



MORGAN  SINDALL

report and accounts

2005

MORGAN SINDALL

Morgan Sindall plc is a top ten United Kingdom construction group employing over 5,000 people. Our businesses operate within four specialist divisions; Fit Out, Construction, Infrastructure Services and Affordable Housing. The strength of the Group is derived from this balance of activity and the ability to provide integrated solutions across these four areas.



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 hotel, retail, leisure and entertainment facilities. Backbone Furniture supplies, refurbishes and installs commercial office furniture.



Construction

Bluestone is a national construction business operating through a network of local offices. The business' core expertise is in building for education, healthcare, industrial and commercial organisations where it undertakes new build, refurbishment, smaller scale works and maintenance projects under a variety of procurement routes.



Infrastructure Services

Morgan Est is a national business undertaking a broad spectrum of infrastructure and utility projects. It provides civil engineering, utility, tunnelling and mechanical electrical services through all phases of a project from design to operation and maintenance.



Affordable Housing

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

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overbury
a passion for perfection

Morgan Lovell

Inspiring office transformation

vivid
interiors

backbone
furniture



bluestone

morgan=est



Chairman and chief executive's statement

We are pleased to announce another set of record results. In 2005 profit before tax increased by 23% to £41.7m (2004:£33.8m) on revenue that increased by 6% to £1.30bn (2004: £1.22bn). Earnings per share increased by 23% to 70.7p (2004:57.6p). Accordingly the Board recommends an increase in the final dividend to 18.0p (2004: 13.3p) giving a total for the year of 25.0p (2004: 18.5p).

This strong performance was achieved through our strategy of creating and developing leading positions in our chosen market sectors. In particular, Fit Out and Affordable Housing grew strongly through the year while Construction also made good progress. Meanwhile, profit margins were maintained by Infrastructure Services despite its expected reduction in workload. Our overall margin increased to 3.2% (2004: 2.8%) as we continued our focus on margin improvement. Cash balances have been maintained at a time when the Group continues to invest resources in the growth of the Affordable Housing division.

Outlook

Morgan Sindall has begun 2006 in an excellent position. The order book now stands at £2.80bn against £2.26bn last year and we anticipate further strong growth in the fit out and affordable housing markets in particular.

In 2006 Fit Out will further develop its geographic coverage; its larger scale office fit out projects; and its work in the hotel, retail, leisure and entertainment sectors. The Construction division will continue its focus on the health and education sectors where significant investment continues to be made by the Government. Infrastructure Services' workload in the utilities sector will increase as a result of a number of large contracts secured during 2005, although we expect the civil engineering market to remain subdued. Finally, the outlook for Affordable Housing remains very positive with strong market growth expected to continue in the medium term.

Overall, we are very excited by the Group's outlook and prospects and look forward to reporting on further developments as the year progresses.



Paul Smith Chief Executive

John Morgan Executive Chairman

Operating and financial review

+23%

Profit before tax
up to £42m

+23%

Basic earnings
per share up to 71p

+35%

Total dividend for
the year up to 25p

+19%

Net assets
up to £117m

Operating review

It should be noted that all figures and their comparatives are presented on the basis of applying International Financial Reporting Standards ('IFRS').

In 2005 profit before tax increased by 23% to £41.7m (2004: £33.8m) on revenue that increased by 6% to £1.30bn (2004: £1.22bn). Earnings per share increased by 23% to 70.7p (2004: 57.6p). Accordingly the Board recommends an increase in the final dividend to 18.0p (2004: 13.3p) giving a total for the year of 25.0p (2004: 18.5p).

Cash at the year end was maintained at £72.0m (2004: £73.4m) with the average cash balance during the year at a level higher than the previous year. This reflects investment in work in progress by the Affordable Housing division offset by working capital improvements elsewhere in the Group.

The forward order book increased to £2.80bn (2004: £2.26bn) reflecting growth, in particular, in the Infrastructure Services and Construction divisions.

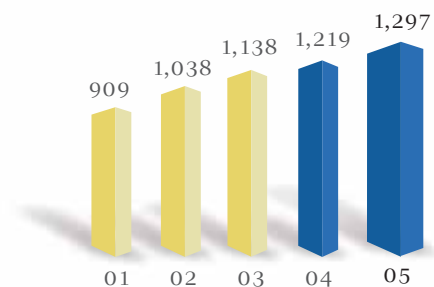
General market conditions

Construction industry output grew by 2.4% in 2005 (2004: 3.7%), and growth of 1.8% is forecast in 2006. Within this overall picture, public spending in the health and education sectors is forecast to grow with further expansion also expected in affordable housing and commercial property. These are four important sectors for the Group.

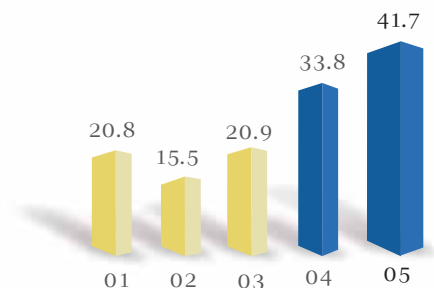
Group strategy

The Group's strategy continues to be the development of a construction group with market leading businesses in its chosen sectors in order to provide growth in long-term profit streams. This approach incorporates a work balance between the public and private sectors, which gives the Group the flexibility to adapt to changes within each sector.

Revenue¹ (£'m)

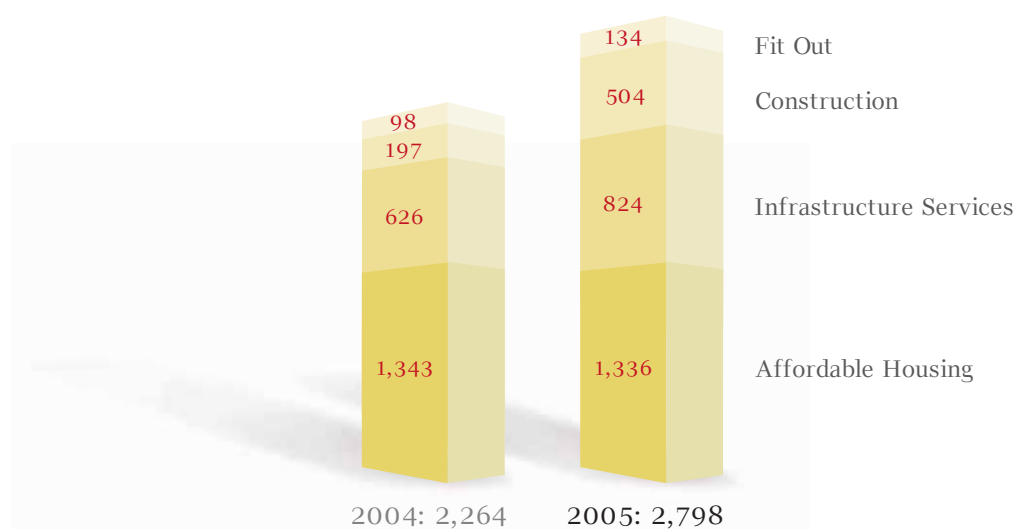


Profit before tax¹ (£'m)



¹ Basis of accounting
The figures for 2004 and 2005 are stated under IFRS whilst for 2003 and preceeding periods are stated under UK GAAP.

Order book (£'m)



Divisional performance

Fit Out

The Fit Out division provides fit out, refurbishment and furniture services to the commercial property, hotel, retail, leisure and entertainment sectors. It operates through four businesses, namely Overbury, Morgan Lovell, Vivid Interiors and Backbone Furniture. Overbury (£269m revenue) is the largest business and is focused solely on the commercial property sector where its blue chip client base employs its own professional teams of architects and project managers. This contrasts with Morgan Lovell (£42m revenue) whose focus is also on the commercial property sector but through the provision of both design and build services. Morgan Lovell's approach involves working more closely with the client on the development of the design solution as well as delivery of the project. Its clients tend to be small and medium size enterprises and its typical project would be smaller than that delivered by Overbury. Vivid Interiors (£11m revenue) was established in 2002 and works in the hotel, retail, leisure and entertainment sectors. Backbone Furniture (£1m revenue) provides innovative commercial furniture solutions. The division's offices cover London, the South East, the Midlands and the North of England.

In 2005 Fit Out had an excellent year with an operating profit of £16.4m (2004: £11.2m) on revenue of £323m (2004: £252m) achieving an operating margin of 5.1% (2004: 4.5%), which is above average historic levels of 4.5%.

The division's growth in 2005 was due to further market penetration by Overbury as well as steady improvement in the commercial property market. The geographic expansion started at the end of 2004 continues to be successful with the offices in Manchester and Birmingham making a positive contribution.

The division starts the year with a forward order book which has increased to £134m (2004: £98m). Its priorities for 2006 are further geographic expansion, developing its larger project capability and the growth of Vivid Interiors.

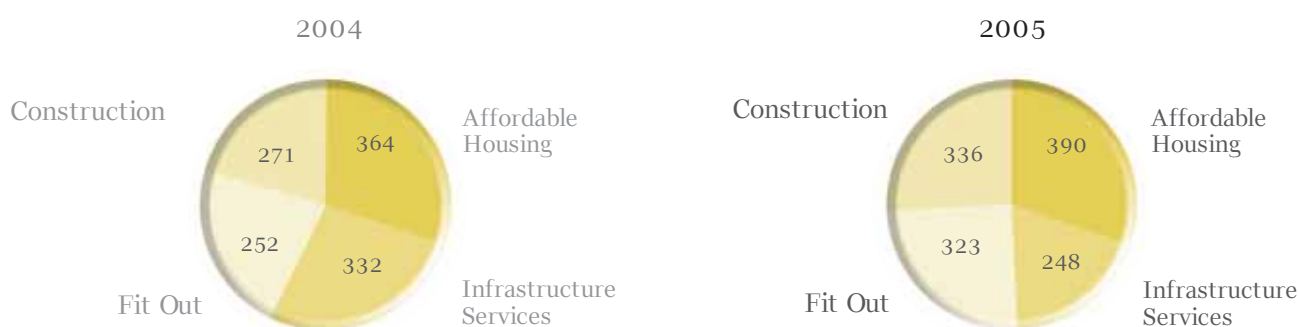
Construction

Construction's business, Bluestone, has national coverage in England and Wales and operates through seven regions and a network of 25 local offices. It has the capability to deliver projects up to £20m in value. It focuses on the health, education and light industrial sectors and primarily delivers through negotiated and framework contracts. This has helped it to move away from and reduce the inherent risks associated with competitively tendered contracts. In addition it provides smaller scale repeat works to a number of key clients across the country.

Bluestone's focus continues to underpin a steady improvement in the division's performance. In 2005 Bluestone increased its operating profit significantly to £3.2m (2004: £1.3m) on revenue of £336m (2004: £271m) with the operating margin doubling to 1.0% (2004: 0.5%).

During the year the division secured two further NHS LIFTs ('Local Improvement Finance Trust') in South East Hampshire and Doncaster bringing the total to four. NHS LIFTs are partnerships between the public and private sectors with the aim of delivering primary health and social care facilities in defined areas for a period of typically 25 years. The division also made progress in securing further workload in its chosen sectors, which now comprise around two thirds of its total revenue. It has also increased the amount of work delivered through key client, negotiated and framework contracts, which is now around 50% of total revenue compared to half that four years ago.

Revenue analysis (£'m)



In December 2004 the division acquired the trade of three offices from Benson Limited. This acquisition is now fully integrated and has been earnings enhancing in 2005.

Bluestone starts 2006 with a forward order book of £504m compared to £197m a year ago. The order book has strengthened significantly due to the securing of further framework and investment led opportunities. The focus for the division continues to be on margin improvement and on developing its offering to its chosen sectors.

Infrastructure Services

Infrastructure Services operates through Morgan Est and is a leading provider of civil engineering and utilities solutions to the water, gas, electricity and transport sectors. The division is based in Rugby and has offices providing services across the United Kingdom aligned with its client and project commitments.

In 2005 the division delivered an operating profit of £6.0m (2004: £7.8m) on an anticipated reduced revenue of £248m (2004: £332m). Margins have been maintained at 2.4% which is consistent with historic levels of 2.0% to 2.5%.

During 2005 the division has commenced major utility framework contracts, including a water and electricity contract with United Utilities in the North West (anticipated to be worth £450m over five years) and a gas utility contract with National Grid in the Midlands (anticipated to be worth £320m over eight years).

The division begins the year with a record forward order book of £824m (2004: £626m) and has secured two major civil engineering contracts at King's Cross for Metronet and at Croydon for National Grid. Despite a subdued civil engineering market the outlook for the division is improving and it is anticipated that this year's performance will be broadly similar to that achieved in 2005, but improving thereafter when the benefits of recent contract wins are fully realised.

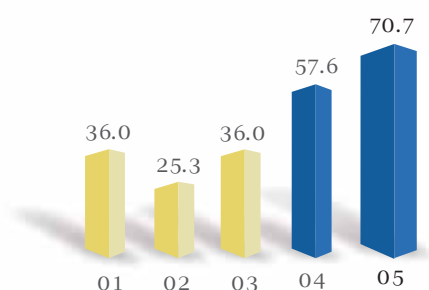
Affordable Housing

The Affordable Housing division operates through Lovell and is the UK's leading provider of affordable housing. The division delivers new build social housing, new build open market affordable housing and refurbishment for complex regeneration schemes by working closely with local authorities, arms length management organisations and housing associations. Lovell's particular expertise is in mixed tenure developments which combine new homes for public ownership as well as open market properties for sale and may also include refurbishment of existing properties within a development.

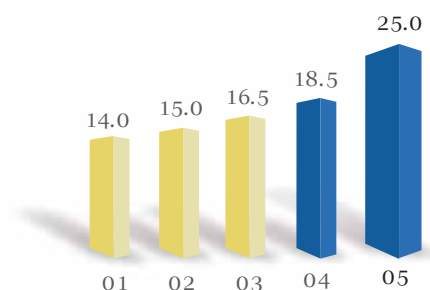
The division achieved another record result in 2005 with an operating profit of £18.7m (2004: £13.4m) on an increased revenue of £390m (2004: £364m). The division has again performed strongly in a market that continues to expand, driven by the Government's affordable housing priorities. In particular Lovell has seen significant expansion of its refurbishment operations, which now account for around half its revenue. Refurbishments are typically large schemes encompassing improvements to kitchens, bathrooms, building exteriors and public areas.

Lovell begins 2006 with a forward order book of £1.34bn stretching out over the next 10 years. The Government's Decent Homes Standard programme is expected to continue beyond the target date of 2010 and the shortage of affordable housing continues to grow, which provides a very positive outlook for the division.

Basic EPS (p)



Dividends per share (p)



Financial review

Revenue and operating profit

Revenue increased by 6% to £1.30bn (2004: £1.22bn). The increase was due to Fit Out up 28% to £323m, Construction up 24% to £336m and Affordable Housing up 7% to £390m. This growth is offset by a reduction in revenue of 25% at Infrastructure Services to £248m.

Group operating profit was up 21% to £39.9m (2004: £32.9m). This improvement was due to strong growth at Affordable Housing and Fit Out with progress also made by Construction, offset by an anticipated reduction in profit at Infrastructure Services. Fit Out increased its operating profit by 46% to £16.4m (2004: £11.2m) and Affordable Housing by 39% to £18.7m (2004: £13.4m). Construction more than doubled its operating profit taking it to £3.2m (2004: £1.3m). Infrastructure Services' operating profit reduced in line with revenue to £6.0m (2004: £7.8m). The cost of Group activities was £4.8m (2004: £3.7m) reflecting growth in headcount and operating costs. The share of results of joint ventures was £0.4m (2004: £2.8m).

Profit before and after tax

Profit before tax of £41.7m was 23% ahead of last year's £33.8m. This includes net interest of £1.8m (2004: £0.8m) reflecting a strong average cash performance during the year.

Profit after tax was £29.6m (2004: £24.0m). The tax charge was £12.1m (2004: £9.7m) giving an effective tax rate of 29%.

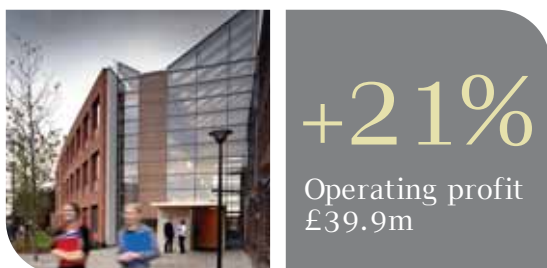
Earnings per share and dividends

Basic earnings per share have increased by 23% to 70.7p (2004: 57.6p). The final dividend is proposed at 18.0p (2004: 13.3p) giving a total dividend for the year of 25.0p up 35% on last year (2004: 18.5p). Earnings cover the dividend 2.8 times (2004: 3.1 times).

Equity and capital structure

Equity has increased to £116.6m (2004: £98.2m). The number of shares in issue at 31 December 2005 was 42.3m. The increase of 169,000 shares is due to the exercise of options under employee share option schemes. There were no other new issues during the year.

At 31 December 2005 the directors held interests over 18% of the shares of the Company and further details are disclosed in the report of the directors.



