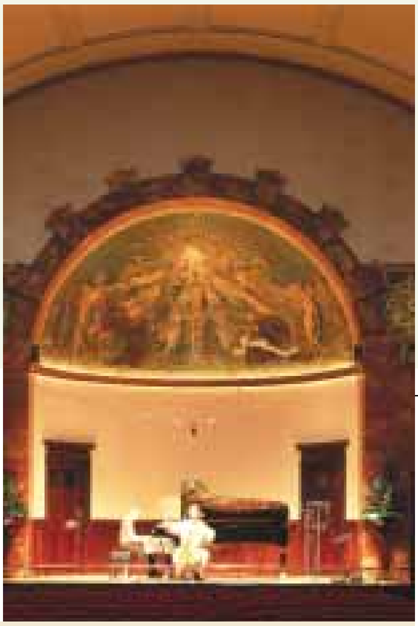
Other important achievements for Fit Out in 2004:

- Overbury awarded *Fit Out Specialist of the Year* in *Building* magazine's *Specialist Contractor Awards 2004*.
- Morgan Lovell named in *Financial Times* 50 "Best Workplaces" in 2004.
- Overbury named winner of the *Council for Offices (BCO) Awards 2004 Best Small Project Fit Out* for CBRE Investors at 64 North Row, London.

Below left: Morgan Lovell secured two fit out projects totalling £3m for Securicor Group Services.

Below centre: National Air Traffic Services awarded Overbury a £12m scheme to fit out the organisation's new facilities outside Southampton.

Below right: Vivid Interiors' £2m refurbishment of Wigmore Hall.



A balanced portfolio of public and private sector clients and a strong order book

notable contracts

Overbury

- **Reuters:** a prestigious new head office fit out in London Docklands
- **Civil Aviation Authority:** a £15m fit out and refurbishment in London
- **Barclays:** the longstanding framework continued with the commencement of several multi-million pound projects due for completion in 2005
- **Brunel University:** a three year, £17m framework agreement to carry out refurbishment works
- **BPP Law:** completion of a £1m, 23 week fit out in Leeds

Morgan Lovell

- **Aspect Capital:** refurbishment in occupation of offices including its dealers area
- **Martineau Johnson:** a £2m design and build scheme was secured from this law firm in Birmingham
- **Johnson Controls/BAE Systems:** a series of projects totalling over £5m won in the South East

Vivid Interiors

- **UMU:** a £1m fit out of UMU, London's first authentic Kyoto Japanese restaurant in the West End
- **Prince Edward Theatre:** an 18 week refurbishment and modernisation project for Cameron Mackintosh's West End theatre which included new seating, bars and restroom facilities and specialist lighting and finishes

Above: Overbury is working with the Department for Work and Pensions (DWP) on its national roll out programme to combine the Social Security Office and Job Centre locations into the re-branded Jobcentre Plus. This is a four year, £45m refurbishment programme.

Below: as government organisations lead the drive for more sustainable construction practices, sustainability know how is proving to be a powerful differentiator for Overbury. On the £18m fit out and refurbishment of the Department of Environment Food and Rural Affairs (Defra) in Westminster, the business' innovative waste programme segregates and recycles materials such as packaging and carpet tiles. It also uses Forest Stewardship Council approved timber, sheep's wool insulation and Combined Heat and Power (CHP) gas turbine based technology, which will cut the building's carbon emissions by 200 tonnes annually.

construction

Increased focus on healthcare and education sectors

More long term frameworks secured

Three NHS LIFT schemes secured

Preferred bidder for Doncaster NHS LIFT

Extended geographic coverage in the South of England

bluestone

turnover 2004: £271m 2003: £300m
operating profit 2004: £1.30m 2003: £0.60m

Bluestone continued to make good progress in 2004 with turnover of £271m and a profit of £1.30m. The division enters 2005 as a more balanced business with an improved order book and an increasing portfolio of negotiated and framework contracts. Bluestone has also strengthened and extended its coverage in the South of England following the acquisition of part of the trade of three offices from Benson Limited.

Bluestone's strategy of moving away from competitive tendering towards relationship based work includes investment led PPP/PFI opportunities and negotiated contracts. Over the last five years it has developed the proportion of work under these types of contract to 40% and has a target of 60% by the end of 2006.

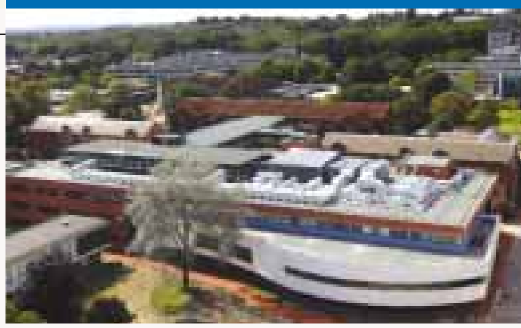
Bluestone has significantly strengthened its penetration of the healthcare and education sectors winning a series of key long term projects. As construction partner to Community Solutions for Primary Care, in which the Group has an interest, Bluestone is on track to deliver four multi-million pound NHS Local Improvement Finance Trust (LIFT) initiatives for community healthcare schemes in Barnsley, Camden & Islington, Doncaster and South East Hampshire. New opportunities in 2005 in the healthcare sector include the fourth wave of LIFT schemes which have recently been announced.

In education, Bluestone is continuing to build successful client relationships carrying out project work for universities such as Cambridge, Southampton and Sheffield. It is also pioneering innovative construction methods and has teamed up with steel manufacturer Corus for a national programme of off-site manufacturing schemes, the first completed for Winton School in Islington.

Far left: Bluestone completed construction of three new community based health and social care centres in Barnsley, South Yorkshire in 2004 under the pioneering NHS Local Improvement Finance Trust initiative (LIFT). Bluestone, which has specialist expertise in the delivery of community based healthcare facilities, is design and build construction partner to Barnsley Community Solutions, the public private partnership development company in which Morgan Sindall Investments Limited is a member.

Below left: during the past three years Bluestone has carried out projects totalling £20m for the University of Southampton. Schemes have included new accommodation and academic facilities as well as the new Hartley Library completed in 2004.

Below right: the Bluestone built Wellsprings Leisure Centre in Taunton is a new community facility constructed for Taunton Deane Borough Council. It features a large sports hall, fitness studio, health spa, outdoor tennis courts, bar and café.



construction

Bluestone is also well placed to take advantage of increased government spending in education. It is actively pursuing £10m to £20m PFI/PPP schemes in this sector such as Islington Schools where it is a preferred bidder.

The division is winning more high quality, long term projects with public sector clients. Major frameworks have been secured with Norfolk Property Services, South West Prime, Devon County Council and Warwickshire County Council.

In the year ahead, Bluestone expects to achieve steady growth in all regions, capitalising on its growing reputation and capability in providing a high quality, UK wide service. The division will also be looking for opportunities to widen the geographic coverage of its property services which focus on small works. This is a developing market for Bluestone which has key national clients with office networks requiring this service.

Other important achievements for Construction in 2004:

- At Birmingham City Council's annual *Built-in Quality Awards* Bluestone shared top prize in the building for education category for its involvement in the construction of the Selly Oak Campus scheme at the University of Birmingham.
- At the *British Safety Council National Safety Awards* Bluestone took the top prize for the second consecutive year for its *Work Safe, Home Safe* campaign.

Below left: new operational facilities for Lyme Regis Emergency Services.

Below right: Bluestone carefully cranes a giant steel framed panel into position on the country's first modular unit sports hall at Winton Primary School in Islington, North London. The £1m project is the first result of a pioneering new partnership between Bluestone and steelmaker Corus, in which Corus acts as manufacturing coordinator, strategist and lead designer, with Bluestone delivering construction management and building expertise.

Bluestone is well placed to take advantage of increased Government spending in health and education

notable contracts

- > **London:** delivering a five year NHS LIFT construction programme to build community healthcare facilities in Camden & Islington
- > **London:** preferred bidder in a PPP arrangement to build a new school in Islington for the London Borough of Islington
- > **Solihull:** delivering a £3m scheme for new theatres and an ambulatory unit for BUPA Parkway
- > **Warwickshire County Council:** one of four contractors selected to carry out small works under a five year framework agreement worth over £75m
- > **South East Hampshire:** design and construct partner for East Hants, Fareham & Gosport NHS LIFT constructing works over five years
- > **Norfolk:** a £4m Norwich Bus Interchange is underway as part of a three year, £15m per annum framework with Norfolk County Council
- > **Devon:** one of six companies selected by Devon County Council for a five year, £200m schools, libraries and care centres upgrade programme across the county
- > **Cambridge:** due to complete a £6m student accommodation facility for Selwyn College at Cambridge University in early 2005

Above: Manor Green College in Ifield, Crawley, is one of two purpose designed special schools delivered by Bluestone in 2004 for West Sussex County Council within a £9m construction programme part funded by the Government's New Deal for Schools programme.

Below: pupils from St Joseph's Roman Catholic Primary School moved into their new school following Bluestone's completion of a new single storey school building in Portishead, near Bristol.

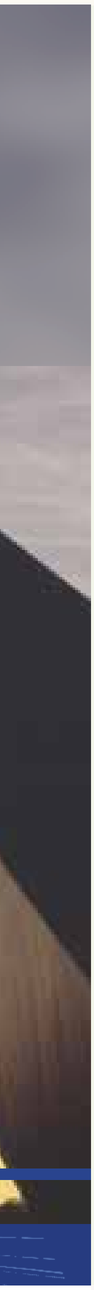
infrastructure services

Construction completed on Newport Southern Distributor Road PFI

Eight year National Grid Transco gas alliance contract award

Two AMP4 water improvement scheme awards

Channel Tunnel Rail Link (Contract 310) completed



turnover 2004: £332m 2003: £365m
operating profit 2004: £7.84m 2003: £9.24m

Morgan Est achieved turnover of £332m and operating profit of £7.84m for the year with the forward order book standing at £626m. As anticipated, business activity has reduced due to the completion of large schemes such as the Channel Tunnel Rail Link (contract 310).

The division is continuing its involvement with the water industry's asset management and capital works programme which moves into the next five year phase with Asset Management Programme 4 (AMP4). Morgan Est has secured a 'large schemes' framework for Yorkshire Water and a five year framework with Severn Trent Water valued at up to £20m annually. It is also bidding for further AMP4 frameworks for United Utilities, Wessex Water and Northumbria Water.

Work from Scottish Water Solutions' (SWS) £1.8bn infrastructure renewal programme is also expected to increase in 2005 with Morgan Est being one of seven partnering organisations involved in the three year water renewal scheme.

Gas, water and electricity are important growth areas for Morgan Est. The division has been successful in securing a National Grid Transco alliance contract providing the business with a new long term revenue stream of up to £40m annually over eight years with an option to extend to 13 years. With the Government's focus on housing and regeneration schemes, new opportunities for Morgan Est are expected to arise in metering, electricity cabling and lighting maintenance. The division has been preparing for this by positioning itself as a tri-service provider for gas, water and electricity infrastructure services on new housing estates.

Far left: Morgan Est completed the Newport Southern Distributor Road, the largest local authority PFI in Wales with joint venture partner Vinci Construction Grand Projets. A Permit To Use has been granted allowing Morgan-Vinci to open the road to traffic under a 37 year concession agreement with Newport City Council.

Below left: pipelaying in the North West of England – Morgan Est is part of the gas mains replacement programme for National Grid Transco.

