morgan sindall

report and accounts

2006

MORGAN SINDALL annual report & accounts **2006**

MORGAN SINDALL

Morgan Sindall plc is a top ten United Kingdom construction group employing over 5,000 people. Our businesses operate within four 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.

overbury
a passion for perfection

Morgan Lovell
Inspiring office transformation

vivid interiors

backbone furniture

bluestone

Fit Out

Fit Out comprises 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 and installs commercial office furniture.

Construction

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

morgan est

Infrastructure Services

Morgan Est is a leading national provider of infrastructure services operating in the UK tunnelling, civil engineering, water, utilities and rail sectors. The business undertakes a broad spectrum of infrastructure and utility projects in which it provides civil engineering, utility, tunnelling and mechanical and electrical services through all phases of a project from design to operation and maintenance.

LOVELL

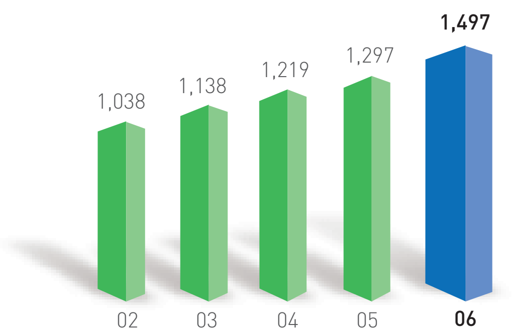
Affordable Housing

Lovell is a leading provider of affordable housing, specialising in mixed tenure developments, refurbishment and large-scale regeneration schemes. It works in partnership with social housing providers at the cutting edge of urban regeneration to create sustainable communities.

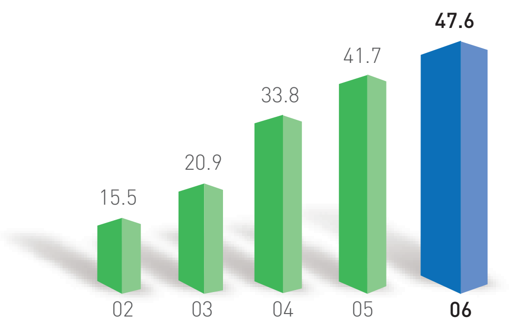
Financial highlights

	2006	2005	% increase
Revenue	£1,497m	£1,297m	+15%
Operating profit	£46.2m	£39.9m	+16%
Profit before tax	£47.6m	£41.7m	+14%
Cash balance	£95.4m	£72.0m	+33%
Earnings per share	78.2p	70.7p	+11%
Final dividend per share	20.0p	18.0p	+11%

Revenue[1] (£'m)

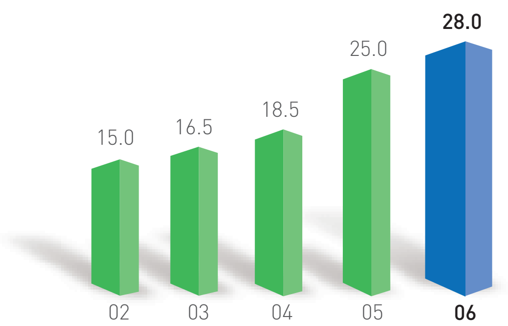


Profit before tax[1] (£'m)



[1] **Basis of accounting:** The figures for 2004, 2005 and 2006 are stated under IFRS whilst 2003 and 2002 are stated under UK GAAP.

Dividends per share (p)



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Chairman and chief executive's statement

Overall we are very pleased with the progress made in 2006 and, given the current strength of our divisions and the healthy market sectors in which they operate, we expect to make further progress over the coming year.

In 2006 Morgan Sindall continued to make excellent progress. Profit before tax increased by 14% to £47.6m (2005: £41.7m) on revenue that increased by 15% to £1.5bn (2005: £1.3bn). Earnings per share increased by 11% to 78.2p (2005: 70.7p). Accordingly the Board recommends an increase in the final dividend to 20.0p (2005: 18.0p) giving a total dividend for the year of 28.0p (2005: 25.0p).

Our strategy remains the same. It is to develop a leading position in each of our chosen market sectors. Our Fit Out and Affordable Housing divisions demonstrate the value of this approach. Both had very successful years as a result of their strong market positions and favourable trading conditions. Construction continued with its strategy of focussing on key sectors and framework contracts and delivered an improved result. Infrastructure Services secured a significant amount of new civil engineering and utilities work, which should result in increased revenue and profit moving forward although restructuring of the division and the mobilisation of new contracts during 2006 impacted its profit for the year.

Overall our margins have remained steady at 3.2% (2005: 3.2%) while cash generation was particularly strong. The Group ended 2006 with net cash of £95m (2005: £72m).

Board changes

Jack Lovell will retire from the Board as a non-executive director at the forthcoming AGM in April. Jack, one of the founding directors of the Group, has made a significant contribution to its development over the past 30 years and we are extremely grateful for his input and guidance throughout that time.

Outlook

Morgan Sindall has made an encouraging start to 2007 with further exciting opportunities being secured by all our divisions. The forward order book at the start of the year stood at £3.3bn against £2.8bn last year and we are seeing favourable market conditions across all of our chosen sectors.

In the coming year Fit Out will be seeking to further expand its larger projects capability and Affordable Housing will be targeting more complex regeneration schemes. Construction will continue with its focus on key sectors and framework contracts while Infrastructure Services' priority will be on successfully mobilising and delivering the work secured in 2006, as well as securing further opportunities.

Overall we are very pleased with the progress made in 2006 and, given the current strength of our divisions and the healthy market sectors in which they operate, we expect to make further progress over the coming year.

Business review

Group overview

Group structure
Morgan Sindall is a construction group with activities spanning a number of sectors within the UK construction market, namely commercial property, education, health, leisure, transport, social and affordable housing and utilities. The Group operates across both the public and private sectors.

The Group has four divisions: Fit Out, Construction, Infrastructure Services and Affordable Housing. The Group Activities segment in the analysis shown in note 1 to the accounts on page 49 includes the activities of the holding company as well as those of the project finance investments team.

A further detailed description of each of the divisions' activities is provided on pages 16 to 23 following this business review.

Strategy and objectives
The Group's strategy continues to be the development of a construction group with market leading positions in its chosen sectors in order to provide long-term growth and success. The approach incorporates a balance of work between the public and private sectors, which gives the Group the flexibility to adapt to changes within the market as a whole.

In order to drive the development of the Group our priorities are:

- to focus on quality to ensure we continue to satisfy our clients' expectations
- to attract, develop and retain talented employees, who are key to our long term success
- to ensure that we have the cash resources available to invest in our businesses

Market
The UK construction market grew by 1.3% in 2006 (2005: decline of 0.5%) against a backdrop of growth in the economy of 2.6% (2005: 1.6%). Within this context, the conditions in the market sectors in which the Group operates were generally positive. More specific comments on our markets are given below under the review of each division on pages 16 to 23.

Key risks
Morgan Sindall has a risk management process in place to identify and effectively manage risk across the business, further details of which are given in the corporate governance statement on page 40. The following principal risks have been identified and may have an impact on the Group and its operations:

The ability to attract, develop and retain talented employees

As the Group grows it is critical that talented individuals are attracted, developed and retained by the business at all levels as these individuals are key to the Group's future success. We are reviewing our policies and procedures in the areas of recruitment, training and development with the intention of improving our effectiveness in managing this risk.

Our reputation as a safe construction business

As a construction group we need to ensure that we provide safe working conditions for our employees, subcontractors and the public. We recognise that any shortcomings in our health and safety approach will have a negative impact on individuals, attract financial penalties and adversely impact on our reputation. The Group has a comprehensive framework in place to manage health and safety risks, further details of which are set out in the corporate social responsibility review on pages 11 to 15.

Contract related risks

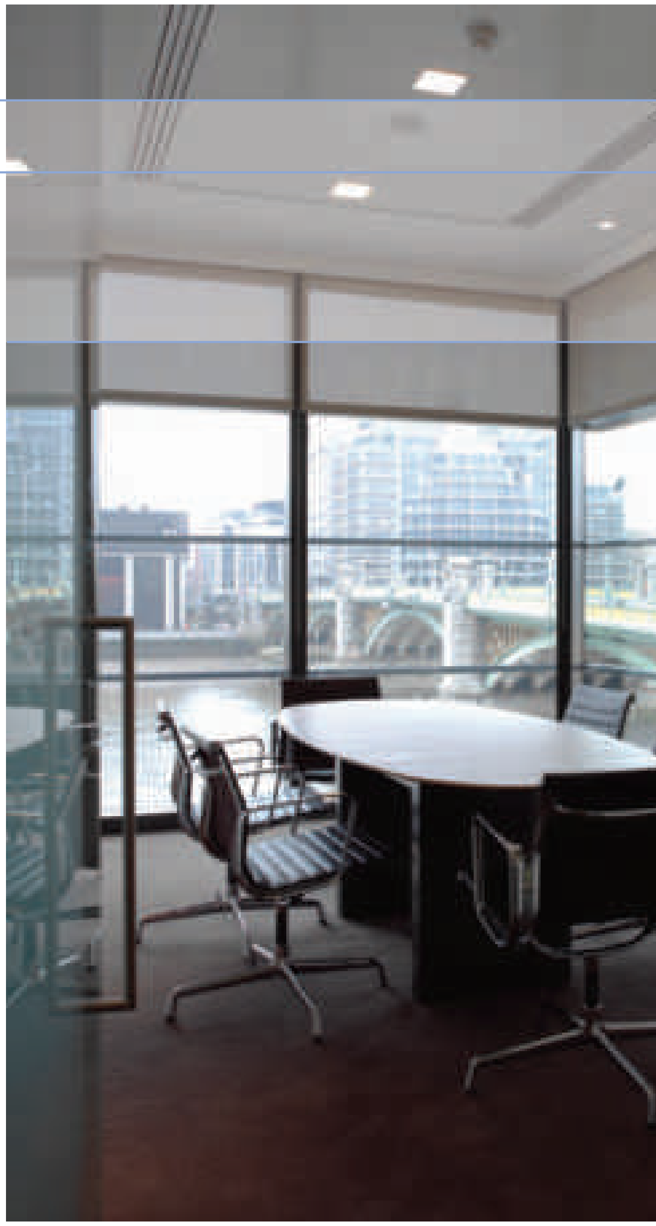
The Group undertakes several hundred contracts each year and the commercial risk we take on each contract will depend on the nature and complexity of the works, the duration of the contract and the contractual terms under which the work is carried out. In order to manage this risk we have a rigorous approach to contract selection to ensure that the works we undertake match our capabilities and resources, that the contractual terms are acceptable and that the contracts are scrutinised and approved by the appropriate level of management.

Market related risks

The market sectors in which the Group operates are impacted by general macro economic conditions and Government spending priorities. As a result the condition of each sector will change over time and it is important that the Group responds to these changes by modifying the level of resources deployed in each division. This risk is managed by monitoring the order book and pipeline of opportunities and by gathering formal and informal market intelligence.

Regulatory environment

The regulatory environment is constantly changing and the Group needs to ensure that it remains compliant with relevant legislation so as to avoid reputational damage and any financial impact of non-conformance. This risk is managed through briefings by our advisors to our employees on relevant topics and legislative changes as they occur and through regular updating of the Group's policies and procedures.