+21%

Operating profit
£39.9m



Cash flow and treasury

Net cash from operating activities was £14.5m (2004: £70.3m). Capital expenditure was £4.7m (2004: £4.3m) and payments to acquire interests in joint ventures were £6.2m (2004: nil), reflecting ongoing investment in the business. After payments for tax, dividends and servicing of finance the net decrease in cash and cash equivalents was £1.4m resulting in a year end balance of £72.0m. It is anticipated that these resources will be made available for the continued growth of the Group's businesses, particularly Affordable Housing.

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 reviewed 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. Deposits are for periods of no longer than three months and are at rates prevailing on the day of the transaction. The Group has no exposure to foreign exchange risk because its operations are based solely in the United Kingdom.

Although the Group does not use derivatives, some of its joint venture businesses use interest rate swaps to hedge floating interest rate exposures. These arrangements meet the hedging rules under International Accounting Standard 39 and hence the Group's share of the movement on these derivatives is accounted for as a movement on reserves. The hedging reserve at 31 December 2005 was £2.2m. Overall, the Group considers that its exposure to interest rate movements is appropriately managed.

Fit Out



Above:

A high profile project for Overbury was a £23m fit out of Reuters' new European head offices in Canary Wharf, Docklands.



The Fit Out division specialises in the fit out and refurbishment of commercial premises for private and public sector organisations from offices located in London, the South East, Midlands and North of England. Fit out projects are undertaken from £100,000 up to £45m in value.

The division consists of four businesses. Overbury is the leading office fit out and refurbishment specialist and works for clients who employ their own professional teams of designers. Workplace transformation specialist Morgan Lovell provides a complete design and build fit out service, from design development of clients' requirements through to the management of the fit out works. Vivid Interiors specialises in fit out and refurbishment for the hotel, retail, leisure and entertainment sectors. Backbone Furniture supplies, refurbishes and installs commercial office furniture.

The division's strategy is for each of its businesses to be the market leader in its chosen sector through the provision of superior quality, service and workmanship. In addition the aim is to maintain a balanced portfolio of sectors, thereby giving the division flexibility to sustain consistent performance in changing market conditions.

Overbury's projects range from refurbishing existing commercial office space to the complete internal fit out of a new building from its basic structure. For example, Overbury is fitting out two floors in the newly constructed iconic 25 St Mary's Axe in the City of London. The work includes installing mechanical and electrical services, lighting, flooring and carpeting, ceilings and partitioning.

Morgan Lovell's design and build approach appeals to clients who want one organisation to take their concept from design development through to completion. With a team of in-house designers, Morgan Lovell is constantly developing new approaches to transforming office interiors into inspiring places to work.

Vivid Interiors is rapidly establishing itself in its chosen sectors. It has seen particular success in the prestige hotels sector with a major programme of repeat refurbishment works at the Dorchester Hotel in London. In the entertainment sector, Vivid Interiors has won a series of theatre projects in the West End of London at the Prince Edward Theatre, the Novello Theatre and most recently at the Albery Theatre.

Top:
Public sector projects for Morgan Lovell included a £2.8m fit out of offices at the Department of Health in London.

Centre:
Backbone Furniture secured a £1.0m contract to furnish new head offices for SAB Miller in Woking.

Bottom:
Vivid Interiors carried out extensive refurbishment works for the Dorchester Hotel in London including the Promenade, Arcade, Crystal Suites, Grill Room and the new China Tang restaurant.



Construction



Above:
The new £3.9m Student Services Centre at the University of Southampton's Highfield Campus is the latest in a number of projects built for the university by Bluestone.

Bluestone provides construction services from a network of 25 offices located in seven regions across England and Wales. The business' core services include new build, refurbishment and special works under which it carries out smaller scale works including maintenance. Bluestone undertakes projects up to a value of £20m and the average project size is approximately £2m.

Bluestone's expertise is in the health, education, light industrial and repair and maintenance sectors. Currently, approximately half of its projects are secured on a long-term framework or negotiated basis rather than competitively tendered. This year Bluestone secured a three year framework, worth up to £40m, with the Driving Standards Agency to build motorcycle test centres across the country. Bluestone is also a framework construction partner delivering ongoing schemes for Warwickshire, Norfolk, Dorset and Devon County Councils.

In the health sector, Bluestone is delivering four NHS LIFTs ('Local Improvement Finance Trust'), each worth approximately £50m over five years, where the business is building primary health and social care facilities for local communities in Barnsley, Camden and Islington, South East Hampshire and Doncaster. Other schemes include a new adult mental health facility for North Devon Hospital and a new pathology unit for Princess Alexandra Hospital in Harlow.

Bluestone has a strong track record in the education sector undertaking projects for universities and schools. For example, Bluestone is building a £5m state-of-the-art Nanoscience Technology Centre for the University of Sheffield and a £7.1m refurbishment project for Thomas Becket Secondary School in Northampton.

In the industrial sector Bluestone has a particular expertise in building large steel portal framed buildings and has been awarded a £20m scheme to build two further industrial centres at Trentham Lakes. This is for Stoke on Trent Regeneration, a joint venture between Bluestone's key client St Modwen Properties plc and the City Council.

Bluestone is also expanding its special works services. As a result of existing local relationships with national clients such as Cunningham Lindsey, NHBC and Legal & General, Bluestone is increasingly providing smaller scale works and maintenance services across the country.



Top:
The new Bingfield Street Primary Care Resource Centre in Islington is the second community healthcare facility to be built by Bluestone for developers Camden & Islington Community Solutions as part of a £50m, five year NHS LIFT programme.

Centre:
Bluestone's special works and maintenance operation has become an increasingly important contributor to the business, developing local client relationships which are creating long-term repeat work.



Bottom:
Norwich's new bus station is one of the most advanced and eye-catching transport hubs in the country. Bluestone completed the £6m scheme for Norfolk County Council where it has a three year, £45m framework to carry out works to schools and public buildings across the county.



Infrastructure Services



Above:
Morgan Est's £90m programme of tunnelling projects for BAA at Heathrow's new Terminal 5 reached the final stage with the Piccadilly Line and Heathrow Express extensions nearing completion.

Top:
In Scotland, Morgan Est is one of eight partners delivering a £1.8bn water and waste water renewal programme for Scottish Water Solutions.



Morgan Est is a national business undertaking a broad spectrum of infrastructure and utility projects. It provides civil engineering, utility, tunnelling and mechanical electrical services through all phases of a project. Morgan Est is based in Rugby and has four project delivery teams namely Infrastructure Scotland, Infrastructure South, Tunnelling and Utilities. Morgan Est typically undertakes construction projects of up to £250m in value and framework contracts with an annual value of up to £100m.

In the infrastructure sector, Morgan Est offers a complete delivery process from feasibility, design and construction through to commissioning, operation and maintenance. Projects are carried out under a number of contractual arrangements, including traditional, design and build, partnering and framework agreements and Private Finance Initiative ('PFI') structures.

A notable achievement was Morgan Est's successful completion, seven months early, of the construction phase of the £53m A92 Dundee to Arbroath road widening scheme under a PFI agreement with Angus Council. Morgan Est with its partners will now operate and maintain the road under a 30 year concession agreement.

This year the balance of Morgan Est's work has moved from the civil engineering sector to the utilities sector in which it has been particularly successful. Key project wins have included a five year framework contract, worth up to £450m, with United Utilities for the renewal and maintenance of water and electricity distribution networks. Morgan Est is also one of four Gas Alliance partners appointed to carry out National Grid's £1.6bn gas mains modernisation programme. Its contract, for the West Midlands area, is worth up to £320m over eight years. Morgan Est has also commenced a £28m programme of works in the North Midlands for Central Networks to lay electricity cables, build new substations and carry out associated replacement work.



Centre:
Work started this year on an eight year, £320m alliance contract to replace gas mains across the West Midlands for National Grid.

Bottom:
The Morgan Est built A92 dual carriageway stretching 19km from Dundee to Arbroath is the largest PFI road project undertaken by local government in Scotland.



morgan=est

Affordable Housing



Above:

The Way: Lovell is using advanced off-site manufacture technology to deliver a £75m mixed tenure scheme at Beswick, East Manchester. The development is creating 550 homes for rent, shared ownership and open market sale. Homes also incorporate energy-saving micro combined heat and power systems.



Top:
Heart of Bow: A bird's-eye view of Lovell's £54m mixed tenure development in London's East End. The 279 houses and flats for affordable rent, shared ownership and open market sale are being built near the site of the 2012 Olympic stadium.

Lovell is the leading provider of affordable housing in the UK with specialist expertise in mixed tenure developments and housing refurbishment. Lovell operates from eight regional offices in England, Wales and Scotland and works in partnership with housing associations, local authorities and arms length management organisations at the cutting edge of urban regeneration and sustainability in order to provide housing for low income families.

Lovell has particular expertise in mixed tenure developments, which are built on land owned by housing organisations, to provide homes for rent, shared ownership and open market sale. These developments consist of both social and affordable open market new build homes and may also include refurbishment of existing properties. An example of this is a £75m mixed tenure scheme at Beswick, East Manchester where Lovell is building 550 new homes in partnership with urban regeneration company New East Manchester, Northern Counties Housing Association and Manchester Methodist Housing Association.

The other key area of expertise for Lovell is in housing refurbishment schemes. These are mainly concerned with improvements to kitchens, bathrooms, building exteriors and public areas. Most of these schemes are as a result of the Government's commitment to bring the UK's social housing stock up to a minimum Decent Homes Standard. As an example, Lovell is carrying out modernisation work totalling £75m over three years for the Glasgow Housing Association. The work involves re-roofing, external render and new doors while residents remain in occupation. Lovell has also started work on a seven year, large scale housing refurbishment programme worth up to £200m with Sheffield Homes. Overall, in excess of one million homes remain below the Decent Homes Standard and at the current annual rate of refurbishment the programme is expected to continue well beyond 2010.



Centre:
Kiln Fields: A mixed tenure scheme by Lovell at Haslemere in Surrey features 64 homes for rent and shared ownership for Waverley Borough Council and Thames Valley Housing Association and 20 homes for open market sale.

Bottom:
Cross Keys Homes: Lovell refurbishes around 20,000 homes a year across the UK working with housing associations, local authorities and arms length management organisations to bring properties up to the Decent Homes Standard. Current schemes include a 4,700 home modernisation programme for Cross Keys Homes in Peterborough.



Board of directors

John Morgan (50) Executive Chairman

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 (46) Chief Executive

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 (36) Finance Director

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.

Paul Whitmore (51) Commercial Director

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.

Bernard Asher (69) Non-executive

Appointed to the Board in March 1998 and recognised as the senior independent director since 1999. Chairman of Lion Trust Asset Management plc, director of China Shoto plc and senior independent director of Randgold Resources Limited. Formerly a director of HSBC Holdings plc and vice chairman of Legal & General Group plc.

Gill Barr (47) Non-executive

Joined the Board in September 2004. Gill is chief executive of Deliverance Limited, 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 (52) Non-executive

Joined the Board in May 2001. He is currently managing director of Lex Vehicle Leasing Limited and was formerly a main board director of RAC plc. 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 (50) Non-executive

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 client services. He assumed a non-executive role from August 2001. Jack is a chartered surveyor with an MBA.



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



Report of the directors

Introduction

The directors present their annual report on the affairs of the Group together with the financial statements and independent auditors' reports for the year ended 31 December 2005.

Principal activities

Morgan Sindall is a construction group with four divisions: Fit Out, Construction, Infrastructure Services and Affordable Housing. The principal subsidiary companies operating within this divisional structure are shown on page 83. The principal activities are carried out in the United Kingdom and the Channel Islands.

Business review and future developments

A review of the business and progress 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 17. The OFR also includes details of expected future developments in the Group.

Details of the use by the Company and its subsidiary undertakings of financial instruments are set out in the OFR and in note 15 to the accounts on page 56.

Results and dividends

The Group made a profit after tax for the year of £29.6m (2004: £24.0m). An interim dividend of 7.0p (2004: 5.3p) per ordinary share amounting to £2.9m (2004: £2.2m) was paid on 16 September 2005. The directors are recommending a final dividend for the year of 18.0p (2004:13.3p) per share amounting to £7.5m (2004: £5.6m) payable on 5 May 2006 to shareholders on the register at close of business on 7 April 2006.

Fixed assets

The Group's remaining investment property was disposed of during the year.

Share capital

Details of shares allotted and issued during the year on the exercise of options under employee share option schemes appear in note 22 to the accounts on page 63. No other shares were issued during the year.

Directors

The directors at the date of this report are shown on page 18. John Bishop retired from the Board on 12 April 2005. All of the other directors held office throughout the year. Further information on the Board's policies and procedures is set out in the corporate governance statement on pages 35 to 38.

Paul Smith and Jack Lovell will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Biographical details of the directors standing for re-election are shown on page 18. As further explained in the corporate governance statement, the Board is satisfied that Jack Lovell continues to be an effective member of the Board and to demonstrate commitment to the role.

Directors' interests

The interests of the directors, all of which are beneficial, in the ordinary shares of 5p each in the capital of the Company ('shares') are given below.

	2005 Number of shares	2004 Number of shares
John Morgan	4,331,038	5,831,038
Paul Smith	2,876	2,876
David Mulligan	1,250	1,250
Paul Whitmore	2,250	2,250
Bernard Asher	5,000	5,000
Gill Barr	-	-
Jon Walden	-	-
Jack Lovell	3,409,968	3,409,968

There have been no changes in the interests of the directors between 31 December 2005 and 22 February 2006.

Report of the directors

The directors' share options and interests in shares under long-term share incentive and other schemes are set out in the directors' remuneration report on pages 32 to 34.

Directors' indemnities

The articles of association of the Company entitle the directors of the Company to be indemnified, to the extent permitted by the Companies Act 1985 and any other applicable legislation, out of the assets of the Company in the event that they suffer any loss or incur any liability in connection with the execution of their duties as directors, as further described under Amendment to articles of association on page 23.

In addition, in common with many other companies, the Company has in place directors and officers insurance in favour of its directors and other officers in respect of certain losses or liability to which they may be exposed due to their office.

Post balance sheet event

On 1 February 2006 the Group acquired from certain private individuals the 52.5% holding in Primary Medical Property Limited that it did not already own and subsequently agreed to enter into a joint venture agreement with, and dispose of 50% of its interest in Primary Medical Property Limited to a fund managed by Barclays Private Equity. Further details of the transaction are contained in note 28 to the accounts on page 67.

Substantial shareholdings

Excluding directors, on 20 February 2006, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the share capital of the Company:

Name of holder	Number	%
Standard Life Group	1,729,878	4.09
Aviva plc	1,680,539	3.97
Barclays plc	1,347,641	3.18

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 need to ensure effective communication with employees. The key channels used 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 directories. Its news desk is updated regularly and features a constant flow of news about the Group and the construction industry sectors in which the Group operates.

Morgan Sindall News, the Group's newsletter, is sent to all employees every four months. It reviews the Group's activities and outlines its future plans to give employees 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.

Creditor payment policy

The Company's policy, which is also adopted by the Group, is to clearly agree and set down the terms of payment with suppliers and subcontractors when agreeing the terms for each transaction and to make payments in accordance with its obligations, save in cases of genuine dispute.

As at 31 December 2005 the Group's number of creditor days outstanding was equivalent to 30 days' purchases (2004: 31 days), based on the average daily amount invoiced by suppliers during the year.

Report of the directors

Political and charitable contributions

During the year the Group made charitable donations of £53,984 (2004: £24,411) 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.

Directors' responsibility statement

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards ('IFRS') and have chosen to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP').

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'.

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a report of the directors and the directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

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.

Report of the directors

Annual general meeting

The annual general meeting of the Company will be held on 25 April 2006. The notice of the meeting is set out on pages 84 to 86. In addition to the ordinary business to be transacted at the meeting, the following items of special business will be proposed:

Authority to allot shares

An ordinary resolution will be proposed to give the directors authority to allot share capital in the Company in accordance with section 80 of the Companies Act 1985 ('the Act'). The authority will be limited to an aggregate nominal value of £705,482 representing approximately one third of the current issued share capital of the Company and will expire fifteen months from the date on which this resolution is passed or, if earlier, at the conclusion of the next annual general meeting. The directors currently have no intention of issuing further shares or granting rights over shares other than in connection with the Company's employee share option and share incentive schemes.

Disapplication of pre-emption rights

A special resolution will be proposed to renew the directors' power to allot equity securities for cash other than by way of rights or other pre-emptive issues. The power will be limited to an aggregate nominal value of £105,822, representing approximately 5% of the current issued ordinary share capital of the Company and will expire fifteen months from the date on which the resolution is passed or, if earlier, at the conclusion of the next annual general meeting.

Amendment to articles of association

A special resolution will be proposed to amend article 146 of the articles of association of the Company. Article 146 currently permits the Company to indemnify its directors, auditor, secretary and other officers against liability incurred in defending civil or criminal proceedings in which judgment is given in their favour or the proceedings are withdrawn or they are acquitted, and against the costs of successfully applying for relief from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

By virtue of legislation relating to the indemnification of directors which came into effect on 6 April 2005, directors can now be indemnified in respect of liabilities incurred by them in proceedings brought against them by third parties. They can also be indemnified in certain circumstances in respect of the costs of civil and criminal proceedings as and when such costs are incurred. However, the indemnity cannot cover liability incurred by a director to the Company or any associated company; fines imposed in criminal proceedings and penalties imposed by regulatory authorities; costs incurred in civil proceedings brought by the Company or an associated company where judgement is given against him or costs incurred in proceedings for relief where relief is refused by the court.