Below right: as Severn Trent Water's preferred supplier for its Asset Management Programme 4 (AMP4), Morgan Est starts a five year upgrade scheme for South Warwickshire, Birmingham, Gloucestershire and Worcestershire worth between £15m and £20m annually.

infrastructure services

During the year, good progress has been made on the Piccadilly Line and Heathrow Express tunnel extension schemes as part of BAA's new £4bn Terminal 5 at Heathrow Airport.

In the civil engineering sector the division is tendering highways work where local authorities are increasingly choosing collaborative PFI and ECI (Early Contractor Involvement) procurement routes to deliver their road improvement schemes. Morgan Est has successfully completed the construction of the Newport Southern Distributor Road PFI.

Morgan Est's strategy for 2005 remains focused on delivering solutions centred on quality, teamwork, innovation, value, environment, customer service and safety.

Other important achievements for Morgan Est in 2004:

- The division was a double winner at the *National Construction News Quality in Construction Awards* held in London. Morgan Est won the top award for *Best Environmental Achievement* for general continuous improvement and was named as one of two winners of the *Achievement Through Innovation Award* for its revolutionary Laser Shell sprayed concrete tunnel lining method and Compressed Air Settlement Control.
- Morgan Est was named regional winner of the 2004 Training Award by the Forum for Constructing Excellence (FORCE).

Below left: work in the field for Central Networks where Morgan Est is engaged on a four year, £15m electricity distribution engineering services contract.

Below right: key tunnelling schemes included the Piccadilly Line and Heathrow Express tunnel extensions, part of a £180m works programme Morgan-Vinci is undertaking for BAA at Heathrow Airport's new Terminal 5.

Gas, water and electricity are important growth areas for Morgan Est

notable contracts

- > **Scottish Water Solutions:** one of seven partners in Scottish Water Solutions, the water industry's first public private sector partnership which is delivering a £1.8bn water and waste water upgrade due for completion in 2006
- > **United Utilities:** work continued on a three year, £250m, AMP3 joint venture water improvement framework where Morgan Est has a 45% share
- > **Lincolnshire County Council:** principal contractor on a 10 year, £300m highways programme for the Council
- > **BAA Heathrow Airport, Terminal 5:** work progressed well on the tunnel extensions for both the Piccadilly Underground Line and Heathrow Express
- > **National Grid Transco (NGT):** awarded the West Midlands alliance project, part of NGT's £1.6bn programme of gas replacement works. The contract is worth up to £320m over eight years with a potential five year extension worth up to £200m

Under construction: the A92 Dundee to Arbroath dual carriageway, a £52m PFI for Angus Council in Scotland.

affordable housing

Record performance - profit up 51%

First mixed tenure development and refurbishment scheme in East Anglia

Key partner in building the UK's largest mixed tenure off-site manufactured housing development

LOVELL

turnover 2004: £364m 2003: £279m
operating profit 2004: £13.45m 2003: £8.92m

Lovell had an excellent year with profit up 51% to £13.45m, turnover up 31% to £364m and a forward order book of £1.3bn. Delivering mixed tenure and refurbishment solutions, Lovell remains the country's leading provider of affordable housing.

Key achievements include appointment as preferred partner to Sheffield City Council for a seven year Decent Homes upgrade programme with a potential value of work to Lovell of up to £200m. In addition it has secured its first mixed tenure development in the East Midlands at Beaumont Leys. In East Anglia, Lovell has also secured several new schemes including a £25m housing modernisation programme for Cross Keys Homes in Peterborough. A new office has also been opened in Cambridge to address the M11 growth corridor.

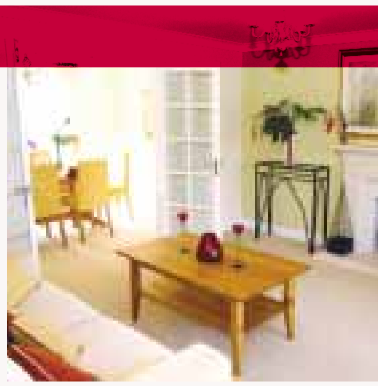
Another first for Lovell has been in Beswick, Manchester, where the division is building an innovative £60m mixed tenure development with New East Manchester using Structural Insulated Panel (SIP) technology. It is the country's largest housing development to utilise off-site manufacture to meet growing demand for sustainable affordable housing.

In 2004, Lovell was appointed by Valleys to Coast to work on a £15m housing improvement scheme in Bridgend following the first housing stock transfer in Wales. It also secured a major programme with the award of the £30m Cheltenham Borough Homes refurbishment contract.

Far left: the 123 home, mixed tenure development by Lovell at St Mary's Field, Cardiff features a mix of open market and affordable housing. Funding from Cardiff Council and a cross subsidy from the proceeds of Lovell's open market house sales has enabled 30 two and three bedroom family homes to be built, each selling at just 80% of their open market value to local people.

Below left: in Sunderland, Lovell has refurbished more than 1,000 homes as part of a £25m housing refurbishment programme in partnership with Sunderland Housing Group.

Below right: stylish interiors for homebuyers by Lovell.



affordable housing

The division anticipates future growth potential in the North East, North West and Scotland where it can bring its 'one-stop shop' expertise to major regeneration and market renewal opportunities.

Rising building costs and skills shortages are industry wide issues. The division is already seeing the benefits of its apprentice training programme, the Company Mentoring Scheme and the new Lovell national Craft Academy which opened at Stephenson College in Coalville, Leicestershire.

In 2004 Lovell has raised the profile of supply chain management with its first national staff and supply chain conferences. It will continue this initiative through 2005 based not just on price but more importantly, on the standard of service including health and safety, client satisfaction and delivery.

Other important achievements for Lovell in 2004:

- Homeowners gave Lovell a three star top rating across the board in the National Customer Satisfaction Survey commissioned by *The Housing Forum – Constructing Excellence*, the organisation which promotes change and innovation in the construction industry.

- Lovell won the *Best Housebuilder's Safety Initiative* category in the first *Health and Safety Awards* organised by *Building* magazine in association with the Health and Safety Executive. The award was presented for two Lovell safety drives: the division's *Your Life, Their Loss* poster campaign and the business' Lenny and Laura animated cartoon safety campaign for children.

Below left: as part of a regeneration scheme at Wick Road in Hackney, East London, Lovell has created affordable homes for key workers through 'Lovell Choice', the business' own low cost home ownership scheme. The new flats and maisonettes for affordable rent, low cost home ownership and open market sale were developed in partnership with the London Borough of Hackney and Presentation Social Investment Agency.

Below right: training for tomorrow, the new Lovell Craft Academy at Stephenson College in Coalville, Leicestershire, opened in 2004. A dedicated apprentice training centre for 16 to 24 year olds, it houses a classroom with IT facilities and a series of workshop training bays for teaching brickwork, plumbing, carpentry, painting and decorating and multi skilled maintenance trades.

Lovell remains the country's leading provider of affordable housing

notable contracts

> **Southhouse, Edinburgh:** construction continued on a £20m, 325 home mixed tenure development which includes 112 houses for sale, 37 new rental homes and the refurbishment of 176 flats

> **Hockley, Birmingham:** a £22m large scale mixed tenure project to build 280 homes for open market sale, rent and shared ownership

> **Beswick, Manchester:** at The Way, work began on a ground breaking £60m, 550 home, mixed tenure housing regeneration scheme which is also the UK's largest housing development utilising off-site manufacture

> **Nuneaton:** carrying out a £20m, 172 home development which is the first phase of this regeneration scheme

> **Leeds:** work has just started on a £25m, five year scheme to refurbish 8,000 homes

> **Sheffield:** named by Sheffield City Council as one of five preferred partnering contractors for a seven year project to bring the council's housing stock up to the Government's Decent Homes Standard. The large scale housing modernisation programme has a potential value of up to £200m

> **Barnsley:** carrying out a three year £30m housing modernisation programme and has already completed over 500 homes

With a target set for a quarter of all new affordable housing funded by the Housing Corporation to be built using modern methods of construction, Lovell is at the forefront of some of the UK's most exciting off-site manufacturing schemes. The ground breaking timber framed modular housing solution with Flagship Housing Group in Norwich is achieving reduced build times and improved quality.

board of directors


1


2


3


4

1 John Morgan 2 Paul Smith 3 David Mulligan 4 Paul Whitmore
5 Bernard Asher 6 Gill Barr 7 Jon Walden 8 Jack Lovell


5


6

John Morgan (49) Executive Chairman
Retirement by rotation 2005

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

Paul Smith (45) Chief Executive
Retirement by rotation 2006

Paul is a chartered engineer with an MBA from Harvard Business School. He joined Morgan Sindall in March 2003 from UK support specialists Accord plc where he was group managing director since 2000.

David Mulligan (35) Finance Director
Retirement under Article 91 2005

David joined the board in April 2004 having been group financial controller since 1998. He was formerly with Smiths Group plc and Ernst & Young where he qualified as a chartered accountant.

Bernard Asher (68) Non-executive
Retirement by rotation 2007

Appointed to the board in March 1998 and recognised as the senior independent non-executive director since 1999. Chairman of Lion Trust Assist Management plc. Vice-chairman of the Court of Governors of The London School of Economics. Senior independent director of Randgold Resources. Formerly a director of HSBC plc and a non-executive director of Legal & General Group plc.

7

8

Paul Whitmore (50) Commercial Director
Retirement by rotation 2005

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

Gill Barr (46) Non-executive
Retirement under Article 91 2005

Joined the board with effect from September 2004. Gill is chief executive of Deliverance, the gourmet food service. She was formerly business development director of Woolworths plc and previously held positions with Kingfisher plc, KPMG and Freemans plc.

Jon Walden (51) Non-executive
Retirement by rotation 2005

Joined the board with effect from May 2001. He is a main board director of RAC plc and managing director of Lex Vehicle Leasing. Previously he held various roles within RAC and also at Rank Xerox having qualified as a chartered accountant at Touche Ross (now Deloitte & Touche LLP).

Jack Lovell (49) Non-executive
Retirement by rotation 2006

Co-founder with John Morgan of Morgan Lovell in 1977 and a member of the board of Morgan Sindall since October 1994 when his executive responsibilities were for marketing and latterly, client services. He assumed a non-executive role from August 2001. Jack is a chartered surveyor with an MBA.

report of the directors

introduction

The directors have pleasure in submitting to shareholders their annual report on the affairs of the Group together with the financial statements and independent auditors' report for the year ended 31 December 2004.

principal activities

Morgan Sindall is a construction group with four divisions namely Fit Out, Construction, Infrastructure Services and Affordable Housing. The principal subsidiary companies operating within this divisional structure are shown on page 71. The principal activities are carried out in the United Kingdom and the Channel Islands.

business review and future developments

A review of the business of the Group is set out in the chairman and chief executive's statement on page 2, the Operating and Financial Review ('OFR') on pages 4 to 9 and the divisional reviews on pages 10 to 25. The OFR also includes details of expected future developments in the Group.

results and dividends

The Group made a profit, after taxation, for the year of £18.05m (2003: £14.91m). The final dividend for the year recommended by the directors is 13.25p per ordinary share which together with the interim dividend of 5.25p per ordinary share gives a total dividend for the year of 18.50p per ordinary share (2003: 16.50p). No preference dividends were paid in 2004 (2003: £0.01m) following the redemption of the remaining preference shares on 15 October 2003.

fixed assets

The directors have considered the carrying value of the Group's remaining investment property and have concluded that no change is required.

directors

The directors at the date of this report are shown on page 70. David Mulligan was appointed to the board on 1 April 2004, Gill Barr was appointed on 2 September 2004 and Geraldine Gallacher resigned from the board on 2 September 2004. All of the remaining directors held office throughout the year. Further information on the board's constitution, policies and procedures is set out under corporate governance on pages 40 to 44.