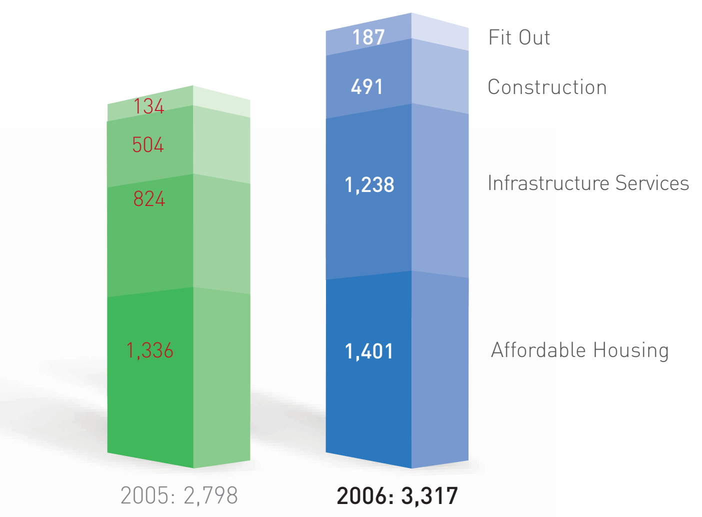
Performance

In 2006 Morgan Sindall continued to make excellent progress. Profit before tax increased by 14% to £47.6m (2005: £41.7m) on revenue that increased by 15% to £1.5bn (2005: £1.3bn). Earnings per share increased by 11% to 78.2p (2005: 70.7p). Accordingly the Board recommends an increase in the final dividend to 20.0p (2005: 18.0p) giving a total dividend for the year of 28.0p (2005: 25.0p).

The Group uses the following key performance indicators ('KPIs') to assess the ongoing improvement in its performance:

	2006	2005	2004
Margin	**3.2%**	3.2%	2.8%
Forward order book	**£3.3bn**	£2.8bn	£2.3bn
Net cash balance	**£95m**	£72m	£73m
Accident incident rate	**736**	981	1,074

Forward order book (£'m)



The Group's net margin is a blend of each of the divisions' margins and these are commented upon below. The forward order book is an aggregation of the divisions' order books and these are also commented on below. The net cash balance reflects the position at the year end. Divisional capital employed is managed efficiently. The accident incident rate is used as the key measure of the Group's health and safety performance. This is discussed in more detail under the section covering corporate social responsibility on pages 11 to 15.

The performance of the four divisions in 2006 was as follows.

Fit Out

	2006	2005
Revenue	**£426m**	£323m
Operating profit	**£22.6m**	£16.4m
Margin	**5.3%**	5.1%
Forward order book	**£187m**	£134m

Fit Out provides fit out and refurbishment services to the commercial property market. It operates through four businesses, namely Overbury, Morgan Lovell, Vivid Interiors and Backbone Furniture. It is a national business operating in both the public and private sectors.

Against the backdrop of a buoyant commercial property sector Fit Out grew strongly and increased its market share in 2006. Revenue increased by 32% to £426m (2005: £323m) and the division delivered a record operating profit of £22.6m (2005: £16.4m) which was an increase of 38% on the previous year. The margin also strengthened to 5.3% (2005: 5.1%).

The division's geographic expansion continued with an increasing number of large contracts being undertaken outside London. The division also strengthened its presence in the hotel, retail, leisure and entertainment sectors thereby extending the division's offering beyond the commercial offices sector.

The division starts 2007 with a forward order book of £187m (2005: £134m). The continued strength of the fit out market has been an important contributor to the past success of this division and our expectation is that similar market conditions will continue in 2007.

Construction

	2006	2005
Revenue	**£343m**	£336m
Operating profit	**£3.4m**	£3.2m
Margin	**1.0%**	1.0%
Forward order book	**£491m**	£504m

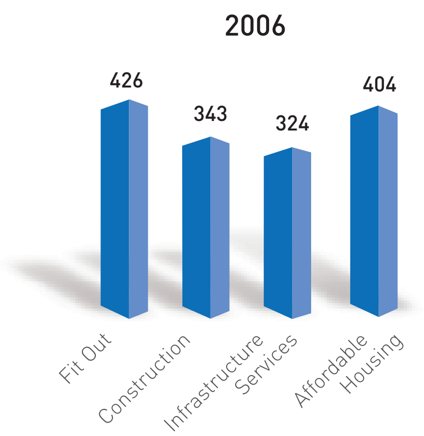
Bluestone operates through a network of 25 offices throughout England and Wales serving the health, education, commercial and light industrial sectors, delivering contracts principally through negotiated and framework arrangements.

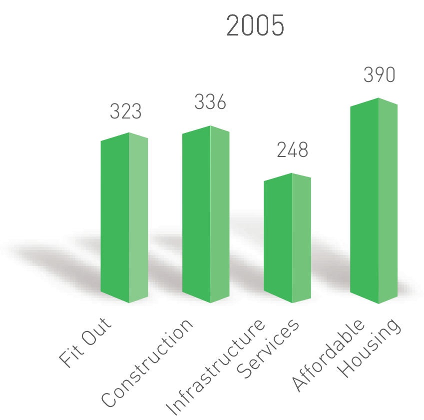
The division made progress in 2006 in a generally favourable market. Operating profit increased to £3.4m (2005: £3.2m) on revenue of £343m (2005: £336m). The margin was maintained at 1.0%.

During 2006 the division was successful in securing a number of new framework arrangements including those with South East Centres of Excellence and Dorset County Council. In addition it was appointed construction partner for the Bury, Glossop and Tameside NHS LIFT project which is anticipated to commence in the first half of 2007.

Bluestone enters 2007 with a forward order book of £491m (2005: £504m). The division also has a number of potential contracts driven by investment led projects in the health and emergency services sectors which we expect will underpin modest growth of this division in 2007.

Revenue analysis (£'m)





Infrastructure Services

	2006	2005
Revenue	**£324m**	£248m
Operating profit	**£5.1m**	£6.0m
Margin	**1.6%**	2.4%
Forward order book	**£1.2bn**	£824m

Infrastructure Services' business, Morgan Est, provides civil engineering and utilities services to the water, gas, electricity and transport sectors across the UK.

In 2006 the division delivered an operating profit of £5.1m (2005: £6.0m) on revenue of £324m (2005: £248m). The margin was impacted by a restructuring of the business during the year and also by mobilisation costs on a number of recently won contracts.

In March the division acquired from M J Gleeson plc its non-track rail business for £22.8m. This business, which specialises in station refurbishment and underground works, has performed well and contributed an operating profit of £1.0m on revenue of £21m.

In 2006 the division secured £800m of new orders, which have contributed to a significant increase in its forward order book, starting the year at a record £1.2bn (2005: £824m). This forward order book includes key projects such as the A876 Upper Forth Crossing at Kincardine, Belfast sewer tunnels, M1 widening at junctions 25 to 28, as well as frameworks with United Utilities, which runs the gas mains system on behalf of Northern Gas Networks, and E.ON UK's power distribution business Central Networks, which have helped to lengthen the order book. Overall the market outlook for infrastructure projects is much improved. The recently secured contracts are continuing to mobilise and we anticipate strong growth for this division in 2007.

Affordable Housing

	2006	2005
Revenue	**£404m**	£390m
Operating profit	**£24.0m**	£18.7m
Margin	**5.9%**	4.8%
Forward order book	**£1.4bn**	£1.3bn

The Affordable Housing division operates through Lovell, a leading provider of affordable housing and refurbishment services. The division delivers new build social housing and new build open market affordable housing as well as the refurbishment of social housing under framework arrangements. Its particular expertise is mixed tenure urban regeneration schemes, which combine both its new build and refurbishment skills and bring together private and public ownership in a single development.

The division achieved a record operating profit in 2006 of £24.0m (2005: £18.7m) on revenue of £404m (2005: £390m). During the year the division secured major new schemes at Beswick and Garston-under-Bridge and was appointed preferred bidder for a £200m PFI housing scheme in Manchester, which is expected to commence in mid-2007. The Decent Homes programme also continues to account for a significant proportion of the division's workload. The margin increased to 5.9% (2005: 4.8%) as a result of a more favourable work mix.

Lovell starts 2007 with an order book of £1.4bn (2005: £1.3bn). While the Decent Homes programme is expected to continue through to at least 2012, the division anticipates growth in the medium term to be primarily driven by larger, more complex urban regeneration schemes. Lovell's work mix is therefore expected to move towards these larger schemes over the coming years.

Financial review

Revenue and operating profit

Revenue increased by 15% to £1.5bn (2005: £1.3bn), driven by growth in all operating divisions. Fit Out's revenue increased by 32% to £426m; Construction by 2% to £343m; Infrastructure Services by 31% to £324m; Affordable Housing by 4% to £404m.

Group operating profit increased by 16% to £46.2m (2005: £39.9m). This improvement was due to strong growth at Affordable Housing and Fit Out with modest progress also made by Construction, offset by a reduction in operating profit at Infrastructure Services. Fit Out increased its operating profit by 38% to £22.6m (2005: £16.4m), Affordable Housing by 29% to £24.0m (2005: £18.7m) and Construction by 4% to £3.4m (2005: £3.2m). Infrastructure Services' operating profit reduced slightly to £5.1m (2005: £6.0m). The cost of Group Activities was £8.1m (2005: £4.8m) reflecting principally increased costs of share based payments, information technology and investment related activity. The share of results of joint ventures was a loss of £0.8m (2005: profit of £0.4m).

Profit before and after tax

Profit before tax of £47.6m was 14% ahead of last year's £41.7m. This includes net interest of £1.4m (2005: £1.8m). Profit after tax was £32.8m (2005: £29.6m). The tax charge was £14.8m (2005: £12.1m) giving an effective tax rate of 31% (2005: 29%).

Earnings per share and dividends

Basic earnings per share increased by 11% to 78.2p (2005: 70.7p). The final dividend is proposed at 20.0p (2005: 18.0p) giving a total dividend for the year of 28.0p which is 12% higher than last year (2005: 25.0p). Earnings cover the dividend 2.8 times (2005: 2.8 times).

Equity and capital structure

Equity increased to £141.9m (2005: £116.6m). The number of shares in issue at 31 December 2006 was 42,520,090 (2005: 42,315,970). The increase of 204,120 shares was due to the exercise of options under employee share option schemes. There were no other new issues during the year.

At 31 December 2006 the directors held interests over 18% of the shares of the Company and further details are disclosed in the report of the directors on page 27.

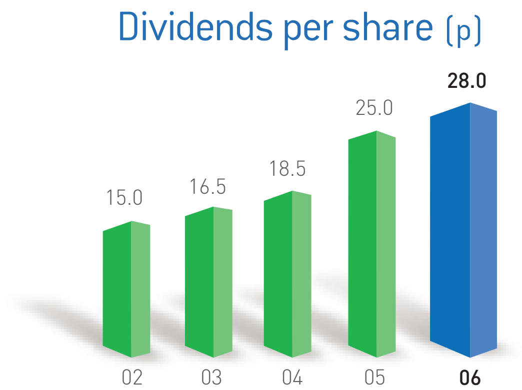
Cash flow and treasury

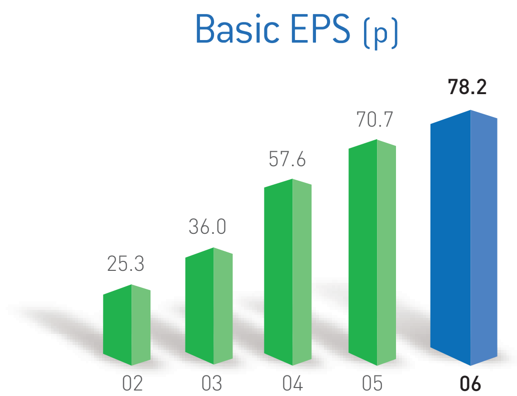
Net cash from operating activities was £47.9m (2005: £14.5m) as a result of increased profitability and improvements in working capital. The net payment to acquire a subsidiary was £18.2m (2005:nil), capital expenditure was £3.2m (2005: £4.7m) and payments to increase our interests in joint ventures were £0.9m (2005: £6.2m), reflecting ongoing investment in the business. After payments for tax, dividends and servicing of finance the net increase in cash and cash equivalents was £23.4m resulting in a year end balance of £95.4m. It is anticipated that these resources will be used for the continued growth of the Group's businesses.