A special resolution will be proposed to amend Article 146. The proposed new Article 146 excludes the auditors of the Company from indemnification and continues to require the Company to indemnify its officers to the extent permitted under the Act prior to 6 April 2005 and, additionally, requires the Company to indemnify its directors to the extent permitted under the recent legislative provisions summarised in the preceding paragraph.

The directors are of the opinion that the aforementioned resolutions are in the best interests of the Company and its shareholders as a whole and recommend you to vote in favour of them.

Independent auditors

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

By order of the Board

Mary Nettleship

Company Secretary

22 February 2006

Corporate social responsibility review

The Group is committed to continuous improvement in its Corporate Social Responsibility ('CSR') activities and has analysed the businesses in terms of their impact on all stakeholders and has identified areas where the Group's performance can be improved:

- recognising that people are the key to success through the recruitment of talented people and by offering all employees the opportunity to enhance their learning and development;
- improving awareness of health and safety issues throughout the Group and working to reduce accident incidence rates across the Group's own and subcontracted workforce;
- improving the Group's performance in environmental management and the impact of its activities on the environment; and
- developing Group initiatives by investing in the communities in which it operates through voluntary fund raising activities, encouraging employees to undertake 'community business work', training programmes for young offenders and mentoring programmes with local schools.

During 2005 the Group has continued its aim of establishing a fully integrated management system within each of its divisions that will connect its activities in addressing health and safety, environmental management, community and people issues. These key areas of activity are covered by a consolidated CSR policy document, which is available on the Group's intranet and website.

Paul Whitmore is the executive director responsible for CSR matters on behalf of the Board and held the chair of the CSR Forum until November 2005 when the Group's deputy company secretary took over the chair. The CSR Forum was set up in 2002 to review the Group's activities in terms of its employees and the wider community, health and safety and the environment and to develop a co-ordinated approach across the Group to these matters. The CSR Forum comprises representatives from the four divisions. During the year membership of the CSR Forum was extended to include the Group's head of procurement to assist the forum in involving the Group's consultants, suppliers and subcontractors in its overall review of health and safety and environmental issues.

The CSR Forum 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 – 99% of the Group by revenue has an accredited system with the remaining 1% working towards achieving accreditation by the end of 2006;
- BS EN ISO14001 Environmental Management System – 100% of the Group has an accredited system; and
- OHSAS 18001 Occupational Health and Safety System – 68% of the Group has an accredited system in place with 28% having a currently uncertified health and safety management system. It is anticipated that 99% of the Group will have secured accreditation by the end of 2006 with the remaining 1% expected to achieve accreditation in 2007.

As shown above, although the divisions have made significant progress in securing ISO accreditations for their quality, environment and health and safety systems, the initial target has been revised in terms of achieving full accreditation under ISO9001(2000) and OHSAS 18001. Once the divisions have achieved accreditation, the next stage will be to develop integrated management systems to link all of the above.

Employees

The CSR forum has established a human resources committee, with a rotational chair, that consists of the heads of human resources in the four divisions. The committee regularly reviews human resources policies and procedures, employee remuneration and benefit packages 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.

During 2005 the divisions have actively involved employees and sought their views through the use of facilitated focus groups and employee surveys.

Certain divisions have an Employee Assistance programme which provides employees with a confidential external counselling service 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.

The Group offers a variety of training to its employees including induction, job specific training and personal and general management development courses. In 2005 the average number of training days per employee in the Group was five (2004: four). In 2004 Morgan Sindall introduced a modular development programme ('MSDP') for all senior management that runs over a two year period based upon five residential modules. There are currently 130 (2004: 39) senior managers in the Group at various stages of MSDP.

In 2006, the Group will monitor statistics in the following areas:

- proportion of the Group (by revenue) with human resources policies and procedures;
- number of employees;
- employee turnover rate;
- average number of days' absence due to sickness per employee;
- statistics for gender, ethnicity and disability as a percentage of the total number of employees; and
- training statistics for the number of training days per employee.

Corporate social responsibility review

Health and safety

The Board recognises and acknowledges the fundamental importance of health and safety in all its activities. Paul Whitmore is the executive director responsible on behalf of the Board for health and safety matters. The other members of the committee are the health and safety managers of the four divisions. 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 divisions 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; and
- providing 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.

All employees of the Group are 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 divisions and to take reasonable care for their own safety and that of others involved in or affected by our works.'

The Group has decided to bring its reporting of health and safety statistics in line with the Group's financial year end reporting as opposed to the fiscal year ending 5 April as used in previous years. The health and safety statistics for the Group for the years ending 31 December 2003, 2004 and 2005 are:

Accident Category	2005	2004	2003
Fatal (Number)	–	–	–
Major incidents (AIR)*	203	216	209
Over 3 day incidents (AIR)*	778	858	866
Total of all reportable incidents (AIR)*	981	1,074	1,075

*Accident Incidence Rate (AIR) is per 100,000 persons employed and is calculated as:

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

The Group has stabilised the rate of 'Major' incidents and has reduced the incidence of 'Over 3 day' incidents by 9%. In overall terms the annualised AIR has reduced by approximately 9%.

In 2005 the Group introduced a policy on occupational health monitoring which has been implemented across the Group. The divisions are using external consultants to screen all existing and new employees for the symptoms of hand arm vibration syndrome, vibration white finger, impaired hearing, dermatitis and muscular skeletal disorders, in keeping with the Major Contractors Group's health and safety charter. Specific ventures are being developed in partnership with strategic suppliers to publish information in respect of vibration exposure times and ratings applicable to key items of mechanical plant in everyday use on the Group's sites.

As at 31 October 2005, 87% (2004: 88%) of the Group's employees had passed the health and safety test and secured the appropriate Construction Skills Certification Scheme ('CSCS') card. The percentage of subcontractors certified as compliant has increased to 61% (2004: 55%) against the same criteria. Both results reflect the outcome of an audit carried out on a single date, and the Group is aware that the site population can vary considerably from day to day. The Group's focus is on improving the quality of its supply chain and seeking to employ subcontractors who are able to demonstrate the adoption of competent health and safety management systems and adherence to the CSCS criteria.

The Group is continuing the development and expansion of its existing health and safety programmes. The 'Your Life Their Loss' initiative in Affordable Housing and the 'Work Safe Home Safe' initiative in the remaining divisions are both now entering their third year. The directors consider that there has been marked success in the adoption of an improving health and safety culture on its construction sites. The programmed development of material to support daily safety briefings, toolbox talks and bi-monthly or quarterly key health and safety themes is continuing with full participation from all divisions.

Corporate social responsibility review

In order to increase awareness and change behaviour, the Group is actively participating in the Health and Safety Executive's 'New Intervention Strategy'. Throughout 2005 Fit Out has continued with a programme of health and safety secondments with four site managers being seconded to the Fit Out health and safety team for periods of up to three months in order to better understand health and safety issues. Both Affordable Housing and the Construction division have undertaken health and safety talks in primary schools in the vicinity of their various projects to raise awareness amongst children of the dangers of building sites.

In 2006, the Group will encourage further a caring and supportive culture in which everyone takes responsibility for their part in keeping themselves, their colleagues and the general public safe and free from avoidable harm. There will be a strong emphasis placed upon reducing the frequency and impact of the most commonly occurring accidents, slips, trips and falls and the elimination of cuts to hands through the reinforcement of a gloves policy tailored to meet everyday tasks, in partnership with specialist industrial glove manufacturers.

Environment

The Group is committed to minimising the impact of its business and its processes on the natural environment and the community at large. To achieve this each division has implemented an effective environmental management system to the acknowledged standard BS EN ISO14001. The purpose of such systems is to:

- 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; and
- establish procedures for publishing information regarding the Group's progress.

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 procedure 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; and
- disseminating information on best practice through the management teams of each division.

The table below sets out the four priorities that the Group set itself for environmental monitoring in 2005 and details of the Group's progress in these areas to date:

2005 Objectives	2005 Progress
Completion of the accreditation process for all parts of the Group.	100% of the Group by turnover has implemented environmental management systems which have achieved accreditation to ISO14001.
Maintaining the Group's performance in terms of prosecutions and minimising the number of cautions and enforcement notices received.	<p>The Group did not receive any prosecutions or cautions in 2005 although it did receive environmental notices for:</p> <ul style="list-style-type: none"> • a notice under Section 34/35 of the Environmental protection Act 1990 was received by Affordable Housing relating to the transfer of excavated material from site. The division has complied with the notice and subsequent investigation identified that all Duty of Care requirements had been met; and • a Section 60 notice under the Control of Pollution Act 1974 was issued by a Westminster Council noise control officer to Fit Out, in response to a complaint by a resident. In order to alleviate the problem, night work was suspended at the site pending agreement between the Client and Westminster Council.
Development and implementation of a data reporting system available on the Company's website, addressing initially waste and energy.	The Group has developed a quarterly reporting programme for environmental data which currently covers waste and energy.
Conformity with ethical trading practices for timber products.	In 2005, the Group finalised its policy on the ethical procurement of timber products. The Group will work towards collating data on the amount of timber procured from sustainable sources in 2006.

Corporate social responsibility review

Affordable Housing has set up an office waste paper recycling programme which has seen the planting of 18 trees to compensate for their paper usage during the year and is introducing waste segregation and recycling initiatives on their sites.

Within the Fit Out division, both Overbury and Vivid became carbon neutral in 2005 with Overbury offsetting 520 tonnes of carbon dioxide generated by its three offices and from business travel. Similarly Vivid will offset the 90 tonnes of carbon dioxide which it is expected to generate in 2006. In addition, Backbone has begun recycling clients' unwanted furniture through a charitable organisation.

At a project in Havant, the Construction division identified at an early stage that it had sufficient space to introduce a comprehensive waste management system on the site. Working with partners they installed separate skips for timber, mixed waste, metal, rubble, hardcore and a bulker for reducing cardboard and packaging. The division also worked with suppliers and subcontractors to minimise the amount of packaging used in the supply and delivery of materials. This has enabled it to reduce the burden on landfill, minimise the number of wagon movements together with offering a financial saving over the course of the project. Where practicable, the division will seek to introduce similar systems on future projects.

For their work at the Evesham Sewage Treatment Works Development Scheme, Infrastructure Services was awarded the Platinum Award at Severn Trent's sustainability awards 'for a well presented project to augment an existing asset which had a strong focus on environmental management aspects'.

The Group has set itself the following objectives for 2006:

- maintaining ISO14001 accreditations within each division;
- developing strategies for reducing carbon dioxide emissions and waste streams;
- monitoring prosecutions, cautions and environmental notices as a basic measure of environmental performance; and
- engaging with the supply chain in each division to develop strategies for improving their environmental performance and to assist in further improving the Group's performance.

Community

The Group has developed a variety of initiatives for interacting with and assisting the communities in which they operate. Some examples of these are given below:

In 2005, the Affordable Housing division has continued to promote its Company Mentoring Scheme, whereby it works in partnership with a national network of schools and colleges to develop construction skills and career aspirations for 14 to 18 year olds. Under a new initiative developed during the year with HM Prison Onley near Rugby, the division is providing training and employment opportunities for ex-offenders who have completed the prison's brickwork construction course. The scheme's first two bricklayers are currently training at a construction site in the Midlands. Various Affordable Housing employees have also been involved in projects to improve community facilities in the vicinity of their projects.

Infrastructure Services has a number of senior engineers who are involved in promoting the engineering profession to school children through careers lectures, engineering days in schools, supporting business days and leadership conferences. They also undertake mock interviews with school leavers in order to help them hone their interview skills prior to entering the workplace. They work alongside the CITB in promoting careers in construction and provide work experience placements in engineering design.

The Group supports the Women in Construction Initiative and an Affordable Housing employee is currently the Scottish representative of the National Association of Women in Construction. The divisions are also involved in various local authority action zone projects. The Group supports local charities in a variety of ways either through financial assistance or benefits in kind, such as the donation of office equipment. Details of charitable donations are shown on page 22.

In 2005, the Group also actively participated in the Metropolitan Police campaign 'Street Vibe' in which it sponsored educational support for teenage children at the New North Community School in Islington aimed at educating them about the potential damage inflicted by alcohol, drugs, street and car crime, bullying and violence.

The Group actively supports the principles enshrined in the Considerate Contractors Schemes and in 2005 these principles were applied to 176 (2004: 173) projects.

Summary

As illustrated above, the Group is establishing an effective strategy to plan and develop its CSR activities. Through commitment to the education of its employees and the expansion of knowledge of CSR issues, the Group is well positioned to meet its CSR obligations as it continues to grow.

Directors' remuneration report

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 to be held on 25 April 2006.

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') during 2005 were Gill Barr (chair), Bernard Asher and Jon Walden, all of whom are independent non-executive directors.

The committee is responsible for determining and agreeing with the Board the broad policy for the remuneration of the executive directors, including the executive chairman. It sets the salaries and remuneration packages for the executive directors and monitors the structure and level of 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.

During the year, the committee was assisted by New Bridge Street Consultants LLP ('NBSC') on a number of aspects of the remuneration packages for the executive directors, including awards made under the Morgan Sindall Executive Remuneration Plan 2005. The committee also consulted the chief executive, the finance director and the chairman, but not in relation to their own remuneration. NBSC did not provide any other services to the Company or the Group.

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; and
- to align the interests of executives with those of the shareholders.

A fundamental review of the Company's remuneration structure was carried out by NBSC in 2004 at the request of the committee. This resulted in a revised remuneration structure for 2005 with a more 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 rewards focus on Group performance with demanding criteria over a three year period, whilst short-term rewards are more closely linked to targets for the financial year and, in the case of senior executives, targets in the specific areas of responsibility of each individual. The committee has decided to retain the same remuneration structure for 2006.

Base salary

The base salary of individual executive directors is determined by the committee prior to the beginning of each year and, if appropriate, if an individual's position or responsibilities change. The base salaries of the executive directors for 2005 were set by the committee following a benchmarking exercise carried out on its behalf by NBSC for each individual executive director against a comparator group of twenty five companies of a similar size and profile.

Other benefits in kind

The executive directors receive certain other benefits, principally a car allowance and benefits in kind, namely private medical insurance and life assurance.

Annual bonus

At the end of each financial year, the committee establishes the targets to be met for the executive directors to earn a cash bonus in respect of the following year. For the 2005 financial year, the performance criteria were Group profit based targets set taking into account the previous year's likely outturn profit and growth expectations. The maximum bonus payable in cash represented 75% of base salary (100% of salary for John Bishop who did not receive a long-term incentive award in 2005) and required profit before tax for 2005 to exceed the Group budget by more than 10% and this profit target was achieved.

Directors' remuneration report

In recognition of the record results achieved and the outstanding performance of the Group in 2005, the committee has decided to award an additional one-off bonus to Paul Smith this year to reflect his key contribution towards the Group's success. In order to align his interests with shareholders, this bonus will take the form of a deferred share award of 20,000 shares to be granted following the announcement of the Company's preliminary results. The shares will be held in trust for two years and he may be required to forfeit them if he ceases to be employed by the Company during that period.

For the 2006 financial year, executive directors will have the potential to earn a cash bonus worth up to 75% of base salary with performance measures and targets based on similar principles to those in respect of 2005.

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

Long-term incentives

Morgan Sindall Executive Remuneration Plan 2005 ('the 2005 Plan')

Following the review carried out by NBSC in 2004, the committee concluded that the Company should have the ability to offer senior executives performance shares and/or share options as a long-term incentive under the 2005 Plan which was approved by shareholders at the annual general meeting of the Company on 12 April 2005. The committee considers that the flexibility to grant both types of award provides a suitable balance of performance related incentives, with options rewarding share price growth, with performance shares encouraging executive retention and with both types of incentive rewarding sustained growth in earnings.

A summary of the 2005 Plan is set out below:

Award levels

In normal circumstances, the maximum annual award, which is subject to the achievement of testing performance targets, will be performance shares worth 75% of base salary (100% of salary in exceptional circumstances). For the grant of awards made in 2005, executives were given the choice at the time of grant of receiving their awards 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 4 share options for every 1 performance share. It is anticipated that future awards will give executives a similar choice, with the awards to be granted in 2006 being offered on the same ratio.

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 which should be reflected over time in enhanced shareholder value.

The vesting of share options and performance shares awarded will be determined by the Group's EPS performance against the Retail Prices Index ('RPI'), over a single three year period with no opportunity to re-test performance. The committee will ensure that EPS is calculated on a consistent basis during the transition to and under IFRS.