John Morgan, Paul Whitmore and Jon Walden are the directors required to retire by rotation and, being eligible, offer themselves for re-election. Having been appointed during the year, David Mulligan and Gill Barr also retire in accordance with Article 91 of the Articles of Association and, being eligible, offer themselves for election. Biographical details of the directors standing for re-election and election are shown on pages 26 and 27. John Bishop will retire from the board at the forthcoming Annual General Meeting on 12 April 2005.

Details of the directors' shareholdings in the Company are shown in Note 33 on page 70 and their interests in shares under long term incentive awards are shown in the directors' remuneration report on page 39.

substantial shareholdings

Excluding directors, on 18 February 2005, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

Name of holder	Number	Percentage held
Standard Life Group	1,693,827	4.02%
Aviva Plc	1,690,729	4.01%

employment policies

The Company insists that a policy of equal opportunity employment is adhered to 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 benefits of effective communication with employees. The key channels that it uses for employee communications are as follows.

The Morgan Sindall intranet is available to employees and has an extensive index and search capability containing relevant information such as corporate policies and details. Morgan Sindall's intranet news desk is updated regularly and features a constant flow of news about the Morgan Sindall Group and the construction industry sectors in which the Group operates. The intranet also contains various forums for the exchange of employee opinions and debate.

Morgan Sindall News, the in house magazine, is sent to all employees and the Group's clients every four months. It reviews the Group's activities and outlines its future plans to give employees and its clients a better understanding of Group developments. In addition, Morgan Sindall People is produced every quarter for employees and details charitable activities undertaken by and notable achievements of individuals within the Group.

corporate social responsibility

During 2004 the Group has continued to improve its approach to human resources, health and safety and the environment and has moved towards achieving its aim of establishing 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 on the Group's intranet and website.

With the resignation of Geraldine Gallacher in September 2004, Paul Whitmore took over the chair of the Corporate Social Responsibility Forum ('CSR Forum') on behalf of the board. The other members are representatives from each of the four divisions.

The CSR Forum has set each division a target to achieve accreditation under three internationally recognised schemes by the end of 2005 and to date they have achieved the following results:

- BS EN ISO9001(2000) Quality Management System - 98% of the Group by turnover has an accredited system with the remaining 2% working towards achieving accreditation by the end of 2005
- BS EN ISO14001 Environmental Management System - 51% of the Group has an accredited system with a further 6% due to achieve accreditation in February 2005. The remaining 43% of the Group is expected to achieve accreditation by the end of 2005
- OHSAS 18001 Occupational Health and Safety System - 27% of the Group already has an accredited system in place with the remaining 73% currently having an unaccredited health and safety management system. It is anticipated that all parts of the Group will have secured accreditation by the end of 2005

Infrastructure Services is the first division to complete its registration programme in respect of all of the above.

The CSR Forum has established committees for human resources, health and safety and environment.

human resources

This committee consists of the human resources managers of the four divisions with rotational chairmanship. 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.

A regular part of the committee's agenda is ensuring that the Group is achieving its aim of upholding the rights of employees and of supporting and liaising with local communities.

The Group's first employee climate survey was conducted in 2003 to explore employee attitudes to the Group and their working environment. The results of the survey have been disseminated throughout the Group and regular workshops have been held with employees to prioritise issues raised by the survey and to develop processes for dealing with them. The next phase of this initiative is underway with each division taking the principles of consultation further within their own sphere of operations.

The Group is actively supporting this process of involving employees and seeking their views through the use of focus groups and supplementary employee surveys facilitated by external consultants.

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 the employee's work and career. A wider application of similar services elsewhere in the Group remains under consideration.

Lovell continues its involvement in the community through its Company Mentoring Scheme. Working in partnership with a national network of schools and colleges, it aims to develop construction skills and career aspirations for 14 to 18 year olds. A specialised project based learning approach ensures that students acquire a first hand insight into the challenging careers that the construction industry has to offer whilst developing skills to enable them to take advantage of these career opportunities more effectively.

Bluestone undertakes career talks in schools as well as offering work experience opportunities and work placements for undergraduates. The Group supports local charities in a variety of ways including financial assistance and benefits in kind, such as the donation of office equipment.

The Group offers a variety of training to its employees including induction, job specific training and personal development courses. In 2004 Morgan Sindall introduced a modular development programme for all senior management, which runs over a two year period based upon five residential modules. In 2004 the average number of training days per employee in the Group was four.

The Group actively supports the principles enshrined in the Considerate Contractors Scheme and in 2004 these principles were applied to 173 projects.

The committee is proposing to introduce a variety of measures to monitor the Group's performance in the area of human resources. It is anticipated that these will be reported in the 2005 Annual Report and Accounts and progressively made available on the Company website during the year.

health and safety

The board recognises and acknowledges the 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 set out 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."

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:

- leading behavioural change on all our sites to eliminate accidents and incidents of ill health
- a fully qualified workforce
- an effective site specific induction process before anyone is allowed to work on site
- all workers being consulted on health and safety matters in a way that engages them in improving health and safety
- exchanging best practice and lessons learned in order to establish the root causes of incidents
- raising awareness and insisting on the highest standards of personal protective equipment
- publishing an annual report for progress made against the commitments in the charter

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 its members:

	Morgan Sindall		**MCG Member Average**	
Accident Category	**2004**	**2003**	**2004**	**2003**
Fatal (number)	–	–	8	6
Major incidents(AIR)*	272	176	290	323
Over 3 day incidents(AIR)*	927	787	741	758
Total of all reportable incidents (AIR)*	1,199	963	1,031	1,081

These figures relate to years ending on 31 March 2003 and 2004 respectively.
*Accident Incidence Rate (AIR) is per 100,000 employees and is calculated as:

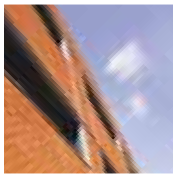
$$\frac{\text{number of reported incidents}}{\text{average number of persons}} \times 100{,}000$$

The Group continues to work vigorously to reduce the incidence of all categories of accident. Whilst the AIR for major incidents remains below the average for the MCG members as a whole, the AIR for the Group has risen and positive steps are being taken to reverse this trend in 2005. The Group is similarly focused on achieving a marked reduction in the AIR for over three day incidents where a significant number of relatively minor repetitive injuries such as cuts and bruises has contributed to the increase.

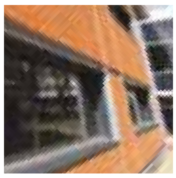
The Group has developed a policy covering occupational health monitoring, which becomes effective in 2005, addressing occupational diseases prevalent in the construction industry.

By the end of 2004, 88% of the Group's employees had passed the health and safety test of the Construction Skills Certification Scheme. This is consistent with the average of our peer group. The percentage of subcontractors certified compliant has increased to 55% from 45% in 2003 and, in keeping with the MCG objective, improvement upon this level continues to provide the focus of attention in 2005.

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 other divisions are both now entering their third year. In each case there has been marked success in the adoption of a health and safety culture on construction sites. The Group encourages the reporting of all accidents and their causes in order to inform decision making and the formulation of new policies to address any material issues. To this end initiatives have been introduced 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 under health and safety legislation were instigated against the Group in the year and all instances where local Health and Safety Executive (HSE) improvement and prohibition notices were issued to sites were responded to in a timely and professional manner with all requirements for action satisfactorily met.



environment

This second environment report shows the further progress which has been made by the Group in achieving the aim of sustainable development.

environment 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 IS014001, that will:

- ensure continual improvement is achieved
- comply with relevant legal requirements
- control construction processes and design to protect the natural environment and built heritage
- ensure that construction materials are ethically procured and used
- reduce nuisance and disturbance associated with the Group's activities
- reduce wastage and consumption of materials and energy
- train employees and subcontractors on environmental issues and controls
- establish procedures for publishing information regarding the Group's progress

environment management

Paul Whitmore is the executive director responsible on behalf of the board for environmental affairs. The environment committee is responsible for agreeing and implementing the Group's environmental management procedures and consists of the environmental managers from each division. The committee is also responsible for:

- developing and maintaining a corporate register of relevant legislation, reviewing any imminent changes to legislation and ensuring that operational controls throughout the Group are sufficient to maintain compliance
- 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

environment review

The table below sets out the five principal risks identified from divisional reviews in 2003 of environmental risks, the objectives set for 2004 to manage those risks and progress to date in achieving them.

Risk Item	2004 Objectives	2004 Progress and Achievements
Nuisance from construction processes.	Management of noise, vibration, dust and mud on the roads through the progressive implementation of divisional environmental management systems (EMS).	Details regarding the implementation of divisional environmental systems is detailed on page 29. No environmental prosecutions were brought against the Group in 2004.
Energy consumption and associated greenhouse gas emissions.	Divisions are required to implement reviews of areas of energy consumption and implement systems to reduce consumption and greenhouse gas emissions.	In order to get a clear understanding of current energy consumption, various elements such as fuel usage are now being monitored within each of the divisions to assess those areas of usage within the division's control, those areas where the division has no direct control (for example leased offices within serviced blocks) and any potential areas where energy saving systems can be implemented. The management systems of the divisions are incorporating procedures targeted on these areas.
Creation of waste and potential inappropriate disposal.	Control and reduce volumes of waste created and ensure that all waste is disposed of appropriately. Managed through the progressive implementation of each division's EMS.	The implementation of formalised environmental management systems within the operating divisions has enabled more rigorous control of wastes. Where possible initiatives to reduce volumes of wastes have been adopted e.g. recycling plasterboard off-cuts. Also a framework agreement with a large waste management company has allowed the divisions to benefit from a guaranteed level of service and an assured duty of care audit trail.
Procurement of materials from non sustainable sources or those that are potentially environmentally harmful.	The environment committee will be tasked with identifying any commodities that may be harmful to the environment or procured from unsustainable sources i.e. timber, paper solvents etc.	The committee has implemented a policy on the ethical procurement of timber products with parameters to which each of the divisions is required to work. The committee will be monitoring performance against these parameters in 2005.
Employment of poorly performing subcontractors.	The divisions are to examine how to assess the environmental performance of their subcontractors and take steps to implement procedures to promote improvement.	Key areas of action are increased commitment to training and the implementation of vendor assessment allowing a fair and objective evaluation to be made of subcontractor environmental performance.