In addition to its cash resources the Group has a £25m three year revolving facility available until November 2009 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 which set 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 limited exposure to foreign exchange risk because its operations are based solely in the United Kingdom and non-UK suppliers are used only occasionally.

Although the Group does not use derivatives, some of its joint venture businesses use interest rate swaps to hedge floating interest rate exposures. The Group considers that its exposure to interest rate movements is appropriately managed.





Corporate social responsibility review

The Group recognises the importance of Corporate Social Responsibility ('CSR') and in 2006 continued its development in this area. The Group's approach is to develop a culture of good corporate citizenship as seen in its actions and activities.

The Group's CSR strategy remains focussed on those areas which are significantly impacted by its day to day operations and on issues that affect the long term competitiveness of its operations. The four key areas of impact were identified as:

- social: developing the well being and health of employees, improving skill levels and promoting equal opportunities. In addition, through the activities of the divisions, the Group is able to exert a positive influence on the wider communities in which it operates
- health & safety: seeking to develop safe working conditions in which the risk of potential accidents is identified and actions are taken to manage those risks
- environment: developing an understanding of the Group's carbon footprint and striving to reduce any aspects of environmental degradation associated with its activities. In particular the management and control of waste and energy consumption is important with the Group's supply chain partners playing a key part in this process
- commercial: the Group recognises that it has a key role to play in being a successful and growing business from which employment and training opportunities flow

Given the diversity of the Group's activities, each division is developing its own CSR response to these areas consistent with the Group's values. The Group has however identified a number of key performance indicators specific to each area against which each division's progress will be monitored.

The Group's CSR Forum comprises representatives from each of the Group's divisions, together with Paul Whitmore, who is the executive director responsible for CSR on behalf of the Board, the Group's head of procurement and the deputy company secretary, who chairs the Forum.

Key to the CSR strategy are management systems and processes, the Group being accredited under the following three recognised schemes:

- ISO9001(2000) Quality Management System
- ISO14001 Environmental Management System
- OHSAS 18001 Occupational Health and Safety System

The intention is for each division to integrate these three elements into a fully integrated operating management system. As at the end of 2006, approximately a quarter of the Group's operations by revenue were regulated and managed in this way. It is anticipated that the remainder of the Group will achieve this status by the end of 2008.

Social

The CSR Forum has established a human resources committee that consists of the heads of human resources of each division. The committee regularly reviews human resources policies and procedures, and 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 while reflecting the specific needs and requirements of individual divisions.

Employee feedback and consultation is also an important priority for the Group. During 2006 the divisions actively sought employees' views through the use of facilitated focus groups and employee surveys as part of an ongoing process of seeking regular feedback.

In terms of developing its employees, the Group offers a variety of training opportunities including induction, job specific training and personal and management development courses.

In 2004 Morgan Sindall introduced a modular development programme ('MSDP') for all senior management based upon five residential modules. There are currently 261 (2005: 130) managers in the Group at various stages of MSDP.

Within a wider social context, the Group continues to develop and expand a variety of initiatives that provide benefit to the communities in which they operate. Some examples are given below:

- creation of a specialist training centre for construction skills in Coventry supported by Lovell and Whitefriars Housing Group
- provision of community facilities within NHS LIFT developments delivered through Community Solutions for Primary Care (a joint venture company)
- Infrastructure Services works alongside the CITB in promoting careers in construction and providing work experience placements in engineering design
- Affordable Housing is providing training and employment opportunities for ex-offenders who have completed a brickwork construction course
- the Group supports the Women in Construction initiative
- involvement 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 28.

The Group actively supports the principles enshrined in the Considerate Contractors Scheme and in 2006 these principles were applied to 316 (2005: 174) projects.

2006 Measurables	2006 Performance
Proportion of Group (by revenue) with human resources policies and procedures	100%
Number of employees	5,552
Average number of days absence due to sickness per employee	5 days
Number of training days per employee	4 days
Number of women employed as a percentage of total employed	16%

In 2007, the Group will continue to monitor statistics on employees as stated above. In addition, each division will start to monitor the following information:

- number of trainees taken on as school leavers/apprentices
- amount of money and the value of donations in kind given to charities per year

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 and sits on the health and safety committee. The other members of the committee are the health and safety managers of the four divisions.

Through its health and safety policy the Group is committed 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 divisions appropriate to meeting those objectives in each operating location
- the systematic identification and management of risks to health and safety and the environment
- providing information, instruction, training, supervision and consultation to employees, subcontractors and clients as necessary to implement and maintain industry best practice across all areas of health and safety

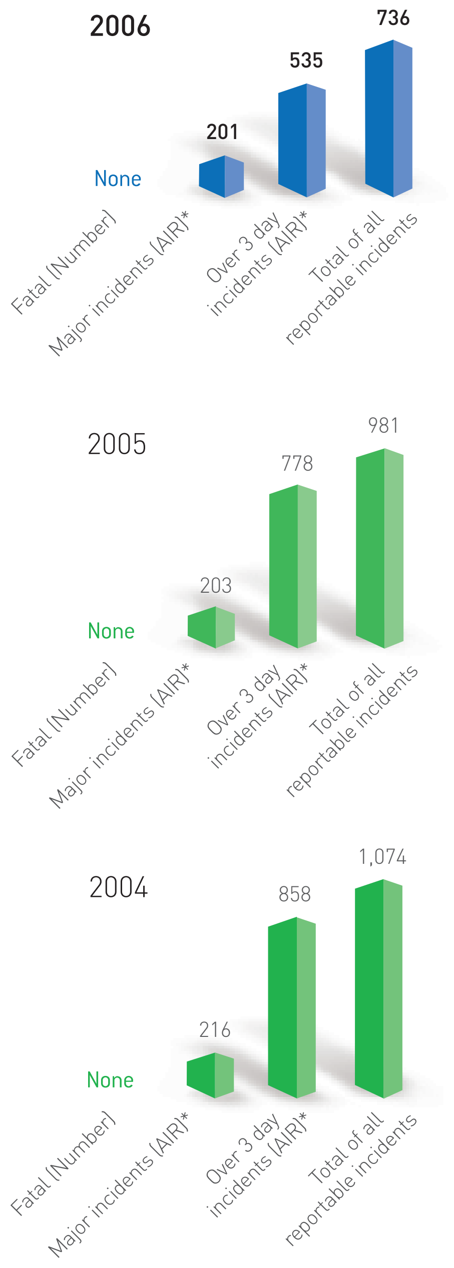
The Group's policy is available to all employees on the Group's intranet.

The Group aims to develop and sustain a behaviour based approach to heath and safety that is intolerant of both incidents and injuries, where people engaged in the Group's business activities are instinctively aware of not only their own health and safety but that of others.

The health and safety statistics for the Group for the years ended 31 December 2004, 2005 and 2006 are shown opposite.

The Group has significantly reduced the occurrence of 'over 3 day' incidents by 33% and has slightly reduced the rate of 'major' incidents by 1%. In overall terms the annualised AIR has reduced by approximately 25%.

Health and safety statistics



* 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 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 musculo-skeletal disorders, in keeping with the Major Contractors Group's health and safety charter.

Working in conjunction with its research partners and supply chain, the Group has collaborated in the production of data relating to vibration exposure times and ratings applicable to key items of mechanical plant in everyday use on the Group's sites in order to produce operating guidance to users. In addition, the production of information to support daily safety briefings and tool box talks on key health and safety themes is continuing with full participation from all divisions.

As at 31 October 2006, 84% (2005: 87%) of the Group's employees held the appropriate Construction Skills Certification Scheme ('CSCS') card. The percentage of subcontractors certified as compliant has increased to 68% (2005: 61%) 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 share the Group's commitment to health and safety and can demonstrate the adoption of competent health and safety management systems and adherence to the objective of employing a suitably qualified workforce.

Examples of other health and safety initiatives in the Group include:
- participation in the Health and Safety Executive's ('HSE') 'New Intervention Strategy' in which the HSE works closely with companies in the construction sector through the appointment of dedicated Lead Inspectors
- short secondments of site managers to the Fit Out health and safety team in order to better understand health and safety related issues
- Affordable Housing and Construction undertaking health and safety talks in local primary schools in the vicinity of projects to raise awareness of the dangers of building sites

Environment

The Group is committed to minimising the impact of its businesses and its processes on the natural environment and the community at large. To achieve this, each division has implemented an effective environmental management system to the acknowledged standard ISO14001.

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 policy and consists of the environmental managers from each division.

In 2006, the Group committed to environmental monitoring on the following basis:

2006 Objectives	2006 Progress
Maintaining ISO14001 accreditations within each division	100% accreditation maintained
Developing strategies for reducing carbon dioxide emissions and waste streams	• in 2006, the Group developed and finalised a waste monitoring tool that will enable it to record and analyse data with respect to waste. This monitoring tool will assist in strengthening the Group's 'Duty of Care' controls with regard to waste streams • each division has implemented reporting systems to gather data with respect to CO_2 emissions from their permanent buildings and vehicles over which they have direct control
Monitoring prosecutions, cautions and environmental notices as a basic measure of environmental performance	No prosecutions received in the year
Engaging with the supply chain in each division to develop strategies for improving environmental performance and to assist in further developing the Group's performance	The Group is engaging with the supply chain in a number of key areas. In particular with timber suppliers, waste management companies and plasterboard suppliers

Other examples of the Group's commitment to the environment include:

- Lovell worked in partnership with Waverley Borough Council on its sustainable living project, which involved building two semi-detached homes to EcoHomes 'Excellent' rating to demonstrate to visitors how to introduce environmentally friendly features in their own homes
- Fit Out determined the carbon footprint for each of its businesses to be approximately 1,300 tonnes including business travel, office energy consumption and waste generation. In 2007, Fit Out will be conducting energy audits and investigating ways to reduce this carbon footprint by for example, switching its offices to renewable power
- Fit Out participated in the Waste Resource Action Programme ('WRAP') project to investigate the recycling of plasterboard waste, which involves an assessment of the viability of recovering waste plasterboard from fit out sites by the use of small collection vehicles as an alternative to segregated skips. The trial diverted 108 tonnes of plasterboard from 17 sites
- Morgan Est's success in winning the Upper Forth Crossing project at Kincardine with their partner Vinci was heavily attributed to their ability to address not only the engineering issues but also those associated with working in a location designated as a Site of Special Scientific Interest
- Morgan Est extended the monitoring of supplier and subcontractor performance to include environmental factors

In 2007, the Group will continue to monitor and improve its environmental impact by recording and then taking appropriate action upon the following data:

- total tonnage of waste diverted from landfill
- total CO_2 output of vehicles with an issued fuel card
- kilowatt hours per square meter for offices where the Group receives energy bills
- number of hours of environmental training per employee
- amount of sustainable timber purchased as a percentage of the total amount purchased

Commercial

In ensuring a sustainable business that will be able to meet its commitments to the environment and the communities in which it operates, the Group is committed to seeking predictability and sustainability in its profit streams.

For the Group, meeting client's expectations is crucial and the Group has developed clear programmes for measuring client satisfaction such as the Perfect Delivery initiative developed by Fit Out. For 2007, the Group has committed to monitoring the number of relevant projects that achieve perfect delivery or similar client satisfaction measures.

The Group continues to develop its relationship with its insurers and insurance brokers, assimilating their proactive input to a wide range of risk management and mitigation issues to try and eliminate risk at source rather than addressing situations after an incident has occurred.