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 2006, based on the three year performance period to 31 December 2008:

Average annual EPS performance in excess of RPI

Performance shares	Share options	Vesting percentage
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

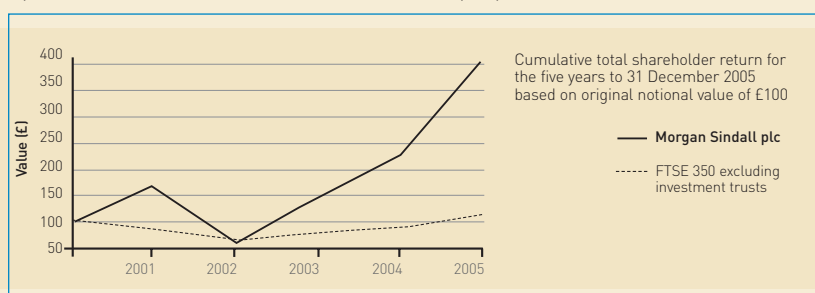
Pension arrangements

The Company makes contributions equivalent to 10% of base salary, in the case of David Mulligan, to the Morgan Sindall Retirement Benefit Plan and, in the case of the other executive directors, to their individual personal pension plans.

Directors' remuneration report

Performance graph

The graph below shows a comparison of the total shareholder return for the Company's shares over the last five financial years against the total shareholder return for the companies comprised 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 for this purpose.



Service contracts

It is the Company's policy that executive directors' service contracts should be 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 to mitigate his 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 executive directors' contracts are:

John Morgan	28 October 1994
Paul Smith	18 February 2003
David Mulligan	1 March 2004
Paul Whitmore	21 March 2000

At the discretion of the Board, executive directors are allowed to act as non-executive directors of other companies and retain any fees relating to that post. Currently John Morgan acts as a non-executive director of Genetix plc and receives a fee of £20,000 per annum.

Non-executive directors

The dates of the terms of engagement of the non-executive directors are:

Bernard Asher	4 February 1998
Gill Barr	11 August 2004
Jack Lovell	2 August 2001
Jon Walden	5 April 2001

All non-executive directors have specific terms of engagement being an initial period of three years which thereafter may be extended by mutual consent. Their remuneration is determined by the Board within the limits set by the articles of association of the Company and is based on surveys together with external advice as appropriate. At the annual general meeting in 2005, a resolution was passed to increase the limit on directors' fees, which enabled the Company to increase the fees payable to the non-executive directors to market competitive levels after several years at the same rate. Fees for 2006 will comprise a basic fee of £35,000 and, to reflect their additional responsibilities and time commitment, an additional fee of £5,000 and £3,000 will be paid to the chairs of the audit and remuneration committees respectively. Non-executive directors cannot participate in any Company share based incentive plan and do not receive any other benefits.

Directors' remuneration report

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2005 £'000s	2004 £'000s
Emoluments	2,054	1,902
Amounts vesting under long-term incentive schemes	–	162
Money purchase pension contributions	105	99

Directors' emoluments

Name of director	Fees/basic salary £'000s	Benefits £'000s	Annual cash bonuses ¹ £'000s	Total 2005 £'000s	Total 2004 £'000s
Executive					
John Morgan	260	17	195	472	401
Paul Smith	330	17	248	595	506
David Mulligan	170	14	128	312	207
Paul Whitmore	200	16	150	366	344
John Bishop ²	83	7	83	173	344
	1,043	71	804	1,918	1,802
Non-executive					
Bernard Asher	34	–	–	34	25
Gill Barr	34	–	–	34	9
Jon Walden	34	–	–	34	25
Jack Lovell	34	–	–	34	25
	136	–	–	136	84
Totals	1,179	71	804	2,054	1,886 ³

¹ The maximum Group profit target of £38.1m was achieved in 2005 and the executive directors are therefore eligible to receive their maximum cash bonus. In addition, Paul Smith was awarded a one-off bonus of 20,000 shares, deferred for two years as explained above. These shares will be granted following the announcement of the Company's preliminary results in February 2006 and details will be included in next year's directors' remuneration report.

² Upon ceasing to be a director of the Company in April 2005, John Bishop remained in full time employment with the Company until 31 May 2005 and subsequently remains employed on a part time basis until 31 May 2006. The figures in the table above reflect remuneration earned in respect of his period of full time employment during the year. In respect of his period of part time employment, he receives a salary of £15,000 per annum and benefits worth £1,000. Following his departure from the Board, 19,598 of his outstanding share awards under the LTIP were voluntarily waived. The committee approved a contribution by the Company of £167,457 to his personal pension fund, equivalent to the market value of the shares waived plus the value of employers' National Insurance saved by the Company as a result of the waiver. John Bishop received no compensatory award.

³ This figure differs from the aggregate emoluments in the previous table by £16,000, being the fees paid to a former non-executive director in 2004.

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

Directors' remuneration report

Pensions

The Company contributes 10% of base salary to the Morgan Sindall Retirement Benefit Plan in the case of David Mulligan and to personal pension plans of the other executive directors. The contributions paid by the Company to these plans were:

	2005 £'000s	2004 £'000s
John Morgan	26	22
Paul Smith	33	28
David Mulligan	18	11
Paul Whitmore	20	19
John Bishop ¹	8	19
Totals	105	99

¹ The amount shown in the table for John Bishop reflects contributions paid to his personal pension plan in respect of his period of full time employment with the Company. A further payment by the Company into his pension plan was subsequently made, as detailed in note 2 to the table of directors' emoluments above.

The 2005 Plan

The following awards were made to executive directors under the 2005 Plan:

Performance shares			
	Shares awarded	Date of award	Date awards vest
Paul Smith	17,093	20 May 2005	20 May 2008
David Mulligan	8,805	20 May 2005	20 May 2008
Paul Whitmore	20,718	20 May 2005	20 May 2008

Share options					
	Granted	Date granted	Exercise price	Date from which exercisable	Expiry date
John Morgan	107,736	20 May 2005	£7.24	20 May 2008	20 May 2015
Paul Smith	68,370	20 May 2005	£7.24	20 May 2008	20 May 2015
David Mulligan	35,220	20 May 2005	£7.24	20 May 2008	20 May 2015

Notes:

- The market price of a share on 20 May 2005 was £7.30;
- Awards of performance shares and share options are subject to an EPS performance condition measured over a three year period with full vesting of awards for average EPS growth of RPI + 10% per annum reducing on a sliding scale to 25% vesting for average growth of RPI + 4% per annum (performance shares) or RPI + 5% per annum (share options).

Directors' remuneration report

Legacy plans

Long-term incentive plan ('LTIP')

Set out below are details of outstanding awards made to executive directors under the Company's LTIP. No awards have been granted under the LTIP since 2003 and there is no intention to grant further awards. The outstanding awards are conditional upon the Group's total shareholder return performance over a three year period compared with a selected peer group. Once shares have been allocated to the executive after the three year performance period, the executive is entitled to receive dividends in respect of those shares and to exercise voting rights but may not transfer or otherwise deal in those shares until a further two years have elapsed and he may be required to forfeit the shares if he ceases to be employed by the Company during that period. After two years they will vest in his name.

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

Name	Shares conditionally awarded				Shares allocated but not vested		
	As at 1 Jan 2005	Allocated Mar 2005	Lapsed Mar 2005	As at 31 Dec 2005 ¹	As at 1 Jan 2005	Allocated Mar 2005	As at 31 Dec 2005 ²
John Morgan	59,093	(13,025)	(5,218)	40,850	7,852	13,025	20,877
Paul Whitmore	51,800	(11,355)	(4,549)	35,896	6,366	11,355	17,721
John Bishop ³	52,773	(11,689)	(24,281)	16,803	7,003	11,689	18,692

¹ The outstanding conditional awards as at 31 December 2005 comprise the conditional awards granted on 30 June 2003. Preliminary figures for the year to 31 December 2005 indicate that upon expiry of the three year period from date of grant, 100% of the shares will be allocated to the participants.

² No awards, which had been allocated in prior years, vested during 2005.

³ When John Bishop ceased to be a full time employee at the end of May 2005, 36,401 shares had been conditionally awarded to him in respect of the 2003 LTIP award. He also had a total of 18,692 shares allocated to him from the 2001 and 2002 LTIP awards and 6,876 nil cost options awarded under the Deferred Share Bonus Plan (see below) that had not yet vested at that date. As referred to above, 19,598 of his outstanding shares under the 2003 LTIP award have been voluntarily waived (included in the 'Lapsed Mar 2005' column in the table above). To reflect John Bishop's critical role in the growth and development of the Company over the past twelve years, the committee currently intends to exercise its discretion and allow a proportion of the outstanding awards to vest when he ceases to be a part time employee in 2006.

Deferred share bonus plan

The following nil-cost options over shares were granted to the executive directors on 10 March 2005. These represented 25% of the annual bonus earned in respect of the year ended 31 December 2004. No long-term incentive awards were made to the executive directors in respect of that financial year. The nil-cost options will be exercisable for five years from 10 March 2008, being three years after the date of grant. The market value of a share on the date of grant was 712.5p.

Nil cost share options	
	No.
John Morgan	8,046
Paul Smith	10,241
David Mulligan	4,114
Paul Whitmore	6,876
John Bishop	6,876

Directors' remuneration report

Share options

Details of options granted under the 1995 share option scheme ('1995 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 Mar 2003	£2.07	10 Mar 2008	9 Mar 2010

The market price of a share on 31 December 2005 was 929.5p and the range during the year was 539p to 935p.

Options were granted to Paul Smith under the 1995 scheme as part of his initial employment package in 2003 and in lieu of participation in the LTIP. No other executive director has any options outstanding under the 1995 scheme. Details of options granted under the 1995 scheme to other employees in the Group are shown in note 22 to the accounts on page 63. No further options may be granted under the 1995 scheme.

The original performance condition for options granted under the 1995 scheme required the growth in the Company's EPS over a period of five consecutive financial years to be sufficient to rank it within the upper quartile compared to the EPS growth of a comparator group of FTSE 100 companies. However, the introduction of IFRS from 2005 has created a significant problem in measuring this performance condition because the accounts used for calculating the base EPS figures are derived on a UK GAAP basis and the end EPS figures will be derived on an IFRS basis.

It is not considered practicable by the committee to make the necessary adjustments to try to measure the base and end figures on a consistent accounting basis for all FTSE 100 companies. Accordingly, the committee (following consultation with leading shareholders and in accordance with the rules of the 1995 scheme) has amended the performance condition to use a comparative total shareholder return ('TSR') measure rather than a comparative EPS measure. As a result, outstanding options under the 1995 scheme are now only exercisable if the Company's TSR is ranked at or above the upper quartile compared to a comparator group of FTSE 100 companies over a period of five consecutive financial years.

This report was approved by the Board of directors and signed on its behalf by:

Gill Barr

Chair of the Remuneration Committee
22 February 2006

Corporate governance statement

Governance framework

The Board recognises the importance of high standards of corporate governance and is committed to managing the Group's affairs in accordance with the principles of good governance set out in section 1 of the Code. A summary of how the Company has applied the principles of the Code is set out below.

The Board has considered the provisions of the Code and considers that it was substantially in compliance throughout the year ended 31 December 2005, save in respect of provision D.1.1 which requires the senior independent director to attend sufficient meetings with a range of major shareholders to listen to their views in order to develop a balanced understanding of their issues and concerns. Whilst the senior independent director, as well as the other non-executive directors, has been available to meet with shareholders if they so request, no such meetings took place during the year. Given the amount of feedback from shareholders to the Board, as further described below, the directors are satisfied that the absence of such meetings has not affected the ability of the senior independent director to understand shareholder issues and concerns.

Directors

The Board currently comprises an executive chairman, three further executive directors and four non-executive directors. All of the non-executive directors, with the exception of Jack Lovell, are considered by the Board and under the Code to be independent. Jack Lovell is a former executive director of the Company and a significant shareholder. The senior independent director is Bernard Asher.

The Board has a separate chairman and chief executive in line with the Code provision A.2. John Morgan as executive chairman takes responsibility for leading the Board and ensuring that it functions effectively and for the overall strategy of the Group whilst Paul Smith as chief executive is responsible for managing the businesses and critically assessing Group strategy. The Board has set out and agreed a schedule that details their individual roles and responsibilities.

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.

Although the Company entered the FTSE 350 during 2005, it continued to qualify as a smaller company (as defined by the Code) during the year under review. As such, it fell within the exemption for smaller companies from the requirement in provision A.3.2 that at least half the Board, excluding the chairman, should comprise independent non-executive directors. It is recognised, however, that the Company is currently not in compliance with this provision. The nominations committee has considered the size and balance of the Board and recommended to the Board that the existing structure was satisfactory and that increasing the Board would not benefit the Group. The Board does not, therefore, have any current intention to recruit a further independent non-executive director although the matter will be kept under review.

The articles of association of the Company require all directors to submit 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. Paul Smith and Jack Lovell are retiring by rotation and will offer themselves for re-election at the forthcoming annual general meeting.

Board effectiveness

Nine scheduled meetings of the Board were held during the year. The key purposes of the scheduled meetings were to review all significant aspects of the Group's activities, supervise the executive management and to make decisions in relation to those matters that 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, significant capital expenditure and investment proposals, major projects, acquisitions and disposals, internal control arrangements and annual and interim results. Other specific responsibilities are delegated to the Board committees described below and under Group delegated authorities. In addition, ad hoc meetings are convened for specific purposes.

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, together with relevant papers including key strategic, operational and financial information.

Corporate governance statement

Attendance of individual directors during 2005 at scheduled Board meetings and at meetings of the remuneration, audit and nominations committees is set out below.

Name of director	Board	Remuneration committee	Audit committee	Nominations committee
Total no. of meetings	9	8	3	1
John Morgan	9			1
Paul Smith	9			
David Mulligan	8			
John Bishop ¹	3			
Paul Whitmore	7			
Bernard Asher	8	8	3	1
Gill Barr	8	8	3	1
Jack Lovell	9			
Jon Walden	9	8	3	1

¹ three board meetings were held prior to John Bishop's retirement.

Professional development and board evaluation

The Company provides training facilities for directors on first appointment and subsequently as necessary. 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 and also received ad hoc personal coaching during the year. In addition, the Board receives regular presentations and briefings from the managing directors of the Group's divisions and the non-executive directors' knowledge and understanding of the Group's operations is developed through site visits. 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.

An evaluation of the Board, including its committees, was carried out during the year. This took the form of a questionnaire that was developed internally and required each director to rate his or her agreement or disagreement with a number of statements focussing on the effectiveness of the Board and of scheduled Board meetings. This year, the questionnaire also asked for comments in relation to each statement. The results of the Board evaluation were reviewed at a subsequent meeting and a number of actions were agreed. Evaluation of individual directors took the form of feedback from the other directors, which was followed by one to one meetings between the chairman and each director and, in the case of the chairman's evaluation, between himself and the senior independent director.

The requirement of Jack Lovell to retire by rotation at the forthcoming annual general meeting was considered as part of his evaluation. Jack Lovell is not considered to be an independent non-executive director, having previously been an executive director and co-founder of the Company. He does, however, have a wealth of experience and knowledge of the Group and its businesses and, following his evaluation, the Board has confirmed that he continues to be an effective member of the Board and continues to demonstrate commitment to the role.

Relations with shareholders

The Company actively seeks to enter into dialogue with institutional shareholders whenever possible and also encourages all shareholders to use the annual general meetings as an opportunity for effective communication with the Company.

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 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.

Corporate governance statement

Board committees

The Board has established three committees, namely remuneration, nominations and audit. Details of the remuneration committee and reports of the nominations and audit committees are set out below.

Remuneration committee

The remuneration committee comprised Gill Barr (chair), Bernard Asher and Jon Walden. The remuneration committee's terms of reference are available for review on request and on the Company's website under the investor relations section. Eight 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 28 to 34.

Nominations committee

The members of the nominations committee during 2005 were John Morgan (chair), Bernard Asher, Jon Walden and Gill Barr. 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 referred to above, the nominations committee met once during the year to review the structure, size and composition of the Board, particularly in the light of the Company's entry into the FTSE 350. The committee's recommendation to the Board was that the current structure, including the balance of executive and non-executive directors, was satisfactory.

Audit committee

The members of the audit committee during 2005 were Bernard Asher (chair), Gill Barr and Jon Walden. 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 page 18. The Board is satisfied that the committee has the appropriate level of experience to fulfil its terms of reference. These terms of reference were updated this year and are available for review on request and on the Company's website.

The committee met three times during the year, prior to the announcement of the Company's preliminary results for 2004 and approval of the annual report, prior to the announcement of its interim statement and before commencement of the audit for 2005. The external auditors attended each of these meetings.

The main purpose of the meetings was to review the scope and results of the audit and its cost effectiveness and to monitor the integrity of the financial statements, including reviewing progress on the Group's implementation of IFRS. In addition the committee is responsible for reviewing the Company's internal financial controls and internal audit activities and the Group's head of audit and assurance attended each of the meetings to present reports of the internal audit activity during the year and the internal audit plan for 2006. The committee also considered the Group's arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

The audit committee is also responsible for making recommendations to the Board on the appointment or re-appointment of the external auditors and monitoring the objectivity and independence of the auditors and the effectiveness of the audit process. The external 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. During the year, a new policy was adopted to enable the committee to monitor the engagement of the external auditors for non-audit services. This provides that any proposals to engage the external auditors for services, where the fees for such services would exceed either an absolute limit or a specified proportion of the audit fee, should be referred to the committee for approval. The fees for non-audit services carried out by Deloitte & Touche LLP during the year are set out in note 2 to the accounts on page 48. In aggregate these represented approximately 14% of the audit fee. The committee has reviewed the nature of the work and level of fees for non-audit services provided by the external auditors and concluded that this has not affected their objectivity or the independence of the audit.