The Group has set itself the following priorities for monitoring environmental performance in 2005:

- completion of the accreditation process for all parts of the Group
- maintaining the Group's performance in terms of prosecutions and minimising the number of cautions and enforcement notices received
- development and implementation of a data reporting system addressing initially control of waste and energy
- conformity with ethical trading practices for timber products

creditor payment policy

The Company's policy is to:

- use where appropriate 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 2004 the Group's number of creditor days outstanding were equivalent to 31 days' purchases (2003: 32 days), based on the average daily amount invoiced by suppliers during the year.

political and charitable contributions

During the year the Group made charitable donations of £24,411 (2003: £28,341) principally to local charities serving the communities in which the Group operates. 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 12 April 2005. The notice of the meeting is set out in the circular accompanying this annual report which is posted to members. The notice contains a number of items of special business being:

i) an ordinary resolution to increase the authorised share capital of the Company

ii) an ordinary resolution to give the directors authority to allot share capital in the Company in accordance with Section 80 of the Companies Act 1985

iii) a special resolution to renew the directors' power to allot equity securities for cash

iv) an ordinary resolution to increase the limit in the Company's Articles of Association on the aggregate remuneration payable to non-executive directors

v) two resolutions to adopt the Morgan Sindall Executive Remuneration Plan 2005

Explanatory notes on the special business items are contained in the circular.

independent auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as independent auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

By order of the board

Mary Nettleship
Company Secretary

22 February 2005

introduction

This report is prepared in accordance with schedule 7A to the Companies Act 1985 ('the Act'). This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and the Combined Code on Corporate Governance published in July 2003 ('the Code'). As required by the Act, a resolution to approve the report will be proposed at the annual general meeting of the Company.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The report has therefore, been divided into separate sections for unaudited and audited information.

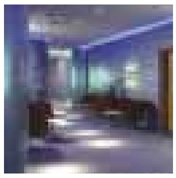
unaudited information

remuneration committee

The members of the Remuneration Committee ('the committee'), all of whom are or were independent non-executive directors, during 2004 were:

Gill Barr (chair appointed 2 September 2004)
Bernard Asher
Jon Walden
Geraldine Gallacher (chair until resignation on 2 September 2004)

The committee makes recommendations to the board on salaries and remuneration packages for the executive directors, including the executive chairman, and monitors remuneration for other senior executives. The terms of reference of the committee are available on the Company's website and on request from the company secretary.



In determining the directors' remuneration for the year, the committee consulted the executive chairman, John Morgan about its proposals although no director played a part in any discussion about his or her own remuneration. In 2004 New Bridge Street Consultants LLP ('NBSC') were appointed by the committee to undertake a fundamental review of the Company's remuneration structure for senior executives. Following this review, the committee agreed a revised remuneration structure as described below. NBSC did not provide any other services to the Company or the Group.

The main conclusion of the NBSC review was that the Company's existing policy placed too much emphasis on performance measured over a single year and that the policy should be rebalanced, as detailed below, so as to also incentivise the longer term creation and preservation of shareholder value. The committee has, therefore, devised a revised remuneration structure with a balanced mix of long term and short term rewards to ensure that executives focus on sustained performance rather than just short term performance. The long term awards will focus on Group performance with demanding criteria over a three year period, whilst short term rewards will be linked to targets for the financial year and, in the case of senior executives, targets in the specific areas of responsibility of each individual.

policy on executive directors' remuneration

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 be perceived as simple and fair and, therefore, valued by participants
- to ensure that the fixed element of remuneration (salary, pension and other benefits) is set no higher than market rates and that a significant proportion of the total remuneration package is determined by the Company's performance
- to recognise the importance of rewarding over performance (but not under performance) in both the short and long term
- 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

basic salary

The base salary of individual executive directors is determined by the committee at the beginning of each year and, if appropriate, when an individual's position or responsibilities change. To assist the committee in setting base salaries for 2005, NBSC benchmarked the remuneration of each of the individual executive directors against a comparator group of twenty five companies of a similar size and profile.

annual bonus

For the 2005 financial year, executive directors will have the potential to earn a cash bonus worth up to 75% of base salary. This is a reduction from the maximum bonus potential of 100% of base salary in 2004 when the executive directors were not eligible to receive long term incentives.

The performance criteria used to determine the annual bonus for executive directors are profit based targets that are set taking into account the previous year's outturn profit and growth expectations.

For other senior executives, performance criteria will focus primarily on the performance of the stand alone businesses over which they have a direct management influence.

long term incentives

The committee has concluded that by way of long term incentive the Company should have the ability to offer senior executives performance shares and/or share options. This flexibility to grant both types of award will provide a balance of performance related incentives, with options focusing on rewarding share price growth and with performance shares encouraging executive retention.

Shareholder approval will therefore be sought at the forthcoming annual general meeting for the Morgan Sindall Executive Remuneration Plan 2005 ('the 2005 Plan') which will provide for the grant of both options and performance shares. Full details of the 2005 Plan are contained in the circular to shareholders that accompanies this document. A summary of the 2005 Plan is set out below. The committee will seek the approval of shareholders to any significant change to the 2005 Plan's structure in the future. It is the committe's intention that the 2005 Plan will operate as the Company's long term incentive plan for executives for the foreseeable future.

award levels

In normal circumstances the maximum annual award, which will be subject to the achievement of testing performance targets outlined below, will be performance shares worth 75% of base salary (100% of salary in exceptional circumstances). It is anticipated that executives will usually be given the choice at the time of grant of receiving their award either in the form of performance shares or by electing to receive share options to replace some or all of their performance shares at a rate of up to 4 share options for every 1 performance share. A 4 to 1 ratio reflects the relative accounting costs of options and performance shares for the Company at present so, if executives elect to receive share options, the accounting charge for the Company will be broadly similar.

performance conditions

The committee believes that long term incentives should be structured so as to incentivise growth in the Company's earnings by use of an earnings per share ('EPS') performance condition. In the committee's opinion, an EPS performance condition will provide a clear linkage between performance and reward for senior executives and will also only reward executives for significant improvement in the underlying financial performance of the Group. The committee considered other performance measures, such as a comparative total shareholder return ('TSR') measure. However, it concluded that an EPS performance condition would produce a more appropriate incentive to executives at this time.

The vesting of share options and performance shares awarded will be determined by the Group's normalised EPS performance against the Retail Prices Index (RPI) over a single three year period with no opportunity to re-test performance.

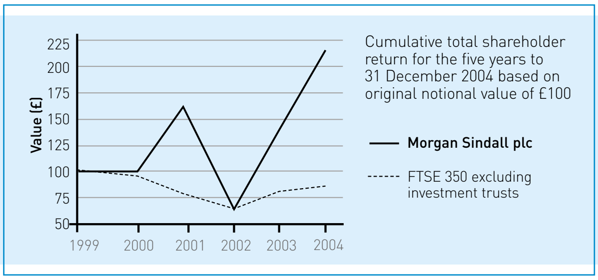
The committee has determined that the vesting schedule for performance shares and share options should be as follows for the awards to be made in 2005, based on the three year performance period to 31 December 2007:

Average annual EPS performance in excess of RPI		**Vesting percentage**
Performance shares	**Share options**	
Less than 4% pa	Less than 5% pa	0%
4% pa	5% pa	25%
10% pa	10% pa	100%
Between 4% and 10% pa	Between 5% and 10% pa	Pro rata on a straight-line basis

The committee will ensure that a consistent basis of measurement is used for EPS during the transition to international accounting standards.

performance graph

The graph aside 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 in the FTSE 350 index excluding investment trusts. This is considered by the committee to be the most suitable comparable broad index against which the Company's performance should be measured.



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 shares or share options granted under long term incentive schemes where the relevant performance criteria had been satisfied. Other employee benefits would also be maintained for the notice period subject to the rules of the appropriate Group scheme.

The dates of the directors' contracts are:

John Morgan	28 October 1994	Bernard Asher	4 February 1998
Paul Smith	18 February 2003	Gill Barr	11 August 2004
David Mulligan	1 March 2004	Jack Lovell	2 August 2001
Paul Whitmore	21 March 2000	Jon Walden	5 April 2001
John Bishop	28 October 1994		

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. At present no additional fees are paid in respect of membership of any board committees. Non-executive directors cannot participate in any Company share based incentive plan and do not receive any other benefits.

directors' interests

The shareholdings of all directors are shown in Note 33 to the Accounts on page 70 and their interests in shares under long term incentive awards are shown on page 39. There were no changes in the directors' interests between 31 December 2004 and the date of this report.

audited information

aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2004 £'000s	2003 £'000s
Emoluments	**1,902**	1,488
Amounts vesting under long term incentive schemes	**162**	225
Money purchase pension contributions	**99**	78

directors' emoluments

Name of Director	Fees/basic salary £'000s	Benefits[1] £'000s	Cash bonuses[2] £'000s	Total 2004 £'000s	Total 2003 £'000s
Executive					
John Morgan	220	16	165	**401**	353
Paul Smith	280	16	210	**506**	410
David Mulligan	113	10	84	**207**	-
Paul Whitmore	188	15	141	**344**	312
John Bishop	188	15	141	**344**	313
	989	**72**	**741**	**1,802**	1,388
Non-executive					
Bernard Asher	25	–	–	**25**	25
Gill Barr	9	–	–	**9**	–
Jon Walden	25	–	–	**25**	25
Jack Lovell	25	–	–	**25**	25
Geraldine Gallacher[3]	16	–	–	**16**	25
	100	**–**	**–**	**100**	100
Totals	**1,089**	**72**	**741**	**1,902**	1,488

[1] The executive directors receive a travel allowance and certain benefits in kind such as private medical insurance and life assurance.

[2] The Group achieved its maximum profit target for 2004. As a result, executive directors received a cash bonus worth 75% of base salary and will receive nil cost share options worth 25% of base salary. Further details are set out under the note on deferred share bonus plan on page 39.

[3] This fee was paid to the Executive Coaching Consultancy for the services of Geraldine Gallacher.

In addition, John Morgan received and retained a fee of £20,000 per annum in respect of his non-executive directorship at Genetix Group plc and John Bishop received and retained a fee of £5,000 as non-executive chairman of CLC Group Limited, to which he was appointed in September 2004.

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:

	2004 £'000s	2003 £'000s
John Morgan	**22**	20
Paul Smith	**28**	22
David Mulligan	**11**	–
Paul Whitmore	**19**	18
John Bishop	**19**	18

long term incentive awards (closed schemes)

The tables on page 39 set out details of awards made to executive directors in 2004 and in prior years under various long term incentive schemes. It is not intended that further awards will be granted under any of these schemes. Instead, future long term incentive awards will be granted under the 2005 Plan as detailed in the policy section of this report.

long term incentive plan ('LTIP')

The final award under the LTIP was granted in 2003. The executive directors' interests in shares under the LTIP are:

Shares conditionally awarded:

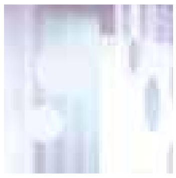
	1 January 2004	Awarded	Allocated[1]	Lapsed[1]	31 December 2004[2]
John Morgan	86,643	-	(7,852)	(19,698)	59,093
Paul Whitmore	74,138	-	(6,366)	(15,972)	51,800
John Bishop	77,345	-	(7,003)	(17,569)	52,773
Jack Lovell	18,615	-	(5,305)	(13,310)	-

[1] Under the LTIP, shares were conditionally awarded to participants in each financial year and are allocated in whole or in part depending on the Group's performance over the next three financial years compared to a selected peer group. Sixth position in the peer group was achieved for the measurement period ended 31 December 2003 which resulted in an allocation of 29% of those shares conditionally awarded for 2001 with the balance of the awards lapsing.

[2] The outstanding awards comprise the conditional awards made in 2002 and 2003 for which performance is still being measured. Preliminary figures for the year to 31 December 2004 indicate that the Group ranking will be third and that 71% of the shares will be allocated from the 2002 conditional awards in the current year when the balance of the awards will lapse.