During 2006, the Group's head of procurement has been working with the various divisions to develop projects for 2007 that will help the Group to meet requirements for improving performance in key areas to:

- ensure that all timber across the Group will be purchased from sustainable sources
- establish a team of waste management companies that are used across the Group
- increase the recyclable content of materials that the Group purchases
- measure the total cost of employing subcontractors in evaluating their performance.

The division's ability to deliver contracts of differing size and complexity has been developed with recent success in delivering a number of large projects

Fit Out

The Fit Out division is a leading UK provider of design, fit out and refurbishment services to the commercial property market. It operates from locations in London, the South East, Midlands and the North of England. The division comprises four dedicated businesses, namely:

- Overbury, the office fit out and refurbishment specialist
- Morgan Lovell, the office interior design, fit out and refurbishment company
- Vivid Interiors, a specialist in fit out and refurbishment solutions for the hotel, retail, leisure and entertainment sectors
- Backbone Furniture, a furniture supplier for commercial interiors

The division's clients come from a broad range of sectors, both public and private, which gives the division flexibility in maintaining consistent performance as market conditions change. Recent growth has been driven by the strength of the financial and professional services sectors, particularly in London, and by improvement in the technology and media sectors in the South East of England. The overall market is buoyant, supported by a healthy public sector workload and significant investment in new office space addressing the overall shortage of quality accommodation.

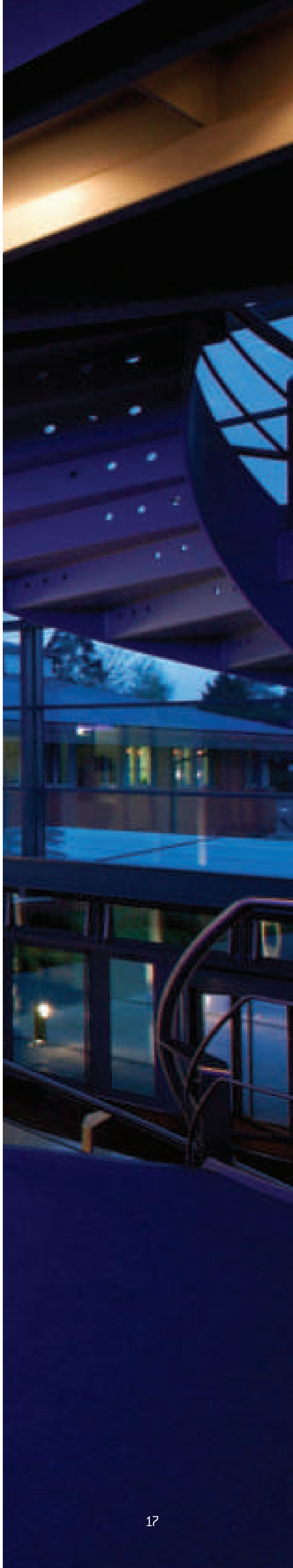
The division's ability to deliver contracts of differing size and complexity has been developed with recent success in delivering a number of large contracts. This track record helped the division to secure its largest single contract to date, a £33m fit out in London for a major professional services business, which will commence in mid-2007. In addition the division delivers work under a number of framework arrangements, which have helped it to lengthen its order book.

overbury
a passion for perfection

Morgan Lovell
Inspiring office transformation

vivid interiors

backbone furniture



A continued focus for Bluestone is to increase its workload from key clients and through framework arrangements

Construction

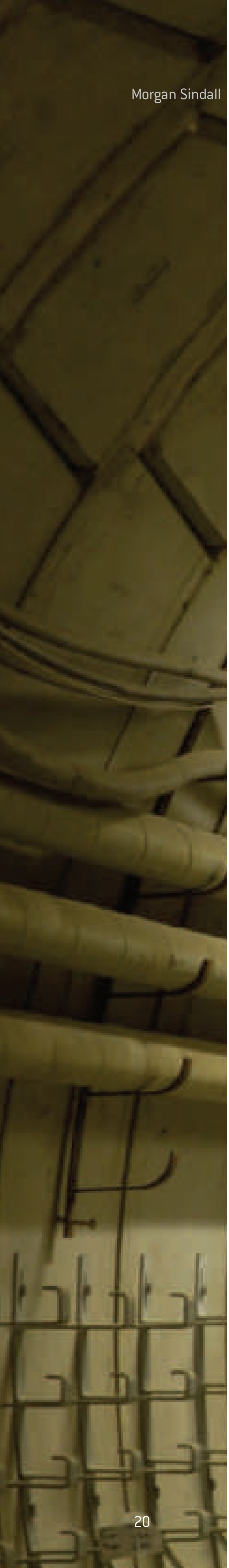
Bluestone is a national construction business with a network of local offices across England and Wales which provide new build, refurbishment and maintenance projects to the private and public sector under a variety of procurement routes. Bluestone's sector expertise is in education, healthcare, light industrial and commercial, leisure and retail.

In its core sectors the division is the construction partner to Morgan Sindall's joint venture Community Solutions for Primary Care, which has been appointed preferred bidder on its fifth NHS LIFT scheme to build primary care facilities in Bury, Glossop and Tameside, as well as constructing further developments under the Group's four existing LIFT schemes. In the education sector Bluestone secured major schemes such as a £20m student residence for developer Derwent Living in Birmingham and an £8m student living scheme for York University which demonstrates its expertise in the construction of student accommodation.

A continued focus for Bluestone is to increase its workload from key clients and through framework arrangements. In particular the division has been successful in expanding its portfolio of national frameworks with new frameworks now in operation with the Driving Standards Agency, South East Centre of Excellence and Norfolk Property Services as well as extending key account business with national clients Unite, St Modwen and BUPA.

During 2006 the division extended its geographic coverage when it opened an office in Liverpool thereby strengthening its business presence in the North West. This will allow the business to target significant Government regeneration programmes and new construction and maintenance work in the lead up to Liverpool's 2008 European Capital of Culture event.

bluestone



The business is poised for growth, having secured £800m of new contracts in 2006

Infrastructure Services

Morgan Est is a leading UK provider of infrastructure and utilities services across the public and private sector. Morgan Est specialises in complex engineering projects, working from feasibility and early stage design through to delivery and completion. The division comprises four businesses covering its tunnelling, infrastructure, rail and utilities operations.

During the year the division acquired from M J Gleeson plc its non-track rail business. The business delivers infrastructure projects, to a range of clients, for example, Network Rail's programme of station upgrades, a three-year construction framework to ensure station facilities across Britain meet Disability Discrimination Act regulations.

In addition the division benefited from recent Government investment in modernising road and rail transport, particularly in Scotland where the Scottish Executive is introducing a new multi-billion pound roads building programme. Morgan Est has secured key projects such as the £30m A68 Dalkeith Bypass for Transport Scotland as well as the £100m A876 Upper Forth Crossing at Kincardine, the latter being delivered through a joint venture with Vinci.

In the utilities sector, Morgan Est has been successful in being appointed preferred bidder (with consortium partners ABB and Atkins) for a five-year scheme for National Grid, worth up to £175m to Morgan Est, to build electricity substations across central England. In the gas sector the division secured a seven-year £420m gas networks upgrade (with consortium partner Balfour Beatty) for United Utilities in the North of England. In the water sector the division secured key contracts such as Esholt, a £39m project for Yorkshire Water and a three-year, £92m scheme to upgrade Belfast's sewerage system for the Northern Ireland Water Service.

morgan est

The division is developing new forms of project delivery and is currently preferred bidder on its first PFI project

Affordable Housing

Lovell is a leading provider of affordable housing and operates across the UK. Working in partnership with housing associations and local authorities, the division specialises in mixed tenure developments, refurbishment and large-scale regeneration schemes. The division's expertise embraces new-build affordable housing and private housing for sale as well as Decent Homes housing refurbishment schemes and mixed use regeneration schemes.

Key mixed tenure projects developed during 2006 include The Heart of Bow development in London's East End, near the site of the 2012 Olympic Stadium and The Way at Beswick, East Manchester, the UK's biggest housing development to be built using off-site construction techniques. Lovell continues to work on a large number of Decent Homes housing improvement schemes including a £30m housing modernisation programme for Your Homes in Newcastle. New refurbishment work recently secured includes contracts worth £76m under the Decent Homes programme in London for Hammersmith & Fulham Housing Management Services and a £25m programme of work for Norwich City Council.

The division is also developing new forms of project delivery and is currently preferred bidder on its first PFI project, which is a project to refurbish 1,600 council properties and build over 1,000 new homes in Miles Platting for Manchester City Council. The construction work is worth a potential £200m to Lovell and is due to commence in mid-2007.

LOVELL

Board of directors

John Morgan (51) Executive Chairman

Co-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. He is non-executive chairman of Genetix Group plc and a non-executive director of Newfound N.V.

Paul Smith (47) Chief Executive

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

David Mulligan (37) 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 (52) 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 (70) 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 Debts.co.uk 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 (48) Non-executive

Joined the Board in September 2004, Gill is currently acting marketing director of John Lewis plc. Formerly chief executive of Deliverance Limited and business development director at Woolworth plc, having previously held positions with Kingfisher plc, KPMG plc and Freemans plc.

John Morgan

David Mulligan

Jon Walden (53) Non-executive

Joined the Board in May 2001. He is currently managing director at Lex, a subsidiary of HBOS plc 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).


Paul Smith


Paul Whitmore


Bernard Asher


Gill Barr


Jon Walden

Introduction

The directors present their annual report to shareholders together with the financial statements and independent auditors' report for the year ended 31 December 2006.

Principal activities

Morgan Sindall is a construction group with four divisions; Fit Out, Construction, Infrastructure Services and Affordable Housing. Further details of the Group's activities are provided in the Business Review on pages 4 to 15 and the divisional reviews on pages 16 to 23. 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

The chairman and chief executive's statement on page 3 and the Business Review on pages 4 to 15 report on the activities during the year and likely future developments. This statement and the Business Review include information which is required to fulfil the requirements of the business review pursuant to the Companies Act 1985 and are incorporated into the report of the directors by reference.

Details of the use by the Company and its subsidiary undertakings of financial instruments are set out in the Business Review on page 10 and in note 15 to the accounts on page 58.

Results and dividends

The Group's revenue for the year was £1.5bn (2005: £1.3bn) and profit before tax for the year amounted to £47.6m (2005: £41.7m). An interim dividend of 8.0p (2005: 7.0p) per ordinary share amounting to £3.4m (2005: £2.9m) was paid on 29 September 2006. The directors are recommending a final dividend for the year of 20.0p (2005: 18.0p) per share amounting to £8.4m (2005: £7.6m) payable on 2 May 2007 to shareholders on the register at close of business on 10 April 2007.

Acquisitions during the year

On 24 March 2006 the Group acquired the entire issued share capital of Gleeson MCL Limited (renamed Morgan Est Rail Limited) from MJ Gleeson plc for a consideration of £22.8m. Further details of this transaction are set out in note 25 to the accounts on page 66.

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 64. No other shares were issued during the year.

Directors

The names of the directors at the date of this report are set out below under Directors' interests. All of the 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 37 to 40.

Bernard Asher will retire by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election. Jack Lovell will be retiring at the forthcoming annual general meeting and will not be standing for re-election.

Biographical details, including details of their roles, responsibilities and significant external commitments, of all the directors intending to continue serving on the Board following the annual general meeting are set out on pages 24 to 25.

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:

	2006 Number of shares	2005 Number of shares
John Morgan	**4,085,170**	4,330,538
Paul Smith	**2,876**	2,876
David Mulligan	**1,250**	1,250
Paul Whitmore	**6,006**	2,250
Bernard Asher	**5,000**	5,000
Gill Barr	**1,013**	–
Jon Walden	**-**	–
Jack Lovell	**3,415,273**	3,409,968

There have been no changes in the interests of the directors between 31 December 2006 and 19 February 2007.