Corporate governance statement

Internal control statement

All procedures necessary to implement 'Internal Control: Guidance for directors on the Combined Code' 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 profits. The Group has a comprehensive system flowing through each division for monthly reporting to the Board.

Investment and capital expenditure appraisal

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

Computer systems

The Group has established controls and procedures over the security of data held on computer systems.

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 procedures manuals.

Audit and assurance

The Group's head of audit and assurance reports to the chief executive and the audit committee and is responsible for managing the audit and assurance function and assists with risk management practices. The internal audit and assurance programme was wider in scope and reach than in previous years and included reviews of the operations of key business and financial controls across the Group, including those operated centrally, as well as a rolling programme of peer group reviews. Peer group reviews assist 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 2005 and for the period to the date of this report. The process included a formal review conducted by the Board of the Group risk report, which comprised a consolidated report of each of the divisional risk reviews and which is re-appraised and updated annually. In addition the Board also received regular internal control reports from the Group head of audit and assurance referred to above.

Independent auditors' report to the members of Morgan Sindall plc

We have audited the consolidated financial statements (the 'financial statements') of Morgan Sindall plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement, the statement of principal accounting policies and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors' remuneration report are included in the individual company annual report of Morgan Sindall plc for the year ended 31 December 2005. We have reported separately on the individual company financial statements of Morgan Sindall plc for the year ended 31 December 2005 and on the information in the directors' remuneration report included in the individual company annual 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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ('IFRS') as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the International Standards on Auditing Regulation. We report to you if, in our opinion, the directors' report is not consistent with the financial statements. We also report to you 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 read the directors' report and the other information contained in the annual report for the above year as described in the contents section and we 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- as explained in the statement of principle accounting policies, the Group in addition to complying with its legal obligation to apply those IFRS adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St Albans, United Kingdom
22 February 2006

Consolidated income statement

For the year ended 31 December 2005

	Notes	2005 £'000s	2004 £'000s
Continuing operations			
Revenue	1	1,296,708	1,219,297
Cost of sales		(1,154,118)	(1,095,932)
Gross profit		142,590	123,365
Administrative expenses		(103,109)	(93,227)
Share of results of joint ventures	11	425	2,810
Operating profit	1	39,906	32,948
Investment revenues	5	3,661	3,235
Finance costs	5	(1,867)	(2,413)
Profit before tax		41,700	33,770
Tax	6	(12,125)	(9,736)
Profit for the year from continuing operations attributable to equity holders of the parent company	2	29,575	24,034
Earnings per share			
From continuing operations			
Basic	8	70.74p	57.61p
Diluted	8	68.83p	56.54p

There are no discontinued activities in either the current or preceding year.

Consolidated balance sheet

at 31 December 2005

	Notes	2005 £'000s	2004 £'000s
Non current assets			
Property, plant and equipment	9	16,403	14,890
Goodwill	10	56,729	55,961
Interests in joint ventures	11	10,881	6,840
Investments	11	103	103
Deferred tax	19	2,485	1,512
		86,601	79,306
Current assets			
Inventories	12	87,571	60,817
Trade and other receivables	13	235,056	203,093
Cash and cash equivalents	15	72,018	73,447
		394,645	337,357
Total assets		481,246	416,663
Current liabilities			
Trade and other payables	16	(352,156)	(308,517)
Current tax liabilities		(6,295)	(5,572)
Obligations under finance leases	17	(766)	(483)
		(359,217)	(314,572)
Net current assets		35,428	22,785
Non current liabilities			
Retirement benefit obligation	18	(3,351)	(2,225)
Obligations under finance leases	17	(2,059)	(1,707)
		(5,410)	(3,932)
Total liabilities		(364,627)	(318,504)
Net assets		116,619	98,159
Equity			
Share capital	22	2,116	2,107
Share premium account	23	26,014	25,679
Capital redemption reserve	23	623	623
Own shares	23	(1,775)	(993)
Equity reserve	23	1,052	39
Hedging reserve	23	(2,238)	-
Retained earnings	24	90,827	70,704
Total equity		116,619	98,159

The financial statements were approved by the Board of directors and authorised for issue on 22 February 2006 and signed on its behalf by:

Paul Smith
David Mulligan

Consolidated statement of recognised income and expense

For the year ended 31 December 2005

	2005 £'000s	2004 £'000s
Actuarial losses on defined pension schemes	(1,284)	(1,493)
Tax on items taken directly to equity	312	448
Transferred to the initial carrying amount of hedged items on cash flow hedges	(2,238)	-
Net expense recognised directly in equity	(3,210)	(1,045)
Profit for the year from continuing operations	29,575	24,034
Total recognised income and expense for the year attributable to equity shareholders	26,365	22,989

Consolidated cash flow statement

For the year ended 31 December 2005

	Notes	2005 £'000s	2004 £'000s
Net cash from operating activities	26	14,477	70,290
Investing activities			
Interest received		3,686	3,217
Dividends received from joint ventures		336	335
Proceeds on disposal of property, plant and equipment		1,433	501
Purchases of property, plant and equipment		(4,680)	(4,296)
Payments to acquire interest in joint ventures		(6,190)	–
Acquisition of business		–	(3,409)
Net cash used in investing activities		(5,415)	(3,652)
Financing activities			
Payments to acquire own shares		(782)	(48)
Dividends paid		(8,459)	(7,099)
Repayments of obligations under finance leases		(1,354)	(951)
Repayment of loan notes		(240)	–
Proceeds on issue of share capital		344	294
Net cash used in financing activities		(10,491)	(7,804)
Net (decrease)/increase in cash and cash equivalents		(1,429)	58,834
Cash and cash equivalents at beginning of year		73,447	14,613
Cash and cash equivalents at end of year			
Bank balances and cash		72,018	73,447

Principal accounting policies

For the year ended 31 December 2005

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 30 on pages 69 to 70. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

At the date of authorisation of these financial statements IFRS 6 and 7 and IFRIC 4 to 8, which have not been applied in these financial statements, were in issue but not yet effective. The directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the financial statements of the Group.

The financial statements have been prepared on the historical cost basis, except where otherwise indicated. The principal accounting policies adopted are set out below.

Basis of consolidation

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

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of consideration given for the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. In circumstances where the fair values of the identifiable net assets exceed the cost of acquisition the excess is immediately recognised in the income statement.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

In accordance with IFRS 3 'Business Combinations', goodwill is no longer amortised but stated at cost less any provision for impairment in value. Goodwill is reviewed annually for any impairment in its value or at such time that there is an indication that its value has been reduced.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is defined as the value of goods and services rendered excluding VAT. Revenue represents the value of work executed on construction 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 revenue.

Interests in joint ventures and investments

A joint venture is an entity over which the Group is in a position to exercise joint control, through participation in the financial and operating policy decisions of the venture. Joint ventures are accounted for using the equity method of accounting. The Group's share of the results of joint ventures is reported in the income statement as part of the operating profit and the net investment disclosed in the balance sheet. Revaluation gains are recognised in the income statement net of any relevant deferred tax.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Investments are carried in the balance sheet at cost less any impairment in the value of individual investments. Losses of investments in excess of the Group's interest are not recognised. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Freehold and leasehold properties are carried at cost less any recognised impairment loss. Depreciation of these assets is charged to income. Plant, machinery and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off cost or valuation of assets, other than land, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold property	2% per annum
Leasehold property	period of the lease
Fixtures and equipment	between 10% and 33% per annum

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Residual values of property, plant and equipment are reviewed and updated annually.

Principal accounting policies

For the year ended 31 December 2005

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in the income statement in the period in which they arise.

Inventories

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

Construction contracts

Revenue is recognised on construction 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, incurred prior to the time that there is virtual certainty of future recovery, are expensed.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred, except for amounts referred to under inventories above.

Tax

The tax expense represents the current tax and deferred tax charges.

The current tax payable is based on the Group's taxable profit for the year. Taxable profit differs from reported profit in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax liability is calculated using tax rates prevailing at the balance sheet date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in tax computations and is accounted for using the balance sheet liability method. Deferred tax is provided in full on temporary 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 laws. 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.

Leasing

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The lease liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Pensions

The expense of defined benefit pension schemes is determined using the projected unit method and charged to the income statement based on actuarial assumptions at the beginning of the financial year. Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur. Net pension obligations are included in the balance sheet at the present value of the scheme liabilities, less the fair value of the scheme assets.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to staff managed retirement benefit schemes are dealt with as payments to defined contribution schemes where Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Share based payments

The Group has applied the requirements of IFRS 2 'Share Based Payment'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity settled and cash settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a modified Black-Scholes model. None of these awards when granted was subject to a share price related performance condition.

A liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date for cash settled, share based payments.

Principal accounting policies

For the year ended 31 December 2005

Financial instruments

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

Derivative financial instruments are used in joint ventures to hedge long-term interest rate risks. Under IAS 39 'Financial Instruments', interest rate swaps are stated in the balance sheet at fair value. Where financial instruments are designated as a cash flow hedge and are deemed to be effective, gains and losses on re-measurement are recognised in equity. When the financial instrument is determined to be no longer effective as a hedge, gains or losses are recognised in the income statement. IAS 39 has been applied from 1 January 2005 as permitted under the transition arrangements in IFRS 1.

Financial receivables

Certain joint ventures' financial receivables are measured at fair value at the balance sheet date. The fair value is determined by discounting the future cash flows directly associated with the financial receivables at a risk-adjusted discount rate. The change in fair value is recognised in equity.

Notes to the consolidated financial statements

For the year ended 31 December 2005

1 Business segments

For management purposes, the Group is organised into four operating divisions, Fit Out, Construction, Infrastructure Services and Affordable Housing. The divisions are the basis on which the Group reports its primary segment information.

Segment information about the Group's continuing operations is presented below:

	2005		2004	
	Revenue £'000s	Operating profit/(loss) £'000s	Revenue £'000s	Operating profit/(loss) £'000s
Fit Out	322,618	16,398	251,594	11,238
Construction	335,750	3,214	271,113	1,301
Infrastructure Services	247,938	5,974	332,283	7,841
Affordable Housing	390,402	18,682	364,307	13,445
Group activities	-	(4,787)	-	(3,687)
	1,296,708	39,481	1,219,297	30,138
Share of results of joint ventures		425		2,810
Operating profit		39,906		32,948
Investment revenues		3,661		3,235
Finance costs		(1,867)		(2,413)
Profit before tax		41,700		33,770
Tax		(12,125)		(9,736)
Profit for the year from continuing operations		29,575		24,034

Other information:	2005		2004	
	Capital additions £'000s	Depreciation £'000s	Capital additions £'000s	£'000s
Depreciation				
Fit Out	1,050	543	631	481
Construction	1,349	1,250	962	608
Infrastructure Services	3,096	1,841	2,089	1,682
Affordable Housing	408	338	126	374
Group activities	629	533	1,693	320
	6,532	4,505	5,501	3,465

Notes to the consolidated financial statements

For the year ended 31 December 2005

1 Business segments (continued)

Balance sheet analysis of business segments:

	2005			2004		
	Assets £'000s	Liabilities £'000s	Net assets £'000s	Assets £'000s	Liabilities £'000s	Net assets £'000s
Fit Out	97,397	(78,937)	18,460	71,318	(58,825)	12,493
Construction	117,544	(83,228)	34,316	105,751	(74,087)	31,664
Infrastructure Services	118,124	(71,827)	46,297	122,584	(78,030)	44,554
Affordable Housing	149,697	(124,940)	24,757	126,682	(104,070)	22,612
Group activities	30,404	(37,615)	(7,211)	31,368	(44,532)	(13,164)
Group eliminations	(31,920)	31,920	-	(41,040)	41,040	-
	481,246	(364,627)	116,619	416,663	(318,504)	98,159

All the Group's operations are carried out in the United Kingdom and the Channel Islands.

2 Profit for the year

Profit for the year is stated after charging/(crediting):

	2005 £'000s	2004 £'000s
Depreciation of property, plant and equipment	4,505	3,465
(Profit)/loss on sale of fixed assets	(919)	20
Staff costs (note 4)	209,422	191,950
Auditors' remuneration for audit services (see below)	404	325

Amounts payable to Deloitte & Touche LLP by the Company and its UK subsidiary undertakings in respect of non-audit services were £58,000 (2004: £29,000).

A more detailed analysis of auditors' remuneration is provided below:

	2005 £'000s	2004 £'000s
Audit services:		
Statutory audit	380	315
Further assurance services	24	10
	404	325
Tax services:		
Tax advisory and compliance to joint ventures	33	29
Other services:		
Modelling assistance	25	-
	462	354

A description of the work of the audit committee is set out in the corporate governance statement on page 37.

Notes to the consolidated financial statements

For the year ended 31 December 2005

3 Employees

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

	2005 No.	2004 No.
Fit Out	495	420
Construction	1,289	1,180
Infrastructure Services	1,945	2,121
Affordable Housing	1,491	1,271
Group activities	30	26
	5,250	5,018

4 Staff costs

	2005 £'000s	2004 £'000s
Wages and salaries	184,244	168,995
Social security costs	20,246	18,169
Other pension costs (note 18)	4,932	4,786
	209,422	191,950

5 Investment revenues and finance costs

	2005 £'000s	2004 £'000s
Bank interest	2,913	2,884
Other interest	748	351
Investment revenues	3,661	3,235
Interest on bank overdrafts	(1,730)	(2,306)
Interest on finance leases	(137)	(107)
Finance costs	(1,867)	(2,413)
Net interest	1,794	822

Notes to the consolidated financial statements

For the year ended 31 December 2005

6 Tax

	2005 £'000s	2004 £'000s
Current tax:		
UK corporation tax	12,241	9,822
Adjustment in respect of prior years	140	(302)
	12,381	9,520
Deferred tax:		
Current year	(214)	216
Adjustment in respect of prior years	(42)	-
Income tax expense for the year	12,125	9,736

Corporation tax is calculated at 30% (2004: 30%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005		2004	
	£'000s	%	£'000s	%
Profit before tax	41,700		33,770	
Income tax expense at standard rate	12,510	30.0	10,131	30.0
Tax effect of:				
Share of results of associates	(128)	(0.3)	(843)	(2.5)
Expenses that are not deductible in determining taxable profits	107	0.3	708	2.1
Utilisation of tax losses not previously recognised	(462)	(1.1)	-	0.0
Adjustments in respect of prior years	98	0.2	(260)	(0.8)
Income tax expense and effective tax rate for the year	12,125	29.1	9,736	28.8

Notes to the consolidated financial statements

For the year ended 31 December 2005

7 Dividends

	2005 £'000s	2004 £'000s
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2004 of 13.25p (2003: 11.75p) per share	5,551	4,824
Interim dividend for the year ended 31 December 2005 of 7.00p (2004: 5.25p) per share	2,929	2,188
	8,480	7,012
Proposed final dividend for the year ended 31 December 2005 of 18.00p (2004: 13.25p) per share	7,617	5,551

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

8 Earnings per share

There are no discontinued operations in either the current or prior year.

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	2005 £'000s	2004 £'000s
Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to equity holders of the parent company	29,575	24,034

Number of shares	2005 '000s	2004 '000s
Weighted average number of ordinary shares for the purposes of basic earnings per share	41,810	41,718
Effect of dilutive potential ordinary shares:		
Share options	893	597
LTIP shares	265	191
Weighted average number of ordinary shares for the purposes of diluted earnings per share	42,968	42,506

Notes to the consolidated financial statements

For the year ended 31 December 2005

9 Property, plant and equipment

	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	172	2,915	35,146
Additions	4,296	670	-	-	424	5,390
On acquisition	111	-	-	-	-	111
Disposals	(1,305)	-	(21)	-	(204)	(1,530)
At 1 January 2005	31,330	4,172	308	172	3,135	39,117
Additions	4,680	1,308	-	-	544	6,532
Disposals	(2,331)	(450)	(103)	(162)	-	(3,046)
At 31 December 2005	33,679	5,030	205	10	3,679	42,603
Accumulated depreciation						
At 1 January 2004	18,683	1,205	304	-	1,579	21,771
Charge for the year	2,731	401	10	1	322	3,465
Disposals	(871)	-	(21)	-	(117)	(1,009)
At 1 January 2005	20,543	1,606	293	1	1,784	24,227
Charge for the year	3,455	582	6	-	462	4,505
Disposals	(2,077)	(353)	(101)	(1)	-	(2,532)
At 31 December 2005	21,921	1,835	198	-	2,246	26,200
Carrying amount at 31 December 2005	11,758	3,195	7	10	1,433	16,403
Carrying amount at 31 December 2004	10,787	2,566	15	171	1,351	14,890

The carrying amount of land and buildings comprises:

	2005 £'000s	2004 £'000s
Freehold	-	160
Investment property	-	160
Freehold	10	11
Short leasehold	1,433	1,351
Other properties	1,443	1,362
Total carrying amount	1,443	1,522

In 2004, the directors considered the valuation of the single investment property at the balance sheet date and concluded that no change was required to its carrying value. In 2005, no external valuation has been undertaken as the investment property was sold during the year.