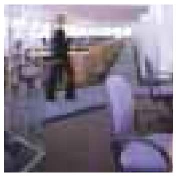
Once shares have been allocated, a participant is entitled to receive dividends in respect of those shares and to exercise voting rights. The participant is not entitled to transfer, sell or otherwise deal in the shares until a further two years have elapsed when the shares are vested in the participant's own name. The following awards, which have been allocated in prior years, vested during 2004: John Morgan 13,470 shares, John Bishop 12,508 shares, Jack Lovell 10,194 shares. The share price on the date of award for these shares was £3.41 and on the date of vesting was £4.48.

Paul Smith and David Mulligan have not participated in the LTIP scheme.



deferred share bonus plan

This plan only operated in respect of the 2004 financial year. 25% of the bonus earned for that year was deferred into nil cost share options which will have a market value as at the grant date, following the announcement of the final results for the year ending 31 December 2004:



	Market Value (25% of bonus) £
John Morgan	**55,000**
Paul Smith	**70,000**
David Mulligan	**28,125**
Paul Whitmore	**47,000**
John Bishop	**47,000**

share options

Details of options granted under the 1995 share option scheme for directors who served during the year are:

Director	Scheme	Granted	Date granted	Exercise price	Date from which exercisable	Expiry date
Paul 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.

Options granted under the 1995 Scheme 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 quarters 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.

No share options have been granted to any other main board director. Details of options granted to employees in the Group are shown in Note 25 to the Accounts on page 65.

The market price of the ordinary shares at 31 December 2004 was £5.39 and the range during the year was £3.64 to £ 5.39.

This report was approved by the board of directors on 22 February 2005 and signed on its behalf by:

Gill Barr
Chair of the Remuneration Committee
22 February 2005

corporate governance

policy statement

The Company remains committed to the principles of corporate governance as contained in the Code and for which the board is accountable to shareholders.

statement of compliance with the code of best practice

Throughout the year ended 31 December 2004, the Company has been in compliance with the Code of Best Practice provisions set out in section 1 of the Code. The Company has taken advantage of the exemption for smaller companies in respect of provision A.3.2 of the Code under which companies outside the FTSE 350 are only required to have two independent non-executive directors. Following the retirement of John Bishop from the board at the forthcoming Annual General Meeting, the board will comprise the executive chairman, three executive directors and four non-executive directors of which three are determined by the board to be independent.

application of the principles of good governance

The Company has applied the principles of good governance set out in section 1 of the Code, including both the main and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles have been applied is set out below and in connection with directors' remuneration in the directors' remuneration report on pages 35 to 39.

directors

board effectiveness

Regular board meetings are scheduled 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 are convened for specific purposes. Eight scheduled meetings were held during 2004. Attendance of individual directors at those meetings and at meetings of the remuneration, audit and nominations committees is set out below.

Meetings attendance:

	Board	Remuneration Committee	Audit Committee	Nominations Committee
Total No. of meetings	8	6	3	2
John Morgan	8	n/a	n/a	2
Paul Smith	8	n/a	n/a	n/a
David Mulligan*	6	n/a	n/a	n/a
John Bishop	7	n/a	n/a	n/a
Paul Whitmore	8	n/a	n/a	n/a
Bernard Asher	8	6	3	2
Gill Barr**	3	1	1	n/a
Jack Lovell	7	n/a	n/a	n/a
Jon Walden	4	5	1	1
Geraldine Gallacher***	5	5	2	2

* David Mulligan attended all board meetings since his appointment
** Gill Barr attended all meetings of the board and committees held since her appointment
*** Geraldine Gallacher attended all meetings of the board and committees held prior to her resignation

The key purposes of the scheduled meetings are 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. There is a formal schedule of these matters, which includes the approval of the Group'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. In addition to the scheduled and ad hoc meetings, the board holds periodic 'away days' at which the strategy and direction of the Group can be reviewed and debated free from the usual time constraints.

chairman and chief executive

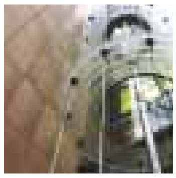
The board has a separate chairman and chief executive in line with the Code provision A.2.1. John Morgan as executive chairman takes responsibility for the overall strategy and direction of the business whilst Paul Smith as chief executive is responsible for managing and running operations on a day to day basis. The board has set out and agreed a schedule that details their individual roles and responsibilities.

board balance and independence

The board currently comprises an executive chairman, four other executive directors and four non-executive directors. One of the executive directors, John Bishop will retire at the forthcoming annual general meeting. All of the non-executive directors, with the exception of Jack Lovell who is a former executive director of and a significant shareholder in the Company, are considered to be independent in character and judgement and free from any relationships or circumstances which could affect or appear to affect their independent judgement. The board considers that the balance of relevant experience amongst the various board members enables the board to exercise 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.

Bernard Asher has been appointed by the board as the senior independent director for the purpose of provision A.3.3 of the Code.

re-election



Code Principle A.7.1 recommends that every director submits for election by shareholders at the first annual general meeting after his or her appointment and to re-election thereafter at least every three years. The Articles of Association of the Company reflect this Code provision. Both David Mulligan and Gill Barr, who were appointed during the year, will be submitting themselves for election and John Morgan, Paul Whitmore and Jon Walden are retiring by rotation and offering themselves for re-election at the forthcoming annual general meeting.

The requirement of Jon Walden to retire by rotation at the forthcoming annual general meeting was taken into account in the review of his performance carried out as part of the board evaluation process. The board was satisfied with his commitment to the role and considers that the Company will continue to benefit from the experience and judgement that he is able to bring to the board, with his financial background as a chartered accountant and from his roles within other listed companies.

professional development

The Company provides training facilities for directors on first appointment and subsequently as necessary. Upon her appointment to the board, Gill Barr was provided with detailed induction material and visits to the divisions of the Group were arranged. 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. The executive directors have been participating in the two year modular development programme being run for senior executives and referred to in the directors' report above. 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. In addition, the directors have access to the advice and services of the company secretary.

board evaluation

A rigorous process of evaluation of both the effectiveness of the board as a whole and of individual directors has been undertaken in the year using detailed questionnaires. The results of the board evaluation were reviewed at a subsequent board meeting whilst those of the individual directors were followed by one to one meetings between the chairman and each executive and non-executive director and, in the case of the chairman's evaluation, between himself and the senior independent director.

board committees

The board has established three committees namely audit, remuneration and nominations.

audit committee

The audit committee comprised Geraldine Gallacher (until her retirement from the board in September 2004), Jon Walden, Gill Barr (from September 2004) and Bernard Asher, who has the chair. All committee members are independent non-executive directors. Biographical details of each member of the committee, including financial experience where relevant, are set out on pages 26 and 27. The audit committee has terms of reference that are closely modelled on the Code 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 and its cost effectiveness and monitoring the integrity of the financial statements. In addition the committee is responsible for reviewing the Company's internal financial controls, internal audit activities and risk management systems. The committee may request the attendance of any executive director and a representative of the external auditors at its meetings. The committee meets at least three times a year.

The audit committee has undertaken a review of the Group's arrangements by which employees 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 and communicated to employees of the Group. A copy is available to all employees on the Group intranet.

The audit committee is also responsible for making recommendations to the board on the appointment or re-appointment of the auditors and monitoring the objectivity and independence of the auditors. 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 key audit principals to the extent required by the ICAEW's Additional Guidance on Independence for Auditors. The committee has adopted a policy to enable it to monitor the engagement of the auditors for non-audit services. No such services were provided to the Company or its subsidiaries during the year.

remuneration committee

The remuneration committee comprised Geraldine Gallacher (as chair until her retirement from the board in September 2004), Bernard Asher, Jon Walden and, from September 2004, Gill Barr, who now has the chair. The remuneration committee's terms of reference are available for review on request and on the Company's website under the investor relations section. Six meetings were held in the year to cover all elements of the directors' remuneration.

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

nominations committee

The committee comprised John Morgan as chair, Bernard Asher, Geraldine Gallacher (until her retirement from the board in September 2004), Jon Walden and Gill Barr (from September 2004). The terms of reference for the committee establish a framework through which it 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.

As reported to shareholders in last year's annual report, after consideration by the nominations committee of both external and internal candidates, David Mulligan was appointed Finance Director with effect from 1 April 2004 in succession to John Bishop. John Bishop remained on the board, as Corporate Development Director, which assisted in an orderly handover. In addition, Geraldine Gallacher stepped down as a non-executive director, having completed nine years in that role. The nominations committee instructed a specialist executive search firm to assist in a rigorous recruitment process for a new non-executive director, following which the appointment of Gill Barr to the board and as chair of the remuneration committee was recommended to the board.

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 coordinated by the Company's brokers. The executive directors also 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 all members of the board. The non-executive directors are available to meet with the Company's major shareholders.

Details of proxy votes submitted for this year's annual general meeting will be announced at the meeting after a vote on a show of hands. They will also be available on the Company's website on the day before the meeting.

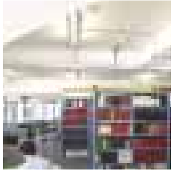
The Company now makes announcements available on its website as at the dates of release to its Regulatory Information Service provider.

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 C.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 Group 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 results. 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.

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.

audit and assurance

During the year a Head of Audit and Assurance was appointed, reporting to the Chief Executive and Audit Committee and responsible for managing the internal audit and assurance function and risk management policies and practices. The internal audit and assurance programme includes reviews of the operations of key business and financial controls across the Group as well as a rolling programme of peer group reviews. This also assists in the professional development of the individual staff concerned while at the same time 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 control for the year ended 31 December 2004 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 on 'Internal Control'. The process included a formal review conducted by the board of the Group risk report, which comprises a consolidated report of each of the divisional risk reviews and which is re-appraised and updated annually. In addition the board also receives regular internal financial control reports from the Head of Audit and Assurance referred to above.

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

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 the system of internal control, 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 2004 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, the statement of principal accounting policies and the related notes 1 to 35 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 an 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 nine provisions of the July 2003 FRC Combined 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 2004 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

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St Albans, United Kingdom

22 February 2005

group profit and loss account
for the year ended 31 december 2004

	Notes	2004 £'000s	2003 £'000s
Turnover			
Continuing operations		**1,221,574**	1,139,456
Less share of joint ventures' turnover	13	**(2,277)**	(1,919)
Group turnover	1	**1,219,297**	1,137,537
Cost of sales		**(1,095,932)**	(1,030,719)
Gross profit		**123,365**	106,818
Administrative expenses		**(96,536)**	(85,276)
Other operating income	2	**21**	428
Operating profit from continuing operations	1,3	**26,850**	21,970
Share of profit of joint ventures	13	**268**	132
Net interest receivable/(payable)	4	**822**	(1,182)
Profit on ordinary activities before taxation		**27,940**	20,920
Tax charge on profit on ordinary activities	5	**(9,891)**	(6,006)
Profit on ordinary activities after taxation		**18,049**	14,914
Dividends on equity and non-equity shares	6	**(7,739)**	(6,830)
Retained profit for the year		**10,310**	8,084
Basic earnings per ordinary share	7	**43.26p**	36.04p
Diluted earnings per ordinary share	7	**42.46p**	35.45p

group balance sheet
at 31 december 2004

	Notes	2004 £'000s	2004 £'000s	2003 (restated) £'000s	2003 (restated) £'000s
Fixed assets					
Intangible assets	11		**52,860**		53,002
Tangible assets	12		**14,890**		13,375
Share of joint ventures' gross assets		**87,891**		59,509	
Share of joint ventures' gross liabilities		**(78,746)**		(53,711)	
Investment in joint ventures	13		**9,145**		5,798
Other investments	13		**103**		103
			76,998		72,278
Current assets					
Stocks	14		**60,817**		65,411
Debtors	15		**204,002**		195,546
Cash at bank and in hand	16		**73,447**		14,613
			338,266		275,570
Creditors: amounts falling due within one year	18		**(320,339)**		(267,401)
Net current assets			**17,927**		8,169
Total assets less current liabilities			**94,925**		80,447
Creditors: amounts falling due after more than one year	19		**(1,707)**		(1,569)
Net assets			**93,218**		78,878
Capital and reserves					
Called up share capital	25		**2,107**		2,100
Share premium account			**25,679**		25,392
Investment in own shares	26		**(993)**		(1,094)
Capital redemption reserve			**623**		623
Revaluation reserve	27		**9,142**		5,507
Profit and loss account			**56,660**		46,350
Total equity shareholders' funds			**93,218**		78,878

The Group Balance Sheet at 31 December 2003 has been restated following implementation of accounting abstracts UITF 37 (Purchases and Sales of Own Shares) and UITF 38 (Accounting for ESOP Trusts), which requires the Group's investment in own shares to be deducted from shareholders' funds.