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 30 to 36.

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.

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.

Substantial shareholdings

In addition to certain of the directors, as set out above, as at 19 February 2007, the Company had been notified of the following substantial interests in the share capital of the Company:

Name of holder	Number	Percentage held
Aviva plc	3,078,426	7.24%
JP Morgan Chase & Co	2,574,427	6.05%
Barclays plc	2,487,182	5.85%
Standard Life Group	2,133,103	5.02%

Employment policies

The average number of employees in the Group during the year is given in note 3 on page 51.

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 the Group's intranet and newsletter. 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. In addition Morgan Sindall News, the Group's newsletter, is issued to all employees every three months and this reviews the Group's performance and activities and outlines its future plans to give employees a better understanding of the Group's developments.

Supplier payment policy

The Company's policy, which is also adopted by the Group, is to agree clearly and set down 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 2006 the Group's number of creditor days outstanding were equivalent to 26 days' purchases (2005: 26 days), based on the average daily amount invoiced by suppliers during the year.

Political and charitable contributions

During the year the Group made charitable donations of £64,783 (2005: £53,984) 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 year.

Directors' responsibility statement

The directors are responsible for preparing the annual report, directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the International Accounting Standards ('IAS') Regulation to prepare the Group's financial statements under International Financial Reporting Standards ('IFRS') as adopted by the European Union. The Group's financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

IAS 1 requires that IFRS 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 almost all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, 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
- provide additional disclosures when compliance with the specific requirements in IFRS are 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 have elected to prepare the parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The parent company financial statements are required by law to 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 judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as each director is aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are not aware.

Each director has taken all the steps that he or she ought to have taken in his or her duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Going concern

After making enquires, the directors have 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.

Annual general meeting

The annual general meeting will be held on 19 April 2007. 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 £708,668 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 £106,300, representing approximately 5 per cent 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 the articles of association of the Company. The purpose of the resolution is to allow the Company to take advantage of the new Companies Act 2006 rules for communications between companies, shareholders and others that came into force on 20 January 2007. The key change made by the new Act is that the Company will be able to send notices and other documents to shareholders by publishing them on its website, provided that certain conditions are met and procedures are followed.

One of the conditions is that the Company's shareholders have resolved that the Company may send or supply notices or documents to members by making them available on a website. Shareholders are being asked to do this by approving relevant amendments to the Company's articles of association. The amendments cover all notices or documents (other than share certificates) that the Company may send to shareholders. This includes, but is not limited to, annual accounts and reports, notices of general meetings and any documents which the Company is required to send to shareholders under the FSA's Listing Rules or other rules to which the Company is subject.

If the resolution is passed, the Company will in the near future ask each shareholder individually to agree that the Company may communicate in this way. The request will explain that, if the Company has not received a reply within 28 days of the request, the shareholder will be taken to have given his or her consent. Even if a shareholder fails to reply, and is deemed to have consented to website communications, he or she will be able to ask for a hard copy of any document from the Company at any time.

These new arrangements are expected to speed up communication to shareholders in a convenient form whilst saving administrative, printing and postage costs as well as delivering environmental benefits.

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
20 February 2007

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 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 19 April 2007.

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 2006 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. In addition, PricewaterhouseCoopers advised the committee in relation to an amendment to the Morgan Sindall 1995 share option scheme as described below. The committee also consulted the chief executive, the finance director and the chairman, but not in relation to their own remuneration. Save for advising the Company on share based accounting and providing Total Shareholder Return ('TSR') calculations in respect of the 1995 share option scheme, NBSC did not provide any other services to the Company or the Group during the year. PricewaterhouseCoopers provides tax and related legal advice to 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
- to align the interests of executives with those of the shareholders

The committee considers that the Company's remuneration structure, which was put in place for 2005 and retained for 2006 provides an appropriate combination of fixed and performance-related remuneration with a balanced mix of long-term and short-term rewards to ensure that executives focus on sustained performance rather than just short-term performance. The long-term rewards for executive directors 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 2007.

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. A formal benchmarking exercise of executive directors' remuneration is carried out periodically on behalf of the committee to ensure that the committee remains aware of relevant market data. The last such exercise was carried out by NBSC prior to setting the 2005 base salaries using a comparator group of twenty-five companies of a similar size and profile. Adjustments to the base salaries by the committee for 2006 reflected the significantly increased size and complexity of the Group and the need to maintain overall remuneration packages at competitive levels.

Other benefits
The executive directors receive certain other benefits, principally a car allowance, 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 2006 financial year, the performance criteria were Group profit based targets, taking into account the previous year's likely outturn profit and growth expectations. The maximum bonus payable in cash represented 75% per cent of base salary and required profit before tax for 2006 to exceed brokers' forecasts at the time of setting the targets by more than 10% and this target was achieved.

For the 2007 financial year, executive directors will have the potential to earn a cash bonus worth up to 75% of base salary based on a range of challenging profit based targets set by reference to the Group budget.

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')
The 2005 Plan was approved by shareholders in April 2005 and gives the Company the ability to offer senior executives performance shares and/or share options by way of long-term incentive. 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, performance shares encouraging executive retention and 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 2006, in accordance with the Plan rules, 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 2007 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 Group'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.

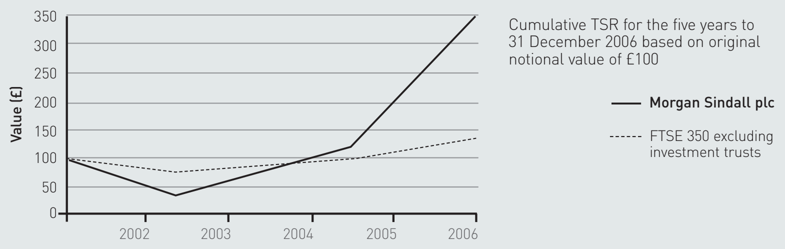
The committee has determined that the vesting schedule for performance shares and share options should be as follows for the awards to be made in 2007, based on a three year performance period to 31 December 2009.

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

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.

Performance graph

The graph below shows a comparison of the TSR for the Company's shares over the last five financial years against the TSR 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 for which he receives a fee of £20,000 per annum and Newfound N.V. for which he receives a fee of £15,000 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, subject always to the requirements for re-election and the Companies Act. 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. Fees for 2007 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. Jack Lovell retained awards granted to him before ceasing to be an executive director but non-executive directors do not otherwise participate in any Company share based incentive plan and do not receive any other benefits.

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2006 £'000s	2005 £'000s
Emoluments	**2,242**	2,054
Amounts vesting under long-term incentive schemes	**214**	-
Money purchase pension contributions	**116**	105

Directors' emoluments

Name of director	Fees/basic salary £'000s	Benefits £'000s	Annual cash bonuses[1] £'000s	Total 2006 £'000s	Total 2005 £'000s
Executive					
John Morgan	340	17	255	**612**	472
Paul Smith	400	17	300	**717**	595
David Mulligan	200	14	150	**364**	312
Paul Whitmore	220	16	165	**401**	366
	1,160	**64**	**870**	**2,094**	1,745
Non-executive					
Bernard Asher	40	-	-	**40**	34
Gill Barr	38	-	-	**38**	34
Jon Walden	35	-	-	**35**	34
Jack Lovell	35	-	-	**35**	34
	148	**-**	**-**	**148**	136
Former director					
John Bishop[2]	-	-	-	-	173
Totals	**1,308**	**64**	**870**	**2,242**	2,054

1 The maximum Group profit target of £47.1m was achieved in 2006 and the executive directors are therefore eligible to receive their maximum cash bonus.

2 John Bishop ceased to be a director of the Company in 2005. The figure above reflects remuneration earned in respect of his period of full-time employment until 31 May 2005. He remained employed on a part-time basis until 31 May 2006. In respect of the period from 1 January 2006 until 31 May 2006, he received £59,823 in respect of salary and benefits. On ceasing to be employed by the Company, the committee exercised its discretion to allow him to exercise 6,876 outstanding nil cost options awarded under the Deferred Share Bonus Plan (for which performance conditions had already been satisfied). The committee also determined that his 35,495 outstanding awards under the LTIP (market value at 31 May 2006 of approximately £382,000) for which the performance condition had again been fully satisfied should lapse. The committee did, however, approve a contribution by the Company to his personal pension plan of £300,000. As at 31 December 2006, John Bishop had no outstanding Company share awards and neither he, nor any other former director of the Company received a compensatory award during the year.

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:

	2006 £'000s	2005 £'000s
John Morgan	**34**	26
Paul Smith	**40**	33
David Mulligan	**20**	18
Paul Whitmore	**22**	20

The 2005 Plan

The following long-term incentive awards have been made to executive directors under the 2005 Plan:

Performance shares

	Date of award	Shares awarded	Date awards vest
Paul Smith	20 May 2005	17,093	20 May 2008
	5 April 2006	11,914	5 April 2009
David Mulligan	20 May 2005	8,805	20 May 2008
	5 April 2006	4,766	5 April 2009
Paul Whitmore	20 May 2005	20,718	20 May 2008
	5 April 2006	13,106	5 April 2009

Share options

	Date of grant	No. of share options granted	Exercise price	Date from which exercisable
John Morgan	20 May 2005	107,736	£7.24	20 May 2008
	5 April 2006	81,016	£12.59	5 April 2009
Paul Smith	20 May 2005	68,370	£7.24	20 May 2008
	5 April 2006	47,656	£12.59	5 April 2009
David Mulligan	20 May 2005	35,220	£7.24	20 May 2008
	5 April 2006	28,594	£12.59	5 April 2009

Notes:

- the share options detailed above will lapse 10 years from the date of grant
- the market price of a share on 20 May 2005 was £7.30 and the market price of a share on 5 April 2006 was £12.38
- 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)

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 awards were conditional upon the Group's TSR 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:

	Shares conditionally awarded			Shares allocated				
Name	As at 1 Jan 2006 No.	Allocated June 2006 No.	As at 31 Dec 2006 No.	As at 1 Jan 2006 No.	Allocated June 2006 No.	Vested[1] Aug 2006 No.	Monetary value of vested shares[2] £'000s	As at 31Dec 2006 No.
John Morgan	40,850	(40,850)	-	20,877	40,850	(7,852)	86	53,875
Paul Whitmore	35,896	(35,896)	-	17,721	35,896	(6,366)	70	47,251
Jack Lovell	-	-	-	5,305	-	(5,305)	58	-

1 Awards that vested in the year were granted on 30 June 2001 when the Company's share price was £4.54.

2 Based on the Company's share price on the date of vesting of £10.97.

Deferred share bonus awards

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 £7.13.

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

Additionally, as disclosed in last year's directors' remuneration report Paul Smith was awarded a one-off bonus of 20,000 shares, in respect of his and the Company's performance in 2005. These shares are held in trust and deferred for two years and subject to forfeit if he ceases to be employed by the Company during that period. This share award was granted on 5 April 2006. The market price of a share on that date was £12.38.

Share options

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

Director	Granted	Date granted	Exercise price	Date from which exercisable	Expiry date
Paul Smith	100,000	10 March 2003	£2.07	10 March 2008	9 March 2010

The market price of a share at 31 December 2006 was £13.28 and the range during the year was £9.30 to £13.90.

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 64. No further options may be granted under the 1995 scheme.

Outstanding options under the 1995 scheme are 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.