Notes to the consolidated financial statements

For the year ended 31 December 2005

10 Goodwill

Cost and carrying amount	£'000s
At 1 January 2004	53,002
Recognised on acquisition (note 25)	2,959
At 1 January 2005	55,961
Recognised on acquisition (note 25)	768
At 31 December 2005	56,729

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

During the years ended 31 December 2004 and 2005, the Group has determined that there is no impairment of any of its cash generating units to which goodwill has been allocated. The recoverable amounts have been determined on the 'basis of value in use' calculations.

In order to test goodwill for impairment, the Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows based on an estimated growth rate of 3%. This rate does not exceed the average long-term growth rate for the construction industry or GDP.

The rate used to discount the forecast cash flows is 8%.

11 Investments and interests in joint ventures

The Group has the following significant interests in joint ventures:

Primary Medical Property Limited 47.5% share

Primary Medical Property Limited has a portfolio of primary health and social care 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. See also note 28 on page 67 in relation to a post balance sheet event.

Morgan-Vinci Limited 50% share

Morgan-Vinci Limited is responsible for the construction and operation of the Newport Southern Distributor Road. Morgan-Vinci Limited is funded primarily by bank finance.

Claymore Roads (Holdings) Limited 50% share

Claymore Roads (Holdings) Limited is responsible for the upgrade and operation of the A92 between Dundee and Arbroath in Scotland. Claymore Roads (Holdings) Limited is funded primarily by bank finance.

Community Solutions for Primary Care (Holdings) Limited 33⅓% share

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, Camden & Islington, South East Hampshire and Doncaster.

The Compendium Group Limited 50% share

The Compendium Group Limited is a company formed to carry out strategic development and regeneration projects of a primarily residential nature.

All of above undertakings are registered in England.

Notes to the consolidated financial statements

For the year ended 31 December 2005

11 Investments and interests in joint ventures (continued)

The following table shows the interests in joint ventures:

	Joint ventures £'000s	Trade investment £'000s
At 1 January 2005	6,840	103
Share of results for the year	425	–
Dividends from joint venture	(336)	–
Increase in investment	6,190	–
Change in fair value of hedging derivative	(2,238)	–
At 31 December 2005	10,881	103

The following table shows the aggregated amounts in respect of joint ventures:

	2005 £'000s	2004 £'000s
Current assets	20,103	113,705
Non current assets ¹	207,510	68,761
Current liabilities	(24,790)	(5,828)
Non current liabilities	(186,191)	(157,368)
Revenue	134,311	2,277
Results	951	5,911

¹ Within non current assets assets are financial receivables of £126.8m which are carried at fair value following the application of IAS 39 from 1 January 2005 as permitted under the transitional arrangements in IFRS 1. The fair values have been determined on the basis of discounting underlying future cash flows at a risk-adjusted discount rate considered by the directors to reflect the risks attaching to the future cash flows.

12 Inventories

	2005 £'000s	2004 £'000s
Work in progress	84,883	58,816
Materials	2,688	2,001
	87,571	60,817

Notes to the consolidated financial statements

For the year ended 31 December 2005

13 Trade and other receivables

	2005 £'000s	2004 £'000s
Trade receivables	86,018	84,449
Amounts due from construction contract customers (note 14)	137,578	105,672
Amounts owed by joint ventures (note 29)	1,740	2,675
Deferred tax asset (note 19)	224	205
Other receivables	3,286	4,431
Prepayments and accrued income	6,210	5,661
	235,056	203,093

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The average credit period taken on revenues is 21 days (2004: 22 days)

14 Construction contracts

	2005 £'000s	2004 £'000s
Contracts in progress at balance sheet date:		
Amounts due from construction contract customers included in trade and other receivables	137,578	105,672
Amounts due to construction contract customers included in trade and other payables	(18,384)	(18,413)
	119,194	87,259
Contract costs incurred plus recognised profits less recognised losses to date	4,811,885	4,147,717
Less: progress billings	(4,692,691)	(4,060,458)
	119,194	87,259

At 31 December 2005, retentions held by customers for contract work amounted to £36.6m (2004: £36.8m).

At 31 December 2005, amounts of £9.3m (2004: £12.0m) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

Notes to the consolidated financial statements

For the year ended 31 December 2005

15 Financial instruments

Cash and cash equivalents

Comprises cash held by the Group and short-term deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their value.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of specific circumstances.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate swaps

Certain of the Group's joint ventures use interest rate swaps to manage their exposure to interest rate movement on its bank borrowings. The Group's share of contracts with nominal values of £26.8m have fixed interest payments at an average rate of 4.98% for periods up until 2033.

The fair value of swaps entered into at 31 December 2005 is estimated at £2.2m (2004: nil). These amounts are based on market values of equivalent instruments at the balance sheet date. All of these interest rate swaps are designated and effective as cash flow hedges and the fair value thereof has been deferred in the hedging reserve (note 23 on page 64).

Loan notes

Loan notes were issued in 2002 as part of the 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. Of these, £240,000 were redeemed by loan note holders in 2005 and the remaining £120,000 were redeemed on 2 January 2006.

16 Trade and other payables

	2005 £'000s	2004 £'000s
Loan notes (note 15)	120	360
Amounts due to construction contract customers (note 14)	18,384	18,413
Trade payables	95,752	94,063
Other payables	4,659	5,035
Other tax and social security	11,222	11,037
Accruals and deferred income	222,019	179,609
	352,156	308,517

The directors consider that the carrying amount of trade payables approximates their fair value.

The average credit period taken for trade purchases is 30 days (2004: 31 days).

Notes to the consolidated financial statements

For the year ended 31 December 2005

17 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2005 £'000s	2004 £'000s	2005 £'000s	2004 £'000s
Amounts payable under finance leases:				
Within one year	889	583	766	483
In the second to fifth years inclusive	1,951	1,610	1,770	1,437
After five years	302	289	289	270
	3,142	2,482	2,825	2,190
Less: future finance charges	(317)	(292)	n/a	n/a
Present value of lease obligations	2,825	2,190	2,825	2,190
Less: amount due for settlement within 12 months (shown under current liabilities)			(766)	(483)
Amount due for settlement after 12 months			2,059	1,707

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 6 years. For the year ended 31 December 2005, the average effective borrowing rate was 5% (2004: 5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximates to their carrying amount. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

Notes to the consolidated financial statements

For the year ended 31 December 2005

18 Retirement benefit schemes

Defined contribution scheme

The Morgan Sindall Retirement Benefits Plan ('MSRBP') was established on 31 May 1995 and operates on defined contribution principles for employees of the Group. The assets of the scheme are held separately from those of the Group in funds under the control of the trustees. The total cost charged to income of £4.7m (2004: £4.6m) represents contributions payable to the defined contribution scheme by the Group at rates specified in the scheme rules. As at 31 December 2005, contributions of £0.4m (2004: £0.4m) due in respect of the current reporting period had not been paid over to the defined contribution scheme.

Defined benefit scheme

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 now part of the Group. 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.

Under the scheme, employees are entitled to retirement benefits at retirement age of 65. No other retirement benefits are provided. The scheme is currently being funded.

The last triennial valuation of the MSRBP was undertaken on 5 April 2004 and was prepared using the assumptions of the 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 projected 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 triennial valuation will be carried out at 5 April 2007 when the funding position will be re-appraised.

The most recent valuation of the scheme assets and the present value of the defined benefit obligation was carried out at 31 December 2005. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

Key assumptions used:	Valuation at	
	2005 %	2004 %
Discount rate	4.9%	5.5%
Expected return on scheme assets	5.6%	6.4%
Expected rate of salary increases	3.9%	3.75%
Future pension increases	2.9%	2.75%

Notes to the consolidated financial statements

For the year ended 31 December 2005

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:

	2005 £'000s	2004 £'000s
Present value of defined benefit obligations	(7,781)	(6,143)
Fair value of scheme assets	4,430	3,918
Deficit in the scheme	(3,351)	(2,225)
Liability recognised in the balance sheet	(3,351)	(2,225)

Amounts recognised in income in respect of the defined benefits scheme are as follows:

	2005 £'000s	2004 £'000s
Interest cost	(334)	(265)
Expected return on scheme assets	252	269
	(82)	4

The charge for the year has been included in administrative expenses. Actuarial gains and losses have been reported in the statement of recognised income and expense.

The actual return on scheme assets was £420,000 (2004: £94,000).

Movements in the present value of defined benefit obligations were as follows:

	2005 £'000s	2004 £'000s
At 1 January	(6,143)	(4,660)
Interest cost	(334)	(265)
Actuarial gains and losses	(1,452)	(1,318)
Benefits paid	148	100
At 31 December	(7,781)	(6,143)

Movements in the fair value of scheme assets were as follows:

	2005 £'000s	2004 £'000s
At 1 January	3,918	3,924
Expected return on scheme assets	252	269
Actuarial gains and losses	168	(175)
Contributions from sponsoring companies	240	-
Benefits paid	(148)	(100)
At 31 December	4,430	3,918

Notes to the consolidated financial statements

For the year ended 31 December 2005

18 Retirement benefit schemes (continued)

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return		Fair value of assets	
	2005	2004	2005 £'000s	2004 £'000s
Equity instruments	7.5%	7.5%	1,844	2,197
Debt instruments	4.75%	5.0%	2,512	1,527
Other assets	4.5%	4.0%	74	194
			4,430	3,918

The expected rate of return is determined in consultation with experts using prudent assumptions at the balance sheet date.

The history of experience adjustments is as follows:

	2005 £'000s	2004 £'000s
Present value of defined benefit obligations	(7,781)	(6,143)
Fair value of scheme assets	4,430	3,918
Deficit in the scheme	(3,351)	(2,225)
Experience adjustments on scheme liabilities:		
Amount	(1,452)	(1,318)
Percentage of scheme liabilities	18.7%	21.5%
Experience adjustments on scheme assets:		
Amount	168	(175)
Percentage of scheme assets	3.8%	(4.5%)

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £240,000.

Notes to the consolidated financial statements

For the year ended 31 December 2005

19 Deferred tax

The major deferred tax assets recognised by the Group and movements thereon during the current and prior year are as follows:

	Accelerated tax depreciation £'000s	Short-term timing differences £'000s	Retirement benefit obligations £'000s	Share based payments £'000s	Total £'000s
At 1 January 2004	976	288	221	–	1,485
Charge to income	(132)	(83)	(1)	–	(216)
Credit to equity	–	–	448	–	448
At 1 January 2005	844	205	668	–	1,717
Credit to income	78	19	24	135	256
Credit to equity	–	–	312	424	736
At 31 December 2005	922	224	1,004	559	2,709

An analysis of the deferred tax balances for financial reporting purposes is as follows:

	2005 £'000s	2004 £'000s
Deferred tax within trade and other receivables	224	205
Deferred tax within non current assets	2,485	1,512

At the balance sheet date, the Group has unused tax losses of £1.3m (2004: £2.4m) available for offset against future profit. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Losses may be carried forward indefinitely.

Notes to the consolidated financial statements

For the year ended 31 December 2005

20 Operating lease arrangements

	2005 £'000s	2004 £'000s
Minimum lease payments under operating leases recognised as an expense for the year	12,715	9,971

At the balance sheet date, the Group has outstanding commitments for minimum lease payments under non cancellable operating leases, which fall due as follows:

	2005			2004		
	Land and buildings £'000s	Other £'000s	Total £'000s	Land and buildings £'000s	Other £'000s	Total £'000s
Leases which expire:						
Within one year	4,123	3,690	7,813	4,223	1,052	5,275
Within two to five years	13,499	3,824	17,323	14,058	2,354	16,412
After five years	11,724	130	11,854	14,428	91	14,519
	29,346	7,644	36,990	32,709	3,497	36,206

Operating lease payments represent rentals payable by the Group for certain of its assets. Leases are negotiated for an average term of 6 years and rentals are fixed for an average of 4 years.

21 Contingent liabilities

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

Notes to the consolidated financial statements

For the year ended 31 December 2005

22 Share capital

	2005		2004	
	No.'000s	£'000s	No.'000s	£'000s
Authorised:				
Ordinary shares of 5p each	60,000	3,000	57,500	2,875
Issued and fully paid:				
At the beginning of the year	42,147	2,107	41,996	2,100
Exercise of share options	169	9	151	7
At the end of the year	42,316	2,116	42,147	2,107

The Company has one class of ordinary share which carries no rights to fixed income.

Ordinary shares

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

1. 6,250 ordinary shares in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £5,907.50.
2. 162,750 ordinary shares in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £337,387.50.

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 and under the 1995 Scheme expired in May 2005. As at 31 December 2005 there remained 31,075 options outstanding under that Scheme exercisable at prices between £0.73 and £1.71. On the same date there were 1,468,500 options outstanding under the 1995 Scheme exercisable at prices between £1.71 and £4.95.

Other share schemes

Details of other share scheme are disclosed in the Directors' remuneration report on pages 28 to 34. It is currently intended that share awards under these schemes will be satisfied by shares purchased in the market by the employee benefit trust.

Own shares

Own shares at cost represent 506,898 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 directors' remuneration report on pages 28 to 34. The trustee, the Legis Trust, purchases the Company's ordinary shares in the open market with the financing provided by the Company on the basis of regular reviews of the share liabilities of the LTIP. The unallocated shares number 420,803 and dividends on these shares have been waived. Dividends on allocated shares are paid to the participants. The cost of shares expected to be awarded are charged over the three year period to which the award relates. Based on the Company's share price at 31 December 2005 of 929.5p the market value of the shares was £4,711,617.

Notes to the consolidated financial statements

For the year ended 31 December 2005

23 Reserves

	Share premium account £'000s	Capital redemption reserve £'000s	Own shares £'000s	Equity reserve £'000s	Hedging reserve £'000s
Balance at 1 January 2004	25,392	623	(1,094)	6	-
Shares issued at premium	287	-	-	-	-
Own shares purchased	-	-	(48)	-	-
LTIP shares vested	-	-	149	-	-
Recognition of share based payments	-	-	-	33	-
Balance at 1 January 2005	25,679	623	(993)	39	-
Shares issued at premium	335	-	-	-	-
Own shares purchased	-	-	(782)	-	-
Change in fair value of cash flow hedging derivatives	-	-	-	-	(2,238)
Recognition of share based payments	-	-	-	589	-
Deferred tax arising on recognition of share based payments	-	-	-	424	-
Balance at 31 December 2005	26,014	623	(1,775)	1,052	(2,238)

Capital redemption reserve

The capital redemption reserve was created on the redemption of preference shares in 2003.

Own shares

The own shares reserve represents the cost of shares in Morgan Sindall plc purchased in the market and held by the Employee Benefit Trust to satisfy options under the Group's share option schemes (note 22).

Equity reserve

The equity reserve represents the credit to equity for share based payments.

Hedging reserve

Under cashflow hedge accounting, movements on the effective portion of the hedge are recognised through the hedging reserve, while any ineffectiveness is taken into the income statement.

24 Retained earnings

	£'000s
Balance at 1 January 2004	54,727
Profit for the year attributable to equity holders of the parent company	24,034
Dividends paid	(7,012)
Actuarial losses on defined benefit pension scheme	(1,493)
Income taxes on pension benefit	448
Balance at 1 January 2005	70,704
Profit for the year attributable to equity holders of the parent company	29,575
Dividends paid	(8,480)
Actuarial losses on defined benefit pension scheme	(1,284)
Income taxes on pension benefit	312
Balance at 31 December 2005	90,827

Notes to the consolidated financial statements

For the year ended 31 December 2005

25 Acquisition of business

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 with acquisition costs of £0.3m. The net assets acquired were nil following fair value adjustments of £2.9m made during 2004. The resultant goodwill arising on acquisition is £3.7m with an increase reflected during the year of £0.8m.

26 Reconciliation of operating profit to net cash from operating activities

	2005 £'000s	2004 £'000s
Operating profit	39,906	32,948
Adjusted for:		
Share of results of joint ventures	(425)	(2,810)
Depreciation of property, plant and equipment	4,505	3,465
Expense in respect of share options	589	33
Defined benefit pension payment	(240)	-
Defined benefit pension charge/(credit)	82	(4)
(Gain)/loss on disposal of property, plant and equipment	(919)	20
Operating cash flows before movements in working capital	43,498	33,652
(Increase)/decrease in inventories	(26,754)	4,594
Increase in receivables	(31,969)	(5,784)
Increase in payables	43,118	46,271
Cash generated from operations	27,893	78,733
Income taxes paid	(11,658)	(6,134)
Interest paid	(1,758)	(2,309)
Net cash from operating activities	14,477	70,290

Additions to plant, property and equipment during the year amounting to £1.3m were financed by new finance leases.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Notes to the consolidated financial statements

For the year ended 31 December 2005

27 Share based payments

Equity settled share option plan

The Group plan provides for a grant price equal to the average quoted market price of the Group share on the five days preceding the date of grant. Details of the option vesting periods are given in note 22 on page 63. Options are forfeited if the employee leaves the Group before the options vest.