Approved by the board on 22 February 2005

Paul Smith

David Mulligan

company balance sheet
at 31 december 2004

	Notes	2004 £'000s	2003 (restated) £'000s
Fixed assets			
Tangible assets	12	**2,004**	631
Investments	13	**125,145**	122,145
		127,149	122,776
Current assets			
Debtors	15	**13,512**	17,868
Cash at bank and in hand	16	**13,105**	–
		26,617	17,868
Creditors: amounts falling due within one year	18	**(47,451)**	(46,042)
Net current liabilities		**(20,834)**	(28,174)
Total assets less current liabilities		**106,315**	94,602
Provisions for liabilities and charges	21	**(92)**	–
Net assets		**106,223**	94,602
Capital and reserves			
Called up share capital	25	**2,107**	2,100
Share premium account		**25,679**	25,392
Investment in own shares	26	**(993)**	(1,094)
Special reserve		**14,267**	14,267
Profit and loss account		**65,163**	53,937
Total equity shareholders' funds		**106,223**	94,602

The Company Balance Sheet at 31 December 2003 has been restated following implementation of accounting abstracts UITF 37 (Purchases and Sales of Own Shares) and UITF 38 (Accounting for ESOP Trusts), which requires the Group's investment in own shares to be deducted from shareholders' funds.

Approved by the board on 22 February 2005

Paul Smith

David Mulligan

group cash flow statement

for the year ended 31 december 2004

	Notes	2004 £'000s	2003 £'000s
Net cash inflow from operating activities	30	**78,685**	22,832
Dividend received from joint venture		**335**	355
Returns on investments and servicing of finance			
Interest received		**3,217**	2,021
Interest paid		**(2,309)**	(3,127)
Dividends paid to preference shareholders		**–**	(62)
Interest paid on finance lease charges		**(107)**	(80)
		801	(1,248)
Taxation			
Corporation tax paid		**(6,134)**	(6,946)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(4,296)**	(3,034)
Receipts from sale of tangible fixed assets		**501**	9,205
		(3,795)	6,171
Acquisitions and disposals			
Purchase of business		**(3,409)**	(6,801)
Equity dividends paid		**(7,099)**	(6,357)
Management of liquid resources			
Increase in short term deposits		**(1,015)**	(421)
Net cash inflow before financing		**58,369**	7,585
Financing			
Issue of shares, net of expenses		**294**	717
Redemption of preference shares		**–**	(623)
Capital element of finance leases		**(844)**	(336)
Net cash outflow from financing activities		**(550)**	(242)
Net cash inflow	31, 32	**57,819**	7,343

	2004	2003
Net cash inflow	**57,819**	7,343
Movement in short term deposits	**1,015**	421
Net increase in cash at bank and in hand per Group Balance Sheet	**58,834**	7,764

combined statement of movements in reserves and shareholders' funds

for the year ended 31 december 2004

Group	Share premium account £'000s	Capital redemption reserve £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Investment in own shares £'000s	Total reserves £'000s	Share capital £'000s	**2004 Share-holders' funds £'000s**	2003 Share-holders' funds (restated) £'000s
Balance at 1 January (previously stated)	25,392	623	5,507	46,350	–	77,872	2,100	**79,972**	70,280
Own shares reclassified	–	–	–	–	(1,094)	(1,094)	–	**(1,094)**	(1,234)
Balance at 1 January (restated)	25,392	623	5,507	46,350	(1,094)	76,778	2,100	**78,878**	69,046
Retained profit for the year	–	–	–	10,310	–	10,310	–	**10,310**	8,084
Own shares purchased	–	–	–	–	(48)	(48)	–	**(48)**	(32)
Options exercised	287	–	–	–	–	287	7	**294**	717
LTIP shares vested	–	–	–	–	149	149	–	**149**	172
Share of joint venture revaluation surplus	–	–	3,635	–	–	3,635	–	**3,635**	1,514
Redeemed preference shares	–	–	–	–	–	–	–	**–**	(623)
Balance at 31 December	25,679	623	9,142	56,660	(993)	91,111	2,107	**93,218**	78,878

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 (2003: £7,034,000).

Company	Share premium account £'000s	Capital redemption reserve £'000s	Profit and loss account £'000s	Investment in own shares £'000s	Total reserves £'000s	Share capital £'000s	**2004 Share-holders' funds £'000s**	2003 Share-holders' funds (restated) £'000s
Balance at 1 January (previously stated)	25,392	14,267	53,937	–	93,596	2,100	**95,696**	90,419
Own shares reclassified	–	–	–	(1,094)	(1,094)	–	**(1,094)**	(1,234)
Balance at 1 January (as restated)	25,392	14,267	53,937	(1,094)	92,502	2,100	**94,602**	89,185
Retained profit for the year	–	–	11,226	–	11,226	–	**11,226**	5,183
Own shares purchased	–	–	–	(48)	(48)	–	**(48)**	(32)
Options exercised	287	–	–	–	287	7	**294**	717
LTIP shares vested	–	–	–	149	149	–	**149**	172
Redeemed preference shares	–	–	–	–	–	–	**–**	(623)
Balance at 31 December	25,679	14,267	65,163	(993)	104,116	2,107	**106,223**	94,602

The Statement of Movements in Shareholders' Funds at 31 December 2003 has been restated following implementation of accounting abstracts UITF 37 (Purchases and Sales of Own Shares) and UITF 38 (Accounting for ESOP Trusts), which requires the Group's investment in own shares to be deducted from shareholders' funds.

other primary statements

for the year ended 31 december 2004

statement of total recognised gains and losses

	2004 £'000s	2003 £'000s
Profit for the financial year before dividends	**18,049**	14,914
Share of joint venture revaluation surplus	**3,635**	1,514
Total recognised gain since last annual report	**21,684**	16,428

note of historical cost profits and losses

	2004 £'000s	2003 £'000s
Profit on ordinary activities before taxation	**27,940**	20,920
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
Historical cost profit on ordinary activities before taxation	**27,940**	23,888
Historical cost profit on ordinary activities after taxation and dividends	**10,310**	11,052

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 acquired businesses 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.

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. Turnover represents the value of work executed on long term contracts during the year and the sales value of properties where the ownership has been legally transferred to the purchaser. The sales proceeds on properties taken in part exchange are not included in turnover.

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 the revaluation reserve. The Companies Act 1985 requires all properties to be depreciated, however this requirement conflicts with the generally accepted accounting principle set out in SSAP19. The directors consider that as these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view and that it is necessary to adopt SSAP19 in order to give a true and fair view.

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

principal accounting policies
for the year ended 31 december 2004

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

Turnover is recognised on long term contracts as work progresses, and includes a proportion of attributable profit once the final outcome can be assessed with reasonable certainty and at a percentage rate not exceeding that forecast at completion. Losses anticipated in bringing a contract to completion are provided in full once they are foreseen.

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

deferred taxation

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 operated a funded defined benefit scheme for permanent staff employees. This scheme is now a closed scheme as referred to in Note 29. Where an actuarial valuation gives rise to a surplus or deficiency they are dealt with in accordance with the advice of the actuary. Prior to the date of closure, costs of the pension scheme were charged to the profit and loss account over the expected service lives of the participating employees.

The Group contributes to The Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements which are of a defined contribution type. Subject to the circumstances referred to in Note 29, the annual costs are charged to the profit and loss account.

1 analysis of turnover, operating profit and net assets

	2004 Turnover £'000s	2004 Profit/(loss) £'000s	2004 Net assets/(liabilities) £'000s	2003 Turnover £'000s	2003 Profit/(loss) £'000s	2003 Net assets/(liabilities) (restated) £'000s
Fit Out	**251,594**	**11,238**	**(5,336)**	189,001	8,407	(3,221)
Construction	**271,113**	**1,301**	**(4,551)**	300,313	599	(690)
Infrastructure Services	**332,283**	**7,841**	**28,261**	365,108	9,241	31,153
Affordable Housing	**364,307**	**13,445**	**(1,343)**	278,814	8,920	24,393
Group activities	**–**	**(6,975)**	**5,290**	4,301	(5,197)	14,930
	1,219,297	**26,850**	**22,321**	1,137,537	21,970	66,565
Net funds (note 31)			**70,897**			12,313
Net assets			**93,218**			78,878

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

2 other operating income

	2004 £'000s	2003 £'000s
Rent receivable	**21**	428

3 operating profit

Operating profit is stated after charging/(crediting):	2004 £'000s	2003 £'000s
Depreciation – owned assets	**3,064**	4,071
– leased assets	**401**	221
Loss/(profit) on sale of fixed assets	**20**	(1,056)
Amortisation of goodwill	**3,101**	3,191
Operating lease costs – plant and machinery	**3,919**	4,669
– other	**6,052**	5,500
Auditor's remuneration – audit	**300**	315
– other audit related services	**10**	8
– non audit related services	**–**	2

4 net interest receivable/(payable)

	2004 £'000s	2003 £'000s
Interest payable on bank overdrafts	**(2,306)**	(3,028)
Interest payable on finance leases	**(107)**	(80)
Other interest payable	**–**	(98)
Interest capitalised	**–**	7
	(2,413)	(3,199)
Bank interest receivable	**2,884**	1,457
Other interest receivable	**351**	560
	3,235	2,017
Net interest receivable/(payable)	**822**	(1,182)

5 tax charge on profit on ordinary activities

	2004 £'000s	2003 £'000s
Current taxation:		
UK corporation tax charge for the year	**9,822**	6,697
Adjustment in respect of prior years	**(302)**	24
Share of taxation of joint ventures	**221**	(23)
Total current tax	**9,741**	6,698
Deferred taxation (note 21):		
Origination and reversal of timing differences	**150**	(692)
Tax charge on profit on ordinary activities	**9,891**	6,006

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.