On 7 September 2006, the committee resolved to amend the 1995 scheme to allow the Company to settle options on exercise on a net basis (subject to obtaining the consent of the option holder). This decision was made after careful consideration of the need to reduce unnecessary dilution of shareholder interests and follows advice from PricewaterhouseCoopers on market practice in this area. Net settlement does not impact on the economic position of the option holder on exercise. In its monitoring of its share dilution position, the committee will continue to take the full potential dilution into account (i.e. assuming that outstanding options will be settled on a gross basis) until any lower level of dilution crystallises upon settlement.

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

Gill Barr
Chair of the Remuneration Committee
20 February 2007

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 Combined Code on Corporate Governance published in 2003 ('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 2006, save in respect of Code provision A.3 which requires that at least half the Board, excluding the chairman, should comprise independent non-executive directors. Following the Company's entry into the FTSE 350 during 2005, which took it out of the Code's smaller company exemption, the Board decided, following a recommendation of the nominations committee, that the existing size and balance of the Board was satisfactory and that increasing the number of independent non-executive directors would not benefit the Group.

Directors

The Board currently comprises an executive chairman, three further executive directors and four non-executive directors. The senior independent director is Bernard Asher. 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 will be retiring from the Board at the forthcoming annual general meeting and will not be standing for re-election. Following his retirement, the Board will comply with Code provision A.3.

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 business 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 it 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.

An executive director may be released to serve as a non-executive director elsewhere provided that the Board is satisfied that the time commitment of such an appointment will not conflict with his duties to the Company. During the year, the executive chairman assumed a new appointment as non-executive director of Newfound N.V.

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. Bernard Asher is retiring by rotation and will offer himself for re-election at the forthcoming annual general meeting. Bernard Asher has served on the Board for nine years and in accordance with Code provision A.7.2 will in future be subject to annual re-election. The extension of his term of office was subject to rigorous review and the Board is satisfied that he retains his independence of character and judgement and continues to demonstrate his commitment and contribution to the Board.

Board effectiveness

Eight scheduled meetings of the Board were held during the year, as well as an 'away day' for review of the Group's strategy and direction. 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 the Group's delegated authorities.

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.

Attendance of individual directors during 2006 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	8	5	3	1
John Morgan	8	-	-	1
Paul Smith	8	-	-	-
David Mulligan	8	-	-	-
Paul Whitmore	8	-	-	-
Bernard Asher	7	5	3	1
Gill Barr	8	5	3	1
Jon Walden	7	5	3	1
Jack Lovell	7	-	-	-

Non-attendance by directors at meetings was due to conflicting commitments and in each case was previously agreed with the chairman.

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 a modular development programme being run for senior executives. 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 further developed through visits to the divisions' operational sites. 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. The directors have access to the advice and services of the company secretary.

An evaluation was carried out of the Board's performance, and that of its committees and individual directors, during the year. This involved the chairman holding one-to-one performance evaluation meetings with each director, based on an agenda setting out identified assessment areas to form the framework for the discussions. The assessment areas focussed on the effectiveness of the Board and scheduled Board and committee meetings and, in relation to individual directors, their continued contribution and commitment to the role. The individual evaluation of the chairman was carried out by the senior non-executive director. The chairman summarised the main themes and comments arising from the meetings at a subsequent Board meeting and a number of actions were agreed.

Relations with shareholders

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

The executive directors undertake a programme of communication with institutional shareholders at regular intervals and also meet with analysts covering the construction industry. Written feedback from all these meetings is distributed to all members of the Board. The senior non-executive director meets with major shareholders to listen to their views and the other non-executive directors are available to do so if requested.

Details of proxy votes submitted for all resolutions at general meetings, including proxy directions to withhold votes, are distributed at the meeting. They are also available on the Company's website on the day before the meeting and after the meeting.

Board committees

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

Remuneration committee

The members of the remuneration committee during 2006 were 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. Five 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 30 to 36.

Nominations committee

The members of the nominations committee during 2006 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 light of the Company's non-compliance with Code provision A.3 and also Jack Lovell's decision to retire from the Board at the forthcoming annual general meeting.

Audit committee

The members of the audit committee during 2006 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 pages 24 to 25. The Board is satisfied that the committee has the appropriate level of financial experience to fulfil its terms of reference. These terms of reference 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 results for 2005 and approval of the annual report, prior to the announcement of its interim statement and before commencement of the audit for 2006. Senior representatives from the external auditors, the finance director and the Group's head of audit and assurance were invited to attend each of these meetings. The committee ensured, however, that it had the opportunity after each meeting to meet privately with the external auditors.

The main purpose of the meetings was to review the scope and results of the audit and the effectiveness of the external audit process, to monitor the integrity of the annual and interim financial statements and to discuss with the external auditors their overall work plan for the forthcoming audit.

In addition, the committee is responsible for reviewing the Company's internal financial controls and internal audit activities and it received and reviewed at the meetings reports of the internal audit activity during the year and the internal audit plan for 2007. The committee also reviewed the Group's whistleblowing policy containing arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

The chairman of the audit committee reports to the full Board on matters of significance arising at meetings of the committee.

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. 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. A policy is in place to enable the committee to monitor the engagement of the external auditors for non-audit services. This provides that any proposals to engage the 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 50. In aggregate these represented approximately 5% 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.

Internal control statement

The Board acknowledges that it has overall responsibility for the Group's system of internal control and for reviewing 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. The system of internal control, which includes financial, operational and compliance controls, is based on a process of identifying, evaluating and managing risks, and accords with the guidance in the Turnbull Report and was in place for the year under review and up to the date of approval of the annual report and accounts.

The key features of the Group's system of internal control are as follows:

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 and actions required. Internal control and risk management systems are embedded in the operations of the divisions. A consolidated report of each of the divisional risk reviews together with risks identified at Group level are compiled in a Group risk register which is re-appraised and updated twice yearly. The principal risks identified as facing the Group are highlighted in the Business Review on pages 4 and 5.

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 budgeting and forecasting system in place which is regularly reviewed and updated together with a management reporting system established in each division for monthly reporting to the Board.

Investment and capital expenditure

There are clear policies, detailed procedures and defined levels of authority in relation to investment, capital expenditure, significant cost commitments and asset disposals with approvals required from the Board, the executive directors or divisional boards depending on the value or nature of the investment or contract.

Tenders and project selection

Individual tenders or projects are subject to detailed review with approvals required at relevant levels at various stages from commencement of the bidding process through to contract award.

Controls over central functions

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

Health and safety and environment

Monthly reporting to the Board includes a report on the Group's performance in relation to health and safety matters and environmental compliance.

Audit and assurance

The Group head of audit and assurance reports to the chief executive and audit committee and is responsible for managing the audit and assurance function and assisting with risk management practices. The internal audit and assurance programme during the year included reviews of the operations of key business and financial controls across the Group, including those operated centrally. The results of these reviews are presented to the audit committee, where necessary with recommendations to address identified operational weaknesses, and such recommendations are followed up by subsequent reviews. The Group head of audit and assurance also oversees a rolling programme of peer group reviews, which 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.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2006 and for the period to the date of this report. The process included a formal review conducted by the Board of the Group risk register, referred to under risk management above, as well as a review of the results of the internal audit work and the effectiveness of the process.

We have audited the Group financial statements of Morgan Sindall plc for the year ended 31 December 2006 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 28. These Group 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 parent company financial statements of Morgan Sindall plc for the year ended 31 December 2006.

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 Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the report of the directors is consistent with the Group financial statements. The information given in the report of the directors includes that specific information presented in the business review that is cross referred from the business review and future developments section of the report of the directors.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 Group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group financial statements and the part of the directors' remuneration report to be 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 Group financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the Group financial statements.

As explained in the statement of principal accounting polices, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St Albans, United Kingdom
20 February 2007

	Notes	2006 £'000s	2005 £'000s
Continuing operations			
Revenue	1	**1,496,844**	1,296,708
Cost of sales		**(1,331,423)**	(1,154,118)
Gross profit		**165,421**	142,590
Administrative expenses		**(118,401)**	(103,109)
Share of results of joint ventures	11	**(796)**	425
Operating profit	1	**46,224**	39,906
Investment revenues	5	**3,807**	3,661
Finance costs	5	**(2,421)**	(1,867)
Profit before tax		**47,610**	41,700
Tax	6	**(14,797)**	(12,125)
Profit for the year from continuing operations attributable to equity holders of the parent company	2	**32,813**	29,575
Earnings per share			
From continuing operations			
Basic	8	**78.2p**	70.7p
Diluted	8	**76.3p**	68.8p

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

	Notes	2006 £'000s	2005 £'000s
Non current assets			
Property, plant and equipment	9	**16,623**	16,403
Goodwill	10	**72,705**	56,729
Interests in joint ventures	11	**5,200**	10,881
Investments	11	**103**	103
Deferred tax	19	**3,584**	2,485
		98,215	86,601
Current assets			
Inventories	12	**86,805**	87,571
Trade and other receivables	13	**280,945**	235,056
Cash and cash equivalents	15	**95,433**	72,018
		463,183	394,645
Total assets		**561,398**	481,246
Current liabilities			
Trade and other payables	16	**(406,795)**	(352,156)
Current tax liabilities		**(6,403)**	(6,295)
Obligations under finance leases	17	**(1,314)**	(766)
		(414,512)	(359,217)
Net current assets		**48,671**	35,428
Non current liabilities			
Retirement benefit obligation	18	**(2,534)**	(3,351)
Obligations under finance leases	17	**(2,457)**	(2,059)
		(4,991)	(5,410)
Total liabilities		**(419,503)**	(364,627)
Net assets		**141,895**	116,619
Equity			
Share capital	22	**2,126**	2,116
Share premium account	23	**26,169**	26,014
Capital redemption reserve	23	**623**	623
Own shares	23	**(3,387)**	(1,775)
Hedging reserve	23	**(795)**	(2,238)
Retained earnings	24	**117,159**	91,879
Total equity		**141,895**	116,619

The financial statements were approved by the Board of directors and authorised for issue on 20 February 2007 and signed on its behalf by:

Paul Smith
David Mulligan

Consolidated statement of recognised income and expense for the year ended 31 December 2006

	2006 £'000s	2005 £'000s
Actuarial gains/(losses) on defined benefit liabilities	700	(1,284)
Income tax credit in respect of share options taken directly to equity	930	-
Deferred tax on defined benefit liabilities taken directly to equity	(282)	312
Movement on hedged items on cash flow hedges	1,443	(2,238)
Net income/(expense) recognised directly in equity	2,791	(3,210)
Profit for the year from continuing operations	32,813	29,575
Total recognised income and expense for the year attributable to equity shareholders	35,604	26,365

	Notes	2006 £'000s	2005 £'000s
Net cash from operating activities	26	**47,909**	14,477
Investing activities			
Interest received		**3,775**	3,686
Dividends received from joint ventures		**7,225**	336
Proceeds on disposal of property, plant and equipment		**1,112**	1,433
Purchases of property, plant and equipment		**(3,216)**	(4,680)
Payments to acquire interests in joint ventures		**(896)**	(6,190)
Acquisition of subsidiary		**(23,035)**	-
Net cash acquired on acquisition of subsidiary		**4,809**	-
Net cash used in investing activities		**(10,226)**	(5,415)
Financing activities			
Payments to acquire own shares		**(1,612)**	(782)
Dividends paid		**(10,914)**	(8,459)
Repayments of obligations under finance leases		**(1,787)**	(1,354)
Repayment of loan notes		**(120)**	(240)
Proceeds on issue of share capital		**165**	344
Net cash used in financing activities		**(14,268)**	(10,491)
Net increase/(decrease) in cash and cash equivalents		**23,415**	(1,429)
Cash and cash equivalents at beginning of year		**72,018**	73,447
Cash and cash equivalents at end of year			
Bank balances and cash		**95,433**	72,018

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted by the European union and therefore comply with Article 4 of the EU IAS Regulation.