	2005		2004	
	Options (No.)	Weighted average exercise price (p)	Options (No.)	Weighted average exercise price (p)
Outstanding at beginning of period	1,668,575	269.6	1,732,850	241.0
Granted during the period	318,024	448.3	200,000	287.7
Forfeited during the period	-	-	(113,400)	256.6
Exercised during the period	(169,000)	203.1	(150,875)	195.0
Outstanding at the end of the period	1,817,599	338.3	1,668,575	269.6
Exercisable at the end of the period	54,075	282.7	183,075	189.4

The weighted average share price at the date of exercise for share options exercised during the period was 203.1p. The options outstanding at 31 December 2005 had a weighted average exercise price of 338.3p, and a weighted average remaining contractual life of 5.0 years. In 2005, options were granted on 20 May. The estimated fair value of the options granted on that date is £0.7m. In 2004, options were granted on 25 February and 4 September. The aggregate of the estimated fair values of the options granted on those dates is £0.2m.

A modified 'Black-Scholes' model has been used to value the awards set out below. None of these awards when granted was subject to a share price related performance condition.

Date(s) of grant	1995 Scheme Feb 04 and Sep 04	DSBP (a) Mar 05	2005 Plan options May 05	2005 Plan shares May 05	Phantom (b) June – Dec 05
Number of options / shares granted	200,000	36,153	318,024	73,290	262,000
Weighted average fair value at date of grant (per option / share)	£1.12	£6.59	£2.16	£7.30	£3.10
Weighted average share price on date of grant	£4.25	£7.125	£7.30	£7.30	£9.295
Weighted average exercise price	£4.25	nil	£7.24	nil	£7.80
Expected term (from date of grant) (c)	7 years	3 years	6 years	3 years	5 years
Expected volatility (d)	32%	34%	32%	32%	31%
Expected dividends (e)	3.9%	2.6%	2.5%	nil (f)	2.2%
Risk-free interest rate	4.8%	4.8%	4.3%	4.3%	4.2%

(a) Deferred share bonus plan

(b) As cash settled share based payment awards, Phantom options are revalued at the end of each reporting period. The valuations shown in the table above are as at 31 December 2005.

(c) Adjusted from maximum term, based on management's best estimate, for the effects of non-transferability, exercise restrictions, vesting conditions and behavioural considerations

(d) Assumed to be equal to historic volatility of Morgan Sindall over the period prior to grant equal in length to the expected term

(e) Set as equal to dividend yield prevailing at date of grant

(f) At the end of the vesting period, award holders receive the value, in shares, of any dividends paid during the vesting period in respect of their vested shares. Consequently, the fair value is not discounted for value lost in respect of dividends.

Notes to the consolidated financial statements

For the year ended 31 December 2005

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 to 7 years.

The Group recognised total expenses of £524,725 and £33,000 related to equity settled share based payment transactions in 2005 and 2004 respectively.

Cash settled share based payments

The Group issues to certain employees share appreciation rights ('SAR') that require the Group to pay the intrinsic value of the SAR to the employee at the date of exercise. The Group has recorded liabilities of £64,074 in 2005 (2004: nil). Fair value of the SAR is determined by use of a modified Black-Scholes model using the assumptions noted in the table above. The Group recorded total expenses of £64,074 in 2005 (2004: nil). The total intrinsic value at 2005 and 2004 was £2.4m and nil, respectively.

28 Post balance sheet event

Primary Medical Property shareholding transaction

On 1 February 2006, the Group purchased the remaining 52.5% shareholding in Primary Medical Property Limited from certain private individuals for £11.1m. Subsequently, the Group agreed to dispose of 50% of its interest by way of entering into a 50-50 owned joint venture agreement with a fund managed by Barclays Private Equity.

	Provisional fair value of net assets £'000s
Investment properties	33,167
Trade receivables	143
Cash	271
Trade payables	(660)
Corporation tax	(167)
Deferred tax	(789)
Loans	(20,021)
Net assets acquired	11,944
Consideration	11,100
Acquisition costs	850
Total cost	11,950
Goodwill arising	6

Notes to the consolidated financial statements

For the year ended 31 December 2005

29 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in the Company's separate financial statements.

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Provision of goods and services		Amounts owed by related parties	
	2005 £'000s	2004 £'000s	2005 £'000s	2004 £'000s
Claymore Roads (Holdings) Limited	15,731	22,988	1,337	1,953
Morgan-Vinci Limited	476	5,091	36	722
Community Solutions for Primary Care (Holdings) Limited	13,310	-	367	-
The Compendium Group Limited	-	-	-	-
	29,517	28,079	1,740	2,675

Sales to related parties were made at market rates.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 31 to 34.

	2005 £'000s	2004 £'000s
Short-term employee benefits	2,054	1,902
Post employment benefits	105	99
Other long-term benefits	-	162
	2,159	2,163

Directors' transactions

There were no transactions with directors during the year or in the subsequent period to 22 February 2006.

There have been no related party transactions with any director either during the year or in the subsequent period to 22 February 2006.

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 2006.

Notes to the consolidated financial statements

For the year ended 31 December 2005

30 Reconciliation on transition to IFRS

The tables below reconcile the total equity and profit for the financial year from UK GAAP to IFRS as required by IFRS 1.

	January 2004 £'000s	December 2004 £'000s
Total equity as presented under UK GAAP	78,878	93,218
Dividends	4,824	5,551
Employee benefits	(736)	(2,009)
Amortisation of goodwill	-	3,101
Tax	(1,212)	(1,702)
Equity as presented under IFRS	81,754	98,159

	December 2004 £'000s
Profit as presented under UK GAAP	18,049
Amortisation of goodwill	3,101
Joint ventures revaluation gains	2,763
Employee benefits	220
Share based payments	(33)
Income taxes	(66)
Profit as presented under IFRS	24,034

Dividends

Under UK GAAP proposed dividends were accrued at the balance sheet date although there was no obligation to pay until formal approval by shareholders was granted at the annual general meeting. Under International Accounting Standard ('IAS') 10 'Events after the Balance Sheet Date', a liability should only be recognised once there is an obligation to pay. As a result the dividend will only be recognised once shareholders approve it. The impact is that the proposed dividends have been added back and have resulted in an increase in total equity of £4.8m at 31 December 2003 and £5.6m at 31 December 2004.

Employee benefits

Under UK GAAP, FRS 17 'Retirement Benefits' required the pension deficit to be shown by way of memorandum disclosure in the notes to the accounts rather than accounted for in the balance sheet. IAS 19 'Employee Benefits' requires that the operating and financing costs of defined benefit pension schemes are shown separately in the income statement and allows a number of options for the recognition of actuarial gains and losses. The Group has adopted the approach of recognising the full pension deficit at the date of transition. The overall impact of recognising the pension deficit is a reduction in total equity of £0.7m at 1 January 2004 and £2.0m at 31 December 2004. Actuarial gains and losses have been recognised in full in the consolidated statement of income and expense ('SORIE'). The impact of the transition on the income statement is an increase of £0.2m in the profit for the financial year to 31 December 2004.

Share based payments

Under UK GAAP no charge was made to the profit and loss account for the value of options granted to employees as options were granted at their intrinsic value. Under IFRS 2 'Share Based Payment' a charge is made reflecting the fair value of options granted since 7 November 2002, which is applying the exemption permitted under IFRS 1. The impact has been a charge of £0.03m to operating profit for the financial year to 31 December 2004. There is no impact on net assets as the income statement charge is offset by an equivalent amount credited to the equity reserve.

Goodwill

Under UK GAAP, goodwill was amortised over its useful economic life. Under IFRS 3 'Business Combinations' goodwill is not amortised but is carried at cost with impairment reviews being undertaken annually or when there is an indication that the carrying value has been reduced. Under IFRS 1 the Group has applied the change from the date of transition as opposed to full application to all business combinations prior to that date. The goodwill in the balance sheet at the date of transition to IFRS was £53.0m. The impact on the 2004 profit for the financial year is a reversal of the amortisation previously charged under UK GAAP of £3.1m.

Notes to the consolidated financial statements

For the year ended 31 December 2005

30 Reconciliation on transition to IFRS (continued)

Tax

Under UK GAAP deferred tax was provided for timing differences between when an amount was taxable or allowable for tax purposes as against when it was recognised in the profit and loss account and was only recognised if realisable in the short-term.

Under IAS 12 'Income Taxes' deferred tax is provided on temporary differences based upon the discrepancy between the tax base and the carrying value of assets and liabilities. The accounting changes made are principally related to the deferred tax provided on the revaluation of investment properties in our joint venture, Primary Medical Properties Limited and the pension deficit recognised as noted above. The net result is a decrease in total equity of £1.2m at 1 January 2004 and £1.7m at 31 December 2004.

Joint ventures

Under UK GAAP the results of joint ventures were included within turnover, operating profit and taxation in the profit and loss account and the net investment as a single line in the balance sheet. Under the option allowed in IAS 31 'Interest in Joint Ventures', the approach adopted by the Group is that joint ventures are accounted for using the equity method and are reported in the income statement as part of operating profit and the net investment in the balance sheet on a single line as before. Previously revaluation gains (or losses) on joint venture properties were recognised in the revaluation reserve. Under IFRS this treatment no longer exists and revaluation gains will now be recognised in the income statement. The net impact is to increase profit for the financial year to 31 December 2004 by £2.8m as a result of the joint venture revaluation gains now being reflected in arriving at profit.

Independent auditors' report to the members of Morgan Sindall plc

We have audited the individual Company financial statements (the 'financial statements') of Morgan Sindall plc for the year ended 31 December 2005 which comprise the balance sheet, the combined statement of movements in reserves and shareholders' funds, the statement of principal accounting policies and the related notes 1 to 10. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Morgan Sindall plc for the year ended 31 December 2005.

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

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the individual Company financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice are set out in the statement of directors' responsibilities.

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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the directors' report is not consistent with the financial statements. We also report to you 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 is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 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 Company'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 and 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 International Standards on Auditing (UK and Ireland) 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 Company's circumstances, 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- 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.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St Albans, United Kingdom
22 February 2006

Company balance sheet

At 31 December 2005

	Notes	2005 £'000s	2004 (restated) £'000s
Fixed assets			
Tangible assets	4	1,909	2,004
Investments	5	133,315	125,145
		135,224	127,149
Current assets			
Trade debtors		1	2
Amounts owed by subsidiary undertakings		10,993	9,415
Other debtors		1,361	157
Prepayments and accrued income		2,702	3,532
Corporation tax recoverable		1,040	406
Deferred tax	6	559	1
Amounts owed by joint ventures		367	-
Cash at bank and in hand	7	4,888	13,105
		21,911	26,618
Creditors: amounts falling due within one year			
Loan notes		(120)	(360)
Trade creditors		(2,060)	(2,241)
Amounts owed to subsidiary undertakings		(24,556)	(35,336)
Other creditors		(90)	(1)
Other tax and social security		(393)	(503)
Accruals and deferred income		(6,080)	(3,243)
		(33,299)	(41,684)
Net current liabilities		(11,388)	(15,066)
Total assets less current liabilities		123,836	112,083
Provisions for liabilities and charges			
Deferred tax	6	(54)	(92)
Retirement benefit obligation	8	(2,346)	(1,557)
Net assets		121,436	110,434
Shareholders' funds			
Share capital	9	2,116	2,107
Share premium account		26,014	25,679
Own shares		(1,775)	(993)
Capital redemption reserve		623	623
Equity reserve		1,052	39
Special reserve		13,644	13,644
Retained earnings		79,762	69,335
Total equity shareholders' funds		121,436	110,434

The financial statements were approved by the Board of directors and authorised for issue on 22 February 2006 and were signed on its behalf by:

Paul Smith
David Mulligan

Combined statement of movements in reserves and shareholders' funds

For the year ended 31 December 2005

	Share capital £'000s	Share premium account £'000s	Investment in own shares £'000s	Capital redemption reserve £'000s	Equity reserve £'000s	Special reserve £'000s	Retained earnings £'000s	Total equity shareholders' funds £'000s
Balance at 1 January 2004	2,100	25,392	(1,094)	623	6	13,644	58,240	98,911
Profit for the year	-	-	-	-	-	-	19,152	19,152
Recognition of share based payments	-	-	-	-	33	-	-	33
2004 interim dividend declared and paid	-	-	-	-	-	-	(2,188)	(2,188)
2003 final dividend declared and paid	-	-	-	-	-	-	(4,824)	(4,824)
Actuarial loss on defined benefit pension scheme	-	-	-	-	-	-	(1,493)	(1,493)
Income taxes on pension benefit	-	-	-	-	-	-	448	448
Own shares purchased	-	-	(48)	-	-	-	-	(48)
Options exercised	7	287	-	-	-	-	-	294
LTIP shares vested	-	-	149	-	-	-	-	149

Balance at 1 January 2005	2,107	25,679	(993)	623	39	13,644	69,335	110,434
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Profit for the year	-	-	-	-	-	-	19,879	19,879
Recognition of share based payments	-	-	-	-	589	-	-	589
2005 interim dividend declared and paid	-	-	-	-	-	-	(2,929)	(2,929)
2004 final dividend declared and paid	-	-	-	-	-	-	(5,551)	(5,551)
Own shares purchased	-	-	(782)	-	-	-	-	(782)
Options exercised	9	335	-	-	-	-	-	344
Deferred tax arising on recognition of share based payments	-	-	-	-	424	-	-	424
Actuarial loss on defined benefit pension scheme	-	-	-	-	-	-	(1,284)	(1,284)
Income taxes on pension benefit	-	-	-	-	-	-	312	312

Balance at 31 December 2005	2,116	26,014	(1,775)	623	1,052	13,644	79,762	121,436
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Principal accounting policies

For the year ended 31 December 2005

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed asset properties, pension assets and liabilities and share based payments and in accordance with applicable United Kingdom accounting standards. Compliance with SSAP 19 'Accounting for Investment Properties' requires departure from the requirements of the Companies Act 1985 relating to the depreciation and an explanation is given below.

The Company Balance Sheet at 31 December 2004 has been restated following implementation of the following:

- FRS 17 'Retirement Benefits', which requires the pension deficit to be recognised on the balance sheet;
- FRS 20 'Share Based Payment', which has no impact on the net assets as the profit and loss account charge is offset by an equivalent amount credited to the equity reserve; and
- FRS 21 'Events after the Balance Sheet Date', which only requires recognition of a dividend as a liability once there is an obligation to pay.

Turnover

Turnover is defined as the value of goods and services rendered excluding VAT. Turnover represents the sales value of properties where the ownership has been legally transferred to the purchaser and management charges made to subsidiary companies.

Fixed asset investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment in value.

Fixed assets and depreciation

By adopting FRS 15 'Tangible Fixed Assets', non investment properties are now held at cost. Under the transitional rules of the standard, the Company has frozen the book amounts of certain revalued properties and the valuation has 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 SSAP 19. 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 SSAP 19 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.

Deferred tax

Deferred tax is provided in full on temporary 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 laws. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the 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.

Principle accounting policies

For the year ended 31 December 2005

Pensions

The Company operated a funded defined benefit scheme for permanent employees. This scheme is now a closed scheme as referred to in note 8 on pages 79 to 81. Where an actuarial valuation gave rise to a surplus or deficit it is 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 Company 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 8 on pages 79 to 81, the annual costs are charged to the profit and loss account.

FRS 17 'Retirement Benefits' has been adopted during the year and as a result the defined benefit pension scheme liability is now recognised on the balance sheet.

Share based payments

The Company has applied the requirements of FRS 20 'Share Based Payment'. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Company issues equity settled and cash settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is measured by use of a modified Black-Scholes model. None of these awards when granted was subject to a share price related performance condition.

A liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date for cash settled, share based payments.

Dividends

The Company has adopted FRS 21 'Events after the Balance Sheet Date' and accordingly only recognises a liability once there is an obligation to pay. As a result the dividend will only be recognised once the shareholders approve it.

Notes to the Company financial statements

For the year ended 31 December 2005

1 Employees

The average number of people employed by the Company including directors during the year was 30 (2004: 26).

2 Staff costs

	2005 £'000s	2004 £'000s
Wages and salaries	4,595	3,669
Social security costs	1,152	470
Pension costs	383	392
	6,130	4,531

3 Profit of the 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 £19.9m (2004: £19.2m).

4 Tangible assets

	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 1 January 2005	2,645	172	2,817
Additions	629	-	629
Disposals	(57)	(162)	(219)
At 31 December 2005	3,217	10	3,227
Depreciation			
At 1 January 2004	492	47	539
Charge for the year	320	1	321
Revaluation	-	(47)	(47)
At 1 January 2005	812	1	813
Charge in the year	532	-	532
Disposals	(26)	(1)	(27)
At 31 December 2005	1,318	-	1,318
Net book value at 31 December 2005	1,899	10	1,909
Net book value at 31 December 2004	1,833	171	2,004

Notes to the Company financial statements

For the year ended 31 December 2005

The net book value of land and buildings comprises:

	2005 £'000s	2004 £'000s
Freehold	-	160
Investment property	-	160
Freehold	10	11
Other properties	10	11
Total net book value	10	171

Land and buildings at cost or valuation are stated:

	2005 £'000s	2004 £'000s
Investment properties at valuation	-	160
Other properties at cost	10	12
	10	172

In 2004, the directors considered the valuation of the single investment property as at the balance sheet date and concluded that no change was required to its carrying value. In 2005, no external valuation has been undertaken as the investment property was sold during the year.