	2004 £'000s	2003 £'000s
Profit on ordinary activities before tax	**27,940**	20,920
Tax on profit on ordinary activities at standard rate	**8,382**	6,276
Factors affecting charge for the year:		
Capital allowances for the year in excess of depreciation	**(145)**	512
Expenses not deductible for tax purposes	**742**	275
Utilisation of tax losses	**–**	(850)
Accounting profit in excess of chargeable gain	**–**	(468)
Adjustments in respect of prior years	**(302)**	24
Amortisation not deductible for tax purposes	**930**	957
Other short term timing differences	**37**	(28)
Shares of joint ventures' prior year tax charge	**97**	–
Total actual amounts of current tax	**9,741**	6,698

The total amount of deferred tax assets that are not recognised in the financial statements in relation to losses carried forward amounted to £706,000 (2003: £706,000) due to the uncertainty of the availability of future profits against which the losses can be recovered.

6 dividends on equity and non-equity shares

	2004 £'000s	2003 £'000s
Non-equity dividends on preference shares:		
Paid	**–**	62
	–	62
Equity dividends on ordinary shares:		
Interim paid 5.25p per share (2003: 4.75p per share)	**2,188**	1,944
Final proposed 13.25p per share (2003: 11.75p per share)	**5,551**	4,824
	7,739	6,768
	7,739	6,830

7 earnings per ordinary share

The calculation of the basic earnings per share is based on the weighted average number of 41,718,000 (2003: 41,207,000) ordinary shares in issue during the year and on the profits for the year attributable to ordinary shareholders of £18,049,000 (2003: £14,852,000).

In calculating the diluted earnings per share, earnings are no longer adjusted for any preference dividend (2003: £62,000) giving earnings of £18,049,000 (2003: £14,914,000). The weighted average number of ordinary shares is no longer adjusted for the dilutive effect of the convertible preference shares (2003: 313,000), but it is adjusted for share options by 597,000 (2003: 311,000) and contingent Long Term Incentive Plan shares by 191,000 (2003: 243,000) giving an adjusted average number of ordinary shares of 42,506,000 (2003: 42,074,000).

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 £18,965,000 (2003: £12,013,000).

notes to the accounts

9 employees

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

	2004 No.	2003 No.
Fit Out	**420**	389
Construction	**1,180**	1,227
Infrastructure Services	**2,121**	2,400
Affordable Housing	**1,271**	1,129
Other	**26**	29
	5,018	5,174

10 staff costs

	2004 £'000s	2003 £'000s
Wages and salaries	**168,995**	158,644
Social security costs	**18,169**	17,811
Pension costs	**4,786**	3,975
	191,950	180,430

11 intangible fixed assets

Group	Goodwill £'000s
Cost	
At 1 January 2004	62,007
Additions (note 28)	2,959
At 31 December 2004	**64,966**
Amortisation	
At 1 January 2004	9,005
Provided in the year	3,101
At 31 December 2004	**12,106**
Net book value at 31 December 2004	**52,860**
Net book value at 31 December 2003	53,002

12 tangible fixed assets

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 2004	28,228	3,502	329	219	2,915	35,193
Additions	4,296	670	–	–	424	5,390
On acquisition	111	–	–	–	–	111
Revaluation	–	–	–	(47)	–	(47)
Disposals	(1,305)	–	(21)	–	(204)	(1,530)
At 31 December 2004	**31,330**	**4,172**	**308**	**172**	**3,135**	**39,117**
Depreciation						
At 1 January 2004	18,683	1,205	304	47	1,579	21,818
Provided in the year	2,731	401	10	1	322	3,465
Revaluation	–	–	–	(47)	–	(47)
Disposals	(871)	–	(21)	–	(117)	(1,009)
At 31 December 2004	**20,543**	**1,606**	**293**	**1**	**1,784**	**24,227**
Net book value at 31 December 2004	**10,787**	**2,566**	**15**	**171**	**1,351**	**14,890**
Net book value at 31 December 2003	9,545	2,297	25	172	1,336	13,375

Company	Owned plant, machinery & equipment £'000s	Freehold property £'000s	Total £'000s
Cost or valuation			
At 1 January 2004	951	219	1,170
Additions	1,694	–	1,694
Revaluation	–	(47)	(47)
At 31 December 2004	**2,645**	**172**	**2,817**
Depreciation			
At 1 January 2004	492	47	539
Provided in the year	320	1	321
Revaluation	–	(47)	(47)
At 31 December 2004	**812**	**1**	**813**
Net book value at 31 December 2004	**1,833**	**171**	**2,004**
Net book value at 31 December 2003	459	172	631

12 tangible fixed assets *(continued)*

The net book value of land and buildings comprises:

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Investment properties				
Freehold	**160**	160	**160**	160
	160	160	**160**	160
Other properties				
Freehold	**11**	12	**11**	12
Short leasehold	**1,351**	1,336	**–**	–
	1,362	1,348	**11**	12
Total net book value	**1,522**	1,508	**171**	172

Land and buildings at cost or valuation are stated:

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Investment properties at valuation	**160**	207	**160**	207
Other properties at cost	**3,147**	2,927	**12**	12
	3,307	3,134	**172**	219

The directors have considered the valuation of the single investment property as at the balance sheet date and have concluded that no change is required to its carrying value. No external valuation has been undertaken as it is anticipated that the investment property will be sold in the near future.

Comparable amounts determined according to the historical cost convention:

	2004 Cost £'000s	2004 Accumulated depreciation £'000s	2004 Net book value £'000s	2003 Net book value £'000s
Land and buildings	**3,307**	**1,785**	**1,522**	1,508

13 investments

Group	Joint ventures £'000s	Trade investment £'000s
Cost at 1 January 2004	5,798	103
Share of profit for the year	268	–
Share of taxation	(221)	–
Share of revaluation surplus	3,635	–
Dividends from joint venture	(335)	–
At 31 December 2004	**9,145**	**103**

Investment in joint ventures	47.50% share in Primary Medical Property Limited £'000s	50% share in Morgan-Vinci Limited £'000s	50% share in Claymore Roads (Holdings) Limited £'000s	33⅓% share in Community Solutions for Primary Care (Holdings) Limited £'000s	**2004 Total £'000s**	2003 Total £'000s
Profit and loss account						
Share of turnover	2,050	227	–	–	**2,277**	1,919
Current year share of pre tax profit/(loss)	412	(123)	(2)	(19)	**268**	132
Balance sheet						
Share of gross assets	28,600	32,602	23,123	3,566	**87,891**	59,509
Share of gross liabilities	(19,113)	(32,925)	(23,124)	(3,584)	**(78,746)**	(53,711)
Share of net assets/(liabilities)	9,487	(323)	(1)	(18)	**9,145**	5,798

The Group's share of joint ventures includes in aggregate, fixed assets of £31,223,000 (2003: £24,310,000), current assets of £56,668,000 (2003: £35,199,000), liabilities due within one year of £2,874,000 (2003: £1,933,000) and liabilities due after one year or more of £75,872,000 (2003: £51,778,000).

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.

Community Solutions for Primary Care (Holdings) Limited
Community Solutions for Primary Care (Holdings) Limited is a company formed to invest in primary health and social care facilities under the NHS LIFT initiative presently at Barnsley and Camden & Islington. The construction work is being undertaken by Bluestone plc.

13 investments *(continued)*

Company	Subsidiary undertakings Shares £'000s	Subsidiary undertakings Loans £'000s	Joint venture shares £'000s	Total £'000s
Cost at 1 January 2004	123,035	4,405	4	127,444
Additions (note 34)	3,000	–	–	3,000
Cost at 31 December 2004	**126,035**	**4,405**	**4**	**130,444**
Provisions at 1 January 2004 and 31 December 2004	**890**	**4,405**	**4**	**5,299**
Net book value at 31 December 2004	**125,145**	–	–	**125,145**
Net book value at 31 December 2003	122,145	–	–	122,145

14 stocks

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Development works and building land	**57,716**	62,661	**–**	–
Trading properties	**1,100**	–	**–**	–
Materials and equipment	**2,001**	2,750	**–**	–
	60,817	65,411	**–**	–

15 debtors

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Trade debtors	**84,449**	64,613	**2**	4
Amounts recoverable on contracts	**105,672**	111,672	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**9,415**	9,118
Amounts owed by joint ventures	**2,675**	6,078	**–**	–
Corporation tax recoverable	**–**	–	**406**	620
Deferred tax asset (note 21)	**1,114**	1,264	**–**	–
Other debtors	**4,431**	2,476	**157**	1,073
Prepayments and accrued income	**5,661**	9,443	**3,532**	7,053
	204,002	195,546	**13,512**	17,868

16 financial instruments

The Group's financial instruments, excluding short term debtors and creditors are comprised of cash, loan notes (note 17) and finance leases (note 20). The directors consider the fair value not to be materially different to the carrying value for financial instruments. Further detail is provided in the operating and financial review on page 9. The Group holds part of its 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 £8,365,000 (2003: £7,350,000) 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.

18 creditors: amounts falling due within one year

	Group		Company	
	2004 £'000s	2003 £'000s	**2004 £'000s**	2003 £'000s
Bank overdraft	–	–	**–**	3,251
Loan notes (note 17)	**360**	360	**360**	360
Obligations under finance leases (note 20)	**483**	371	**–**	–
Payments on account	**18,413**	20,487	**–**	–
Trade creditors	**94,063**	91,003	**2,241**	5,402
Amounts owed to subsidiary undertakings	**–**	–	**35,336**	29,410
Other creditors	**5,035**	3,173	**1**	193
Corporation tax	**5,572**	2,185	**–**	–
Other tax and social security	**11,037**	11,752	**503**	255
Accruals and deferred income	**179,846**	133,180	**3,480**	2,281
Dividend	**5,530**	4,890	**5,530**	4,890
	320,339	267,401	**47,451**	46,042

19 creditors: amounts falling due after more than one year

	Group		Company	
	2004 £'000s	2003 £'000s	**2004 £'000s**	2003 £'000s
Obligations under finance leases (note 20)	**1,707**	1,569	**–**	–

20 borrowings

	Group		Company	
	2004 £'000s	2003 £'000s	**2004 £'000s**	2003 £'000s
Borrowings are repayable as follows:				
Finance leases within one year	**483**	371	**–**	–
Within two to five years	**1,437**	1,191	**–**	–
After five years	**270**	378	**–**	–
	1,707	1,569	**–**	–
Total obligations under finance leases	**2,190**	1,940	**–**	–
Loan notes within one year	**360**	360	**360**	360
Total obligations	**2,550**	2,300	**360**	360

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

notes to the accounts

21 deferred taxation

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Balance at 1 January	**1,264**	572	**–**	–
Profit and loss account (charge)/credit	**(150)**	692	**(92)**	–
Deferred tax asset/(liability) at 31 December	**1,114**	1,264	**(92)**	–

The deferred taxation asset/(liability) consists of the following amounts:

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Capital allowances in excess of depreciation	**844**	976	**(94)**	–
Taxation loss and other timing differences	**270**	288	**2**	–
	1,114	1,264	**(92)**	–

22 operating lease commitments

At 31 December 2004 the Group was committed to making the following payments during the next year in respect of non cancellable operating leases:

	2004			2003		
Leases which expire:	**Land and buildings £'000s**	**Other £'000s**	**Total £'000s**	Land and buildings £'000s	Other £'000s	Total £'000s
Within one year	**215**	**937**	**1,152**	739	542	1,281
Within two to five years	**799**	**1,816**	**2,615**	933	2,370	3,303
After five years	**2,707**	**9**	**2,716**	2,230	3	2,233
	3,721	**2,762**	**6,483**	3,902	2,915	6,817

23 financial commitments

	Group 2004 £'000s	Group 2003 £'000s	Company 2004 £'000s	Company 2003 £'000s
Capital expenditure authorised and contracted	**144**	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.