At the time of the authorisation of the financial statements IFRS 7, 'Financial Instruments: Disclosures', IFRS 8, 'Operating Segments', International Financial Reporting Interpretations Committee ('IFRIC') 9, 'Reassessment of Embedded Derivatives', IFRIC 11, 'Group and Treasury Share Transactions' and IFRIC 12, 'Service Concession Arrangements' were in issue but not yet effective and have not been applied in these financial statements.

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 polices 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, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of 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 as there is an indication that its value has 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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of acquisition of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Revenue recognition

Revenue is the value of goods and services rendered to customers or clients 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.

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.

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 post tax 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.

Where the Group transacts with its joint ventures, 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 in those are not recognised. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Freehold, leasehold properties, 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
Plant, machinery 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.

Inventories

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

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 the 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 obligations 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 liabilities 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.

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. Cash-settled share based payments are measured at fair value at each balance sheet date. The fair value of the equity-settled and cash-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares or cash 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 goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled, share based payments.

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 floating 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 relating to the effective portion are recognised in equity, the ineffective portion being recognised in the income statement.

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.

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:

	2006		2005	
	Revenue £'000s	Operating profit/(loss) £'000s	Revenue £'000s	Operating profit/(loss) £'000s
Fit Out	425,629	22,599	322,618	16,398
Construction	343,316	3,358	335,750	3,214
Infrastructure Services	323,735	5,098	247,938	5,974
Affordable Housing	404,164	24,013	390,402	18,682
Group Activities	–	(8,048)	–	(4,787)
	1,496,844	47,020	1,296,708	39,481
Share of results of joint ventures		(796)		425
Operating profit		46,224		39,906
Investment revenues		3,807		3,661
Finance costs		(2,421)		(1,867)
Profit before tax		47,610		41,700
Tax		(14,797)		(12,125)
Profit for the year from continuing operations		32,813		29,575

Other information:

	2006		2005	
	Capital additions £'000s	Depreciation £'000s	Capital additions £'000s	Depreciation £'000s
Fit Out	455	727	1,050	543
Construction	676	822	1,349	1,250
Infrastructure Services	3,559	2,298	3,096	1,841
Affordable Housing	293	313	408	338
Group Activities	824	744	629	533
	5,807	4,904	6,532	4,505

1 Business segments (continued)

Balance sheet analysis of business segments:

	2006 Assets £'000s	2006 Liabilities £'000s	2006 Net assets £'000s	2005 Assets £'000s	2005 Liabilities £'000s	2005 Net assets £'000s
Fit Out	128,539	(106,288)	22,251	97,397	(78,937)	18,460
Construction	120,968	(85,696)	35,272	117,544	(83,228)	34,316
Infrastructure Services	145,303	(102,246)	43,057	118,124	(71,827)	46,297
Affordable Housing	150,703	(123,244)	27,459	149,697	(124,940)	24,757
Group Activities	71,808	(57,952)	13,856	30,404	(37,615)	(7,211)
Group eliminations	(55,923)	55,923	-	(31,920)	31,920	–
	561,398	(419,503)	141,895	481,246	(364,627)	116,619

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):

	2006 £'000s	2005 £'000s
Depreciation of property, plant and equipment (note 9)	4,904	4,505
Gain on disposal of fixed assets	(121)	(919)
Staff costs (note 4)	227,727	209,422
Auditors' remuneration for audit services (see below)	450	462

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

	2006 £'000s	2005 £'000s
Statutory audit	387	380
Auditing of accounts of subsidiaries, associates and joint ventures pursuant to legislation (including that of countries and territories outside the United Kingdom)	42	24
Other services relating to taxation	21	33
Other services	-	25
	450	462

3 Employees

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

	2006 No.	2005 No.
Fit Out	577	495
Construction	1,213	1,289
Infrastructure Services	2,175	1,945
Affordable Housing	1,555	1,491
Group Activities	32	30
	5,552	5,250

4 Staff costs

	2006 £'000s	2005 £'000s
Wages and salaries	199,838	184,244
Social security costs	22,969	20,246
Other pension costs	4,920	4,932
	227,727	209,422

5 Investment revenues and finance costs

	2006 £'000s	2005 £'000s
Bank interest	2,925	2,913
Other interest	882	748
Investment revenues	3,807	3,661
Interest on bank overdrafts	(2,279)	(1,730)
Interest on finance leases	(142)	(137)
Finance costs	(2,421)	(1,867)
Net interest	1,386	1,794

6 Tax

Current tax:	2006 £'000s	2005 £'000s
UK corporation tax	**14,653**	12,241
Adjustment in respect of prior years	**517**	140
	15,170	12,381
Deferred tax:		
Current year	**(72)**	(214)
Adjustment in respect of prior years	**(301)**	(42)
Income tax expense for the year	**14,797**	12,125

Corporation tax is calculated at 30% (2005: 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:

	2006		2005	
	£'000s	%	£'000s	%
Profit before tax	**47,610**		41,700	
Income tax expense at standard rate	**14,283**	**30.0**	12,510	30.0
Tax effect of:				
Share of results of joint ventures	**239**	**0.5**	(128)	(0.3)
Expenses that are not deductible in determining taxable profits	**227**	**0.5**	107	0.3
Movements not reflected in income statement	**(168)**	**(0.4)**	(462)	(1.1)
Adjustments in respect of prior years	**216**	**0.5**	98	0.2
Income tax expense and effective tax rate for the year	**14,797**	**31.1**	12,125	29.1

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2006 £'000s	2005 £'000s
Final dividend for the year ended 31 December 2005 of 18.00p (2004: 13.25p) per share	**7,549**	5,551
Interim dividend for the year ended 31 December 2006 of 8.00p (2005: 7.00p) per share	**3,365**	2,929
	10,914	8,480
Proposed final dividend for the year ended 31 December 2006 of 20.00p (2005: 18.00p) per share	**8,415**	7,617

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	2006 £'000s	2005 £'000s
Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to equity holders of the parent company	**32,813**	29,575

Number of shares	2006 No. '000s	2005 No. '000s
Weighted average number of ordinary shares for the purposes of basic earnings per share	**41,949**	41,810
Effect of dilutive potential ordinary shares:		
Share options	**877**	893
Long Term Incentive Plan shares	**-**	265
Conditional shares not vested	**179**	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**43,005**	42,968

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 2006	33,679	5,030	205	10	3,679	42,603
Additions	3,191	2,109	25	-	482	5,807
On acquisition	244	-	65	-	-	309
Disposals	(4,898)	(48)	(68)	-	-	(5,014)
At 31 December 2006	**32,216**	**7,091**	**227**	**10**	**4,161**	**43,705**
Accumulated depreciation						
At 1 January 2006	21,921	1,835	198	-	2,246	26,200
Charge for the year	3,686	743	37	-	438	4,904
Disposals	(3,920)	(48)	(54)	-	-	(4,022)
At 31 December 2006	**21,687**	**2,530**	**181**	**-**	**2,684**	**27,082**
Carrying amount at 31 December 2006	**10,529**	**4,561**	**46**	**10**	**1,477**	**16,623**
Carrying amount at 31 December 2005	11,758	3,195	7	10	1,433	16,403

10 Goodwill

Cost and carrying amount	£'000s
At 1 January 2006	56,729
Recognised on acquisition (note 25)	15,976
At 31 December 2006	**72,705**

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 2005 and 2006, the Group has determined that there is no impairment of any of its cash generating units ('CGU') 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 for each CGU derived from the most recent financial budgets approved by management and extrapolates cash flows based on conservative estimated growth rates within the divisions 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:

Morgan Sindall Investments (3PD) Limited 50% share
Morgan Sindall Investments (3PD) Limited has a portfolio of primary health care centres, previously held in Primary Medical Property Limited, a joint venture in which the Group held a 47.5% stake at 1 January 2006. On 1 February 2006 the Group purchased the remaining 52.5% shareholding in Primary Medical Property Limited from certain private individuals. Ownership of Primary Medical Property Limited was then transferred to Morgan Sindall Investments (3PD) Limited, and the Group disposed of 50% of its interest in Morgan Sindall Investments (3PD) Limited by way of entering into a 50-50 owned joint venture agreement with Barclays European Infrastructure Fund LLP.

The Group's involvement in the management of Morgan Sindall Investments (3PD) Limited is restricted to the appointment of two directors under the terms of a shareholder agreement under which certain matters require the approval of all directors and as such the Group has maintained joint control.

Morgan-Vinci Limited 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 50% share
Community Solutions for Primary Care (Holdings) Limited carries out strategic development and regeneration projects in the health field. On 26 September 2006, both Barclays European Infrastructure Fund LLP and the Group increased their holdings in Community Solutions for Primary Care (Holdings) Ltd from 33⅓% to 50% through the joint purchase of the entire shareholding and debenture interests of Apollo Medical Investments Limited. On the same day, Community Solutions for Primary Care (Holdings) Limited purchased the entire share capital of Apollo Medical Trading Limited for a total consideration of £300,000.

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 the above undertakings are registered in England.

11 Investments and interests in joint ventures (continued)

Interests in joint ventures and trade investments are as follows:

	Joint ventures £'000s	Trade Investments £'000s
At 1 January 2006	10,881	103
Share of results for the year	(796)	-
Dividends from joint ventures	(7,225)	-
Increase in investment	897	-
Movement on hedged items on cash flow hedges	1,443	-
At 31 December 2006	**5,200**	**103**

Aggregated amounts in respect of joint ventures are as follows:

	2006 £'000s	2005 £'000s
Current assets	**17,900**	20,103
Non current assets[1]	**230,714**	207,510
Current liabilities	**(15,798)**	(24,790)
Non current liabilities	**(222,416)**	(186,191)
Revenue	**16,824**	134,311
Results	**(324)**	951

[1] Within non current assets are financial receivables of £129.3m (2005: £126.8m) which are carried at fair value following the application of IAS39. 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

	2006 £'000s	2005 £'000s
Work in progress	**83,826**	84,883
Materials	**2,979**	2,688
	86,805	87,571

13 Trade and other receivables

	2006 £'000s	2005 £'000s
Trade receivables	**119,051**	86,018
Amounts due from construction contract customers (note 14)	**145,856**	137,578
Amounts owed by joint ventures (note 28)	**1,584**	1,740
Deferred tax asset (note 19)	**290**	224
Other receivables	**5,875**	3,286
Prepayments and accrued income	**8,289**	6,210
	280,945	235,056

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

At 31 December 2006 amounts of £10.7m (2005: £9.3m) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

The average credit period on revenues is 25 days (2005: 21 days).

14 Construction contracts

Contracts in progress at balance sheet date:

	2006 £'000s	2005 £'000s
Amounts due from construction contract customers included in trade and other receivables	**145,856**	137,578
Amounts due to construction contract customers included in trade and other payables	**(27,271)**	(18,384)
	118,585	119,194
Contract costs incurred plus recognised profits less recognised losses to date	**5,832,185**	4,811,885
Less: progress billings	**(5,713,600)**	(4,692,691)
	118,585	119,194

At 31 December 2006 retentions held by customers for contract work amounted to £41.7m (2005: £36.6m).

15 Financial instruments

Cash and cash equivalents
This 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 their value.

Credit risk
The Group's principal financial assets are cash and cash equivalents, the amounts due from construction contract customers, trade receivables and investments.

The Group's credit risk is primarily attributable to the amounts due from construction contract customers and trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the directors 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 floating interest rate movement on bank borrowings. The Group's share of contracts with nominal values of £29.4m 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 2006 is estimated at £0.8m (2005: £2.2m). 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 taken to the hedging reserve (note 23).