5 Investments

	Subsidiary undertakings		Joint ventures		Total £'000s
	Shares £'000s	Loans £'000s	Shares £'000s	Loans £'000s	
Cost					
At 1 January 2005	126,035	4,405	4	-	130,444
Additions	2,154	6,016	-	-	8,170
At 31 December 2005	128,189	10,421	4	-	138,614
Provisions					
At 1 January 2005 and 31 December 2005	890	4,405	4	-	5,299
Net book value at 31 December 2005	127,299	6,016	-	-	133,315
Net book value at 31 December 2004	125,145	-	-	-	125,145

The Company has the following significant interests in joint ventures:

Primary Medical Property Limited 47.5% share

Primary Medical Property Limited has a portfolio of primary health care 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. See also note 28 on page 67 in the consolidated financial statements in relation to a post balance sheet event.

The above undertaking is registered in England.

Notes to the Company financial statements

For the year ended 31 December 2005

6 Deferred tax

The major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period are as follows:

	Accelerated capital allowance and other short-term timing differences £'000s	Retirement benefit obligations £'000s	Share based payments £'000s	Total £'000s
At 1 January 2004	-	221	-	221
Charge to profit and loss account	(92)	-	-	(92)
Credit to equity	-	448	-	448
At 1 January 2005	(92)	669	-	577
Credit to profit and loss account	38	24	135	197
Credit to equity	-	312	424	736
As 31 December 2005	(54)	1,005	559	1,510

Certain deferred tax assets and liabilities have been offset. The analysis of the deferred tax balances (after offset) for financial reporting purposes is as follows:

	2005 £'000s	2004 £'000s
Deferred tax within provisions for liabilities and charges	(54)	(92)
Deferred tax within current assets	559	1
Deferred tax within retirement benefit obligations	1,005	668
	1,510	577

At the balance sheet date, the Company has unused tax losses of £552,000 (2004: £552,000) available for offset against future profit. No deferred tax asset has been recognised in respect of £165,000 (2004: £165,000) of such losses due to the unpredictability of future profit streams.

Notes to the Company financial statements

For the year ended 31 December 2005

7 Financial instruments

The financial instruments, excluding short-term debtors and creditors are comprised of cash and loan notes. The directors consider the fair value not to be materially different to the carrying value for financial instruments. The Company holds part of its cash as sterling deposits with counterparties, which are at a fixed 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 Company's risk profile is not significantly changed from maintaining funds with the Company's clearing bank. There are no amounts included within cash at bank and in hand (2004: £8,365,000) which is not accessible within 24 hours without penalty. During the year under review the Company did not enter into derivative transactions and has not undertaken trading in any financial instruments.

Loan notes

Loan notes were issued in 2002 as part of the 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. Of these, £240,000 were redeemed by loan note holders in 2005 and the remaining £120,000 were redeemed on 2 January 2006.

8 Retirement benefit schemes

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 right 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 the 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 projected 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 £3.9m 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 triennial valuation will be carried out at 5 April 2007 when the funding position will be re-appraised.

Valuation date		2005	2004	2003
Valuation method	Notes	Projected unit £'000s	Projected unit £'000s	Projected unit £'000s
Fair value of the scheme assets	a	4,430	3,918	3,924
Present value of scheme liabilities		(7,781)	(6,143)	(4,660)
Scheme shortfall		(3,351)	(2,225)	(736)
Related deferred taxation at 30%		1,005	668	221
Net pension liability		(2,346)	(1,557)	(515)

Notes to the Company financial statements

For the year ended 31 December 2005

8 Retirement benefit schemes (continued)

Actuarial assumptions	Notes	2005 %	2004 %	2003 %
Inflation per annum		2.9%	2.75%	2.75%
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		2.9%	2.75%	2.75%
Salary scale increase per annum		3.9%	3.75%	3.75%
Discount rate for liabilities		4.9%	5.5%	5.75%

Disclosure of fair value of assets and expected rates of return:

Asset class:	Fair value			Expected rate of return		
	2005 £'000s	2004 £'000s	2003 £'000s	2005 %	2004 %	2003 %
Equities	1,844	2,194	2,668	7.5%	7.5%	8.0%
Fixed interest	1,256	–	–	4.5%	–	–
Corporate bonds	1,256	1,528	903	5.0%	5.0%	5.0%
Other	74	196	353	4.5%	4.0%	4.0%
Overall	4,430	3,918	3,924			

The total pension costs for the Company in respect of:

	Notes	2005 £'000s	2004 £'000s	2003 £'000s
Defined benefit schemes	c	240	216	–
Money purchase schemes	c	377	392	140

There are no amounts included within the operating profit for current or past service costs in either 2005, 2004 or 2003.

Amounts included in other finance costs:	2005 £'000s	2004 £'000s	2003 £'000s
Expected return on scheme assets	252	269	272
Interest on pension scheme liabilities	(334)	(265)	(267)
	(82)	4	5

Notes to the Company financial statements

For the year ended 31 December 2005

Amounts included in the statement of total recognised gains and losses ('STRGL'):

	2005 £'000s	% asset or liability value	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	168	3.8%	(175)	4.5%	179	4.6%	(1,153)	25.8%
Experience gain/(loss) arising on scheme liabilities	60	0.8%	(1,065)	17.3%	(187)	4.0%	29	0.5%
Effects of changes in assumptions underlying the present value of scheme liabilities	(1,512)	19.4%	(253)	4.1%	152	3.3%	114	2.1%
Total actuarial (loss)/gain recognised in the STRGL	(1,284)		(1,493)		144		(1,010)	

Analysis of the movement in scheme deficit during the year:

	2005 £'000s	2004 £'000s	2003 £'000s
Opening deficit in the scheme	(2,225)	(736)	(885)
Contributions	240	-	-
Other finance income	252	269	272
Interest cost	(334)	(265)	(267)
Actuarial (losses)/gains	(1,284)	(1,493)	144
Closing deficit in the scheme	(3,351)	(2,225)	(736)

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 £240,000 and the position will be reviewed following the next triennial valuation as at 5 April 2007. Employer's contributions for money purchase benefits remain unchanged at agreed standard rates.

Notes to the Company financial statements

For the year ended 31 December 2005

9 Share capital

	2005		2004	
	No. '000s	£'000s	No. '000s	£'000s
Authorised:				
Ordinary shares of 5p each	60,000	3,000	57,500	2,875
Issued and fully paid:				
At the beginning of the year	42,147	2,107	41,996	2,100
Exercise of share options	169	9	151	7
At the end of the year	42,316	2,116	42,147	2,107

The Company has one class of ordinary share which carries no rights to fixed income.

Ordinary shares

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

- 6,250 ordinary shares in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £5,907.50
- 162,750 ordinary shares in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £337,387.50.

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 and under the 1995 Scheme expired in May 2005. As at 31 December 2005 there remained 31,075 options outstanding under that Scheme exercisable at prices between £0.73 and £1.71. On the same date there were 1,468,500 options outstanding under the 1995 Scheme exercisable at prices between £1.71 and £4.95.

Other share schemes

Details of other share schemes are disclosed in the Directors' remuneration report on pages 28 to 34. It is currently intended that share awards under these schemes will be satisfied by shares purchased in the market by the employee benefit trust.

Own shares

Own shares at cost represent 506,898 Morgan Sindall plc shares held in the Morgan Sindall Employee Benefit Trust in connection with the Long Term Incentive Plan ('LTIP') as detailed in the directors' remuneration report on pages 28 to 34. The trustee, the Legis Trust, purchases the Company's shares in the open market with the financing provided by the Company on the basis of regular reviews of the share liabilities of the LTIP. The unallocated shares number 420,803 and dividends on these shares have been waived. Dividends on allocated shares are paid to the participants. The cost of shares expected to be awarded are charged over the three year period to which the award relates. Based on the Company's share price at 31 December 2005 of 929.5p the market value of the shares was £4,711,617.

Notes to the Company financial statements

For the year ended 31 December 2005

10 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

Lovell Partnerships Limited
Morgan Lovell plc
Overbury plc
Vivid Interiors Limited
Backbone Furniture Limited
Bluestone plc
Morgan Est plc
Morgan Utilities Limited
Magnor Plant Hire Limited
* Stansell QVC Limited
Newman Insurance Company Limited

Activity

Affordable housing
Office transformation services
Fitting out and refurbishment specialists
Retail and leisure fit out specialist
Furniture specialists
Construction
Infrastructure services
Infrastructure services
Construction plant hire
Construction
Insurance

Joint Ventures

Primary Medical Property Limited (47.5%)
* Morgan-Vinci Limited (50%)
* Claymore Roads (Holdings) Limited (50%)
* Community Solutions for Primary Care (Holdings) Limited (33 $\frac{1}{3}$ %)
* The Compendium Group Limited (50%)

Investment in medical properties
Infrastructure services
Infrastructure services
Investment in the development of primary care facilities
Investment in affordable housing

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. The proportion of ownership interest is the same as the proportion of voting power held. 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. The principal place of business is the United Kingdom.

Newman Insurance Company Limited has a year end of 30 November coterminous with the renewal date for the Group's insurance arrangements in which it participates.

Notice of annual general meeting

Notice is hereby given that the annual general meeting of the Company will be held at the offices of College Hill, the Conference Room, 78 Cannon Street, London, EC4N 6HH at 12.00pm on Tuesday 25 April 2006 to consider and, if thought fit, approve the following resolutions which are proposed, in the case of resolutions numbered 1 to 8, as ordinary resolutions and, in the case of resolutions numbered 9 and 10, as special resolutions.

Ordinary business

Ordinary resolutions

1. To receive and adopt the financial statements and the reports of the directors and the independent auditors for the year ended 31 December 2005.
2. To declare a final dividend of 18.0p per ordinary share for the year ended 31 December 2005.
3. To re-elect Paul Smith as a director.
4. To re-elect Jack Lovell as a director.
5. To approve the directors' remuneration report for the year ended 31 December 2005.
6. To re-appoint Deloitte & Touche LLP as independent auditors.
7. To authorise the directors to fix the independent auditors' remuneration.

Special business

Ordinary resolution

8. That the directors be and are hereby generally and unconditionally authorised (in substitution for any existing authority subsisting at the date of this resolution) in accordance with section 80 of the Companies Act 1985 ('the Act') to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate amount of £705,482 such authority (unless previously revoked or varied) to expire on the earlier of the conclusion of the Company's next annual general meeting and fifteen months from the date of the passing of this resolution save that the Company may before such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

Special resolutions

9. That, subject to the passing of the previous resolution, the directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority given in the previous resolution as if section 89(1) of the Act did not apply to such allotment, provided that such power shall be limited to:
 - i) the allotment of equity securities which are offered to all the holders of equity securities of the Company (at a date specified by the directors) where the equity securities respectively attributable to the interests of such holders are as nearly as practicable in proportion to the respective number of equity securities held by them, but subject to such exclusions and other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical problems under any laws, or requirements of any regulatory body or stock exchange in any territory or otherwise; and
 - ii) the allotment (otherwise than pursuant to sub-paragraph i) above) of equity securities up to an aggregate nominal amount of £105,822

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

Notice of annual general meeting

10. That the existing Article 146 of the Articles of Association be deleted and the following be substituted therefore:

'INDEMNITY

146.1 Subject to the provisions of and so far as may be consistent with the Act, every director, secretary or other officer of the Company shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and/or discharge of his duties and/or the exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office provided that any such indemnity in relation to a director shall only be valid to the extent that it constitutes a qualifying third party indemnity provision as defined in section 309B of the Act.

146.2 For the purpose of this Article 146 a director shall be entitled to vote and to be counted in the quorum at any meeting of the Board or a committee of the Board at which any indemnity, arrangement or proposal falling within this Article 146 is to be considered and, for the purpose of Article 96, any interest which any director may have in such indemnity, arrangement or proposal shall not be a material interest unless the terms of such indemnity, arrangement or proposal confer upon such director a privilege or benefit not available to, or awarded to, any other director. The decision of the chairman of the meeting as to whether the indemnity, arrangement or proposal to be considered at the meeting falls within this Article 146 or as to the materiality of any director's interest therein for the purposes of this Article and Article 96 shall be final and conclusive.'

By order of the Board

Mary Nettleship
Company Secretary
22 February 2006

Registered office
77 Newman Street
London
W1T 3EW

Notice of annual general meeting

Notes

1. A member entitled to attend and vote at the annual general meeting ('AGM') may appoint a proxy (who need not be a member of the Company) to attend and, on a poll, to vote on his or her behalf. In order to be valid, an appointment of proxy must be returned by one of the following methods:

- in hard copy in the form enclosed, by post, by courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; or
- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

and in each case must be received by the Company not less than 48 hours before the time appointed for holding the meeting.

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

2. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.
3. Copies of the executive directors' service contracts with the Company and copies of the non-executive directors terms and conditions of appointment and the register of interests of the directors in the share capital of the Company are available for inspection at the registered office of the Company during usual business hours (excluding weekends and English public holidays) and will be available at the place of the AGM from 15 minutes prior to and during the AGM.
4. Short biographical details of the directors seeking re-election are shown on page 18 of the accounts. Explanatory notes to the items of special business to be proposed at the annual general meeting can be found in the report of the directors on page 23.
5. If no indication of how the proxy shall vote is given, the proxy will exercise discretion as to voting or abstention therefrom.
6. The Company, pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, specifies that only those ordinary shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend and/or vote at the meeting.

Morgan Sindall plc – Proxy Form

For use at the annual general meeting of Morgan Sindall plc. To be held at the offices of College Hill, the Conference Room, 78 Cannon Street, London EC4N 6HH at 12.00pm on Tuesday 25 April 2006

Name: (Please print)

Address: (Please print)

I/We, the undersigned, being (a) member(s) of Morgan Sindall plc, hereby appoint the chairman of the meeting
or

Name of proxy (see Note 4) Please print:

Address of proxy: (Please print)

as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the Company to be held on Tuesday 25 April 2006 and at any adjournment thereof.

I/We direct the proxy to vote in respect of the resolutions to be proposed at the meeting as indicated below (note 1).

Signed

Dated 2006

Ordinary Resolutions	For	Against	Abstention
1 To receive and adopt the financial statements and the reports of the directors and the independent auditors for the year ended 31 December 2005	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 To declare a final dividend of 18.0p per ordinary share for the year ended 31 December 2005	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 To re-elect Paul Smith as a director	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 To re-elect Jack Lovell as a director	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 To approve the directors' remuneration report for the year ended 31 December 2005	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6 To re-appoint Deloitte & Touche LLP as independent auditors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7 To authorise the directors to fix the independent auditors' remuneration	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ordinary Resolution			
8 To authorise the directors to allot shares pursuant to Section 80 of the Companies Act 1985	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Special Resolutions			
9 To disapply the statutory pre-emption provisions pursuant to Section 95 of the Companies Act 1985	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10 To amend the articles of association of the Company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Notes

- Please indicate how you wish your proxy to vote on the resolutions by inserting 'X' in the appropriate space. If no indication of how the proxy shall vote is given, the proxy will exercise discretion as to voting or abstention therefrom.
- In the case of a corporation the proxy must be under its common seal (if any) or the hand of its duly authorised agent or officer. In the case of an individual the proxy must be signed by the appointor or his agent, duly authorised in writing.
- This proxy form has been sent to you by post. It may be returned by either of the following methods: in hard copy form, by post or courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or, in the case of CREST members, by using the CREST electronic proxy appointment service. CREST members should refer to note 1 to the notice of annual general meeting enclosed with this proxy form in relation to the submission of a proxy appointment via CREST.
In each case the proxy appointment must be received not less than 48 hours before the time for the holding of the meeting or adjourned meeting together (except in the case of appointments utilising the CREST electronic appointment service) with any authority (or a notorally certified copy of such authority) under which it is signed.
- If you wish to appoint a proxy other than the chairman of the meeting, delete the words 'the chairman of the meeting' and insert the name and address of your proxy in the space provided. Please initial the amendment. A proxy, who need not be a member of the Company, must attend the meeting in person to represent you.
- Completion of a proxy form will not prevent the members from attending and voting at the meeting in person should they so wish.
- In the case of joint holders the signature of only one of the joint holders is required but, if more than one holder votes, the vote of the first named on the register of members will be accepted to the exclusion of other joint holders.
- The Company, pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, specifies that only those members registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB122



Capita Registrars
Proxy Department
P.O. Box 25
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

THIRD FOLD

FIRST FOLD

Corporate directory

Directors

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

Company Secretary

Mary Nettleship

Registered office

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

Solicitors

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

Independent Auditors

Deloitte & Touche LLP
3 Victoria Square, Victoria Street, St Albans, AL1 3TF

Clearing bankers

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

Brokers

Hoare Govett Ltd
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

www.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 service 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 on to 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 registrar's website, 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 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	25 April 2006
Final dividend:	
Ex-dividend date	5 April 2006
Record date	7 April 2006
Payment date	5 May 2006
Interim results announcement	August 2006

MORGAN  SINDALL

Morgan Sindall plc, 77 Newnham Street, London W1T 3EW

Tel: 020 7307 9200 Fax: 020 7307 9201

Visit our website at morgansindall.co.uk