25 called up share capital

	2004 No. '000s	2004 £'000s	2003 No. '000s	2003 £'000s
Authorised:				
Ordinary shares of 5p each	**57,500**	**2,875**	50,000	2,500
5.625% Convertible cumulative redeemable preference shares of £1 each	**–**	**–**	5,000	5,000
	57,500	**2,875**	55,000	7,500
Issued and fully paid:				
Ordinary shares of 5p each	**42,147**	**2,107**	41,996	2,100

Ordinary shares

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

1. 4,000 ordinary shares in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £4,880.00.
2. 146,875 ordinary shares in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £289,331.25.

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. A resolution was passed at the annual general meeting on 24 March 2004 to cancel the authorised convertible redeemable preference shares.

Options

The Company has two employee 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 2004 there remained 37,325 options outstanding under that Scheme exercisable at prices between £0.73 and £1.71. On the same date there were 1,631,250 options outstanding under the 1995 Scheme exercisable at prices between £1.71 and £4.95.

26 investment in own shares

The own shares at cost represent 406,898 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 371,968 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 2004 of £5.39 the market value of the shares was £2,193,000.

27 revaluation reserve

	Group		Company	
	2004 £'000s	2003 £'000s	**2004 £'000s**	2003 £'000s
Share of joint venture revaluation surplus	**9,142**	5,507	**–**	–

28 acquisitions

Benson Limited

On 13 December 2004 Bluestone plc acquired part of the trade and certain assets and contracts from Benson Limited. The cash consideration was £3.4m.

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

	Book value at date of acquisition £'000s	Provisional fair value adjustment £'000s	Note	**Provisional fair value of net assets £'000s**
Tangible fixed assets	111	–		**111**
Trade debtors	2,803	–		**2,803**
Accruals and deferred income	–	(2,214)	a	**(2,214)**
Net assets				**700**
Cash consideration				**3,409**
Acquisition costs				**250**
Total cost				**3,659**
Goodwill				**2,959**

The acquisition has been accounted for by the acquisition method of accounting. The fair values are provisional to allow the directors the opportunity to consider and finalise them in the coming year. The provisional fair value adjustments are explained as follows:

a: Provision for contract liabilities

29 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 2004 and was prepared using the assumptions of rate of investment return of 6.0% per annum, rate of earnings escalation of 4.0% per annum and rate of inflation of 2.5% per annum. The ongoing liabilities of the MSRBP were assessed using the protected unit method whereas the assets were taken at realisable market value. The actuarial valuation referred to showed that the defined benefit liabilities were partly funded and on an ongoing basis, the value of the assets of £3.918m represented 64% of the value of these liabilities. The actuarial valuation also showed that the realisable market value of the MSRBP's assets was 81% 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 2007 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 2004 and details are given on page 67.

Valuation date Valuation method	Notes	**31 December 2004** **Projected unit**	31 December 2003 Projected unit	31 December 2002 Projected unit
	Notes	**£'000s**	£'000s	£'000s
Fair value of the scheme assets	a	**3,918**	3,924	4,473
Present value of scheme liabilities		**(6,143)**	(4,660)	(5,358)
Scheme shortfall		**(2,225)**	(736)	(885)
Related deferred taxation at 30.0%		**668**	221	266
Net pension liability		**(1,557)**	(515)	(619)

Actuarial assumptions:	Notes	**2004**	2003	2002
Inflation per annum		**2.75%**	2.75%	2.5%
Increase for pensions – members who left before 1 June 1995		**3.5%**	3.5%	3.5%
Increase for pensions – members who left after 31 May 1995	b	**3.0%**	3.0%	3.0%
Increase for non guaranteed minimum pension deferred pensions		**2.75%**	2.75%	2.5%
Salary scale increase per annum		**3.75%**	3.75%	3.5%
Discount rate for liabilities		**5.5%**	5.75%	5.5%

Expected investment returns:

	Proportion invested			Expected return		
	2004	2003	2002	**2004**	2003	2002
Asset class:						
Equities	**56%**	68%	67%	**7.5%**	8.0%	8.0%
Fixed interest	**39%**	23%	16%	**5.0%**	5.0%	5.0%
Other	**5%**	9%	17%	**4.0%**	4.0%	4.0%
Overall	**100%**	100%	100%	**6.4%**	7.0%	6.8%

The total pension costs for the Group were:

	Notes	**2004** **£'000s**	2003 £'000s	2002 £'000s
Employer contribution to MSRBP (defined benefits)	c	**216**	–	–
Employer contribution to MSRBP and other plans (money purchase)	c	**4,570**	3,975	3,602

29 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 2004 or 2003.

Amounts to be included in other finance costs:	**2004 £'000s**	2003 £'000s	2002 £'000s
Expected return on scheme assets	**269**	272	341
Interest on pension scheme liabilities	**(265)**	(267)	(322)
Net finance return	**4**	5	19

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

	2004 £'000s	% asset or liability value	2003 £'000s	% asset or liability value	2002 £'000s	% asset or liability value
Difference between actual and expected return of scheme assets	**(175)**	4.5%	179	4.6%	(1,153)	25.8%
Experience loss arising on scheme liabilities	**(1,065)**	17.3%	(187)	4.0%	29	0.5%
Effects of changes in assumptions underlying the present value of scheme liabilities	**(253)**	4.1%	152	3.3%	114	2.1%
Total (loss)/gain to be recognised in the STRGL	**(1,493)**		144		(1,010)	

Balance sheet presentation:	**2004 £'000s**	2003 (restated) £'000s	2002 (restated) £'000s
Net assets	**93,218**	78,878	69,046
Amount relating to defined benefit pension scheme liability, net of related deferred tax	**(1,557)**	(515)	(619)
Net assets including FRS17 disclosure	**91,661**	78,363	68,427
Profit and loss reserve	**56,660**	46,350	35,318
Amount relating to defined benefit pension scheme liability, net of related deferred tax	**(1,557)**	(515)	(619)
Profit and loss reserve including FRS17 disclosure	**55,103**	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 is a requirement for an employer's contribution in the year of £216,000 and the position will be reviewed following the next triennial valuation as at 5 April 2007. Employer's contributions for money purchase benefits remains unchanged at agreed standard rates.

30 reconciliation of operating profit to net cash inflow from operating activities

	2004 £'000s	2003 £'000s
Operating profit	**26,850**	21,970
Depreciation of tangible fixed assets	**3,465**	4,292
Amortisation of goodwill	**3,101**	3,191
Loss/(profit) on sale of fixed assets	**20**	(1,056)
Decrease/(increase) in stocks and work in progress	**4,594**	(15,767)
Increase in debtors	**(5,784)**	(18,367)
Increase in creditors	**46,439**	28,569
Net cash inflow from operating activities	**78,685**	22,832

31 analysis of net funds

	31 December 2003 £'000s	Cash flow £'000s	Non cash movement £'000s	31 December 2004 £'000s
Cash	7,263	57,819	–	**65,082**
Short term deposits	7,350	1,015	–	**8,365**
Cash at bank (per Group Balance Sheet)	14,613	58,834	–	**73,447**
Finance leases	(1,940)	844	(1,094)	**(2,190)**
Loan notes	(360)	–	–	**(360)**
Total	12,313	59,678	(1,094)	**70,897**

32 reconciliation of net cash flow to movement in net funds

	£'000s
Increase in cash	**57,819**
Cash inflow from increase in liquid resources	**1,015**
Cash outflow from decrease in finance leases	**844**
Changes in net funds from cashflows	**59,678**
Non cash movement	**(1,094)**
	58,584
Net funds at 1 January 2004	**12,313**
Net funds at 31 December 2004	**70,897**

33 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

The interests of the directors in office at the end of the year, all of which are beneficial, are shown below and their interests in shares under the long term incentive awards are shown in the report on directors' remuneration on page 39.

	5p Ordinary Beneficial	
	2004	2003*
	No.	No.
John Morgan	**5,831,038**	6,267,568
Paul Smith	**2,876**	2,876
David Mulligan	**1,250**	–
Paul Whitmore	**2,250**	2,250
John Bishop	**11,985**	19,231
Bernard Asher	**5,000**	5,000
Gill Barr	**–**	–
Jon Walden	**–**	–
Jack Lovell	**3,409,968**	6,254,774

* or later date of appointment

There have been no changes in the interests of directors between 31 December 2004 and 22 February 2005.

directors' transactions

There have been no related party transactions with any director either during the year or in the subsequent period to 22 February 2005.

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 22 February 2005.

34 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	Office transformation services
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%)	Investment in medical properties
*Morgan-Vinci Limited (50%)	Infrastructure services
*Claymore Roads (Holdings) Limited (50%)	Infrastructure services
*Community Solutions for Primary Care (Holdings) Limited (33⅓%)	Investment in the development of primary care facilities

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.

During the year Morgan Utilities Limited issued 3 million £1 shares, at par, to Morgan Sindall plc.

35 related party transactions

The Group had the following transactions with the joint venture companies during the year:

	Turnover		Owed to Group	
Name of joint venture	**2004 £'000s**	2003 £'000s	**2004 £'000s**	2003 £'000s
Claymore Roads (Holdings) Ltd	**22,988**	16,989	**1,953**	6,014
Morgan-Vinci Ltd	**5,091**	17,142	**722**	64

The Group also had turnover of £9.34m (2003: nil) with Barnsley Community Solutions (Tranche 1) Limited in which Community Solutions for Primary Care (Holdings) Limited holds an investment. There were no outstanding balances at the year end.

corporate directory

directors
John Morgan (executive chairman)
Paul Smith
David Mulligan
Paul Whitmore
John Bishop
Bernard Asher (non-executive)
Gill Barr (non-executive)
Jon Walden (non-executive)
Jack Lovell (non-executive)

company secretary
Mary Nettleship

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brokers
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250 Bishopsgate,
London EC2M 4AA

registrars
Capita Registrars,
The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU

shareholder communication
Enquiries and information:
please contact the company secretary
E-mail: mary.nettleship@morgansindall.co.uk

website
morgansindall.co.uk

share prices (FT Cityline)
The Company's share price (15 minutes delay) is displayed on the Company's website.

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.

electronic communications
Shareholders may now view their shareholdings on line through the website of our registrars, Capita Registrars. If you wish to view your shareholding, please log onto www.capitaregistrars.com and click on the link 'shareholder services' then follow the instructions.

The Company would also like to take advantage of recent changes to the law, which allows us to communicate with shareholders in electronic form. If you would like to receive future communications in this way, please register your e-mail address on the registrars' web site, following the instructions provided. This form of communication offers a cost benefit to the Company and provides for an environmentally friendly way of communicating. The Company would therefore encourage as many of you as possible to make use of this enhanced service.

To use the service, you will need to confirm your surname, UK Post Code and Investor Code. The Investor Code may be found on a recent share certificate, in the bottom right hand corner, or on the tax voucher for the forthcoming dividend payment.

financial calendar

Annual General Meeting	12 April 2005
Final dividend:	
Ex-dividend date	16 March 2005
Record date	18 March 2005
Payment date	18 April 2005
Interim results announcement	August 2005

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