Loan notes
Loan notes were issued in 2002 as part of the consideration for the acquisition of Pipeline Constructors Group plc. The final £120,000 outstanding at 31 December 2005 were redeemed on 2 January 2006.

16 Trade and other payables

	2006 £'000s	2005 £'000s
Loan notes (note 15)	**-**	120
Amounts due to construction contract customers (note 14)	**27,271**	18,384
Trade payables	**111,045**	95,752
Other payables	**9,561**	4,659
Other tax and social security	**16,413**	11,222
Accruals and deferred income	**242,505**	222,019
	406,795	352,156

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

The average credit period taken for trade purchases is 26 days (2005: 26 days).

17 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2006 £'000s	2005 £'000s	**2006 £'000s**	2005 £'000s
Amounts payable under finance leases:				
Within one year	**1,478**	889	**1,314**	766
In the second to fifth years inclusive	**2,518**	1,951	**2,336**	1,770
After five years	**125**	302	**121**	289
	4,121	3,142	**3,771**	2,825
Less: future finance charges	**(350)**	(317)	**n/a**	n/a
Present value of lease obligations	**3,771**	2,825	**3,771**	2,825
Less: amount due for settlement within 12 months (shown under current liabilities)			**(1,314)**	(766)
Amount due for settlement after 12 months			**2,457**	2,059

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is 5 years (2005: 6 years). For the year ended 31 December 2006, the average effective borrowing rate was 5% (2005: 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 on the asset to which the lease relates.

18 Retirement benefit schemes

Defined contribution scheme

The Morgan Sindall Retirement Benefits Plan ('the Plan') was established on 31 May 1995 and operates on defined contribution principles for employees of the Group. The assets of the Plan are held separately from those of the Group in funds under the control of the Trustees of the Plan. The total cost charged to income of £4.8m (2005: £4.7m) represents contributions payable to the defined contribution section of the Plan by the Group at rates specified in the Plan rules. As at 31 December 2006, contributions of £0.4m (2005: £0.4m) due in respect of the current reporting period had not been paid over to the Plan.

Defined benefits scheme

The Plan includes some defined benefit liabilities and transfers of funds representing the accrued benefit rights of former active and deferred members and pensioners of pension plans of companies which are now part of the Group. These include final salary related benefits for members in respect of benefits accrued before 31 May 1995. No further defined benefit membership rights can accrue after that date.

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

The last triennial valuation of the Plan was undertaken on 5 April 2004 and was prepared using assumptions of a rate of investment return of 6.0% per annum, a rate of earnings escalation of 4.0% per annum and rate of inflation of 2.5% per annum. The ongoing liabilities of the Plan 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 Plan'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 as at 5 April 2007 when the funding position will be re-appraised.

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was as at 31 December 2006. The present value of the defined benefit liabilities, the related current service cost and past service cost were measured using the projected unit method.

Key assumptions used:

	2006 %	2005 %
Discount rate	**5.3**	4.9
Expected return on the Plan assets	**6.0**	5.6
Expected rate of salary increases	**4.1**	3.9
Future pension increases	**3.1**	2.9

18 Retirement benefit schemes (continued)

The amount included in the balance sheet arising from the Group's liabilities in respect of the Plan is as follows:

	2006 £'000s	2005 £'000s
Present value of the Plan liabilities	**(7,363)**	(7,781)
Fair value of the Plan assets	**4,829**	4,430
Deficit in the Plan	**(2,534)**	(3,351)
Liability recognised in the balance sheet	**(2,534)**	(3,351)

Amounts recognised in the income statement in respect of the Plan are as follows:

	2006 £'000s	2005 £'000s
Interest cost	**(378)**	(334)
Expected return on the Plan assets	**255**	252
Net periodic cost	**(123)**	(82)

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 the Plan assets was £275,000 (2005: £420,000).

Movements in the present value of the Plan liabilities were as follows:

	2006 £'000s	2005 £'000s
Deficit at 1 January	**(7,781)**	(6,143)
Interest cost	**(378)**	(334)
Actuarial gains/(losses)	**680**	(1,452)
Benefits paid	**116**	148
Deficit at 31 December	**(7,363)**	(7,781)

18 Retirement benefit schemes (continued)

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

	2006 £'000s	2005 £'000s
At 1 January	**4,430**	3,918
Expected return on the Plan assets	**255**	252
Actuarial gains/(losses)	**20**	168
Contributions from sponsoring companies	**240**	240
Benefits paid	**(116)**	(148)
At 31 December	**4,829**	4,430

The Plan assets and the expected rate of return at the balance sheet date were as follows:

	Fair value of assets		Expected return	
	2006 £'000s	2005 £'000s	2006 %	2005 %
Equity instruments	**2,023**	1,844	**7.7**	7.5
Debt instruments	**2,496**	2,512	**5.0**	4.8
Other assets	**310**	74	**5.0**	4.5
	4,829	4,430		

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:

	2006 £'000s	2005 £'000s	2004 £'000s	2003 £'000s	2002 £'000s
Present value of the Plan liabilities	**(7,363)**	(7,781)	(6,143)	(4,660)	(5,358)
Fair value of the Plan assets	**4,829**	4,430	3,918	3,924	4,473
Deficit in the Plan	**(2,534)**	(3,351)	(2,225)	(736)	(885)
Experience adjustments on the Plan liabilities:					
Amount	**680**	(1,452)	(1,318)	(35)	143
Percentage of the Plan liabilities	**(9.2)%**	18.7%	21.5%	0.8%	(2.7)%
Experience adjustments on the Plan assets:					
Amount	**20**	168	(175)	179	(1,153)
Percentage of the Plan assets	**0.4%**	3.8%	(4.5)%	4.6%	(25.8)%

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

19 Deferred tax

The major deferred tax assets recognised by the Group and movements thereon 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 2006	922	224	1,004	559	2,709
Credit to income	6	66	37	264	373
(Charge)/Credit to equity	-	-	(282)	1,074	792
At 31 December 2006	**928**	**290**	**759**	**1,897**	**3,874**

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

	2006 £'000s	2005 £'000s
Deferred tax within trade and other receivables	**290**	224
Deferred tax within non current assets	**3,584**	2,485

At the balance sheet date, the Group has unused tax losses of £0.6m (2005: £1.3m) 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.

20 Operating lease arrangements

	2006 £'000s	2005 £'000s
Minimum lease payments under operating leases recognised as an expense for the year	**13,206**	12,715

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

	2006			2005		
	Land and buildings £'000s	**Other £'000s**	**Total £'000s**	Land and buildings £'000s	Other £'000s	Total £'000s
Leases which expire:						
Within one year	**3,574**	**2,994**	**6,568**	4,123	3,690	7,813
Within two to five years	**9,483**	**2,316**	**11,799**	13,499	3,824	17,323
After five years	**5,117**	**3**	**5,120**	11,724	130	11,854
	18,174	**5,313**	**23,487**	29,346	7,644	36,990

Operating lease payments represent rentals payable by the Group for certain properties. Leases are negotiated for an average term of 5 years (2005: 6 years) and rentals are fixed for an average of 5 years (2005: 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. There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other arrangements including joint arrangements and joint ventures entered into in the normal course of business.

22 Share capital

	2006		2005	
	No.'000s	£'000s	No.'000s	£'000s
Authorised:				
Ordinary shares of 5p each	60,000	3,000	60,000	3,000
Issued and fully paid:				
At the beginning of the year	42,316	2,116	42,147	2,107
Exercise of share options	204	10	169	9
At the end of the year	42,520	2,126	42,316	2,116

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.

18,450 ordinary shares were issued in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £26,202.

185,670 ordinary shares were issued in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £139,453. Some of the options under the 1995 scheme were settled on a net basis.

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 2006 there remained 12,625 options outstanding under the 1988 Scheme exercisable at a price of £1.71. On the same date there were 1,017,500 options outstanding under the 1995 Scheme exercisable at prices between £2.07 and £4.95.

Other share schemes

Details of other share schemes are disclosed in the directors' remuneration report on pages 30 to 36. It is currently intended that share awards under these other schemes will be satisfied by share purchases in the market by the Morgan Sindall plc Employee Benefit Trust ('the Trust').

Own shares

Own shares at cost represent 621,381 ordinary shares in the Company held in the Trust in connection with certain share incentive schemes as detailed in the directors' remuneration report on pages 30 to 36. The trustee of the Trust purchases the Company's ordinary shares in the open market with financing provided by the Company on the basis of regular reviews of the share liabilities of the relevant schemes. A total of 445,502 ordinary shares were unallocated at the year end 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 is charged over the three year period to which the award relates. Based on the Company's share price at 31 December 2006 of £13.28, the market value of the shares held in the Trust was £8,251,940.

23 Reserves

	Share premium account £'000s	Capital redemption reserve £'000s	Own shares £'000s	Hedging reserve £'000s
Balance at 1 January 2006	26,014	623	(1,775)	(2,238)
Shares issued at premium	155	-	-	-
Own shares purchased	-	-	(1,612)	-
Change in fair value of cash flow hedging derivatives	-	-	-	1,443
Balance at 31 December 2006	**26,169**	**623**	**(3,387)**	**(795)**

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

Own shares
Own shares represents the cost of ordinary shares in the Company purchased in the market and held by the Trust to satisfy liabilities under certain share incentive schemes.

Hedging reserve
Under cash flow hedge accounting, movements on the effective portion of the hedge are recognised through the hedging reserve, while any ineffectiveness is taken to the income statement.

24 Retained earnings

	£'000s
Balance at 1 January 2006	91,879
Profit for the year attributable to equity holders of the parent company	32,813
Dividends paid	(10,914)
Income tax credit in respect of share options	930
Recognition of share based payments	959
Deferred tax arising on recognition of share based payments	1,074
Actuarial gains on defined benefit liabilities	700
Deferred tax on defined benefit liabilities	(282)
Balance at 31 December 2006	**117,159**

25 Acquisition of subsidiary

Gleeson MCL Limited

On 24 March 2006 the Group acquired the entire issued share capital of Gleeson MCL Limited for a consideration of £22.8m paid in cash with associated costs of £0.2m. The net assets acquired and goodwill arising are as follows:

	Acquiree's carrying amount £'000s	Provisional fair value adjustments £'000s	Fair value £'000s
Fixed assets	309	-	309
Trade receivables	10,225	-	10,225
Cash	4,809	-	4,809
Trade payables	(6,550)	-	(6,550)
Accruals	(609)	(500)	(1,109)
Other creditors	(625)	-	(625)
Net assets acquired	**7,559**	**(500)**	**7,059**
Goodwill (note 10)			15,976
Total consideration including associated costs			**23,035**
Net cash outflow arising on acquisition:			
Cash consideration paid			23,035
Cash and cash equivalents acquired			(4,809)
Cash outflow on acquisition			**18,226**

Gleeson MCL Limited (now named Morgan Est Rail Limited) contributed £20.7m of revenue and £1.0m to the Group's operating profit for the period between 24 March 2006 and 31 December 2006. If the acquisition had been completed on 1 January 2006, total revenue from the acquired company for the year would have been £28.7m, and profit for the year would have been £1.3m.

26 Reconciliation of operating profit to net cash from operating activities

	2006 £'000s	2005 £'000s
Operating profit	**46,224**	39,906
Adjusted for:		
Share of results of joint ventures	796	(425)
Depreciation of property, plant and equipment	4,904	4,505
Expense in respect of share options	959	589
Defined benefit pension payment	(240)	(240)
Defined benefit pension charge	123	82
Gain on disposal of property, plant and equipment	(121)	(919)
Operating cash flows before movements in working capital	**52,645**	43,498
Decrease/(increase) in inventories	766	(26,754)
Increase in receivables	(35,761)	(31,969)
Increase in payables	46,461	43,118
Cash generated from operations	**64,111**	27,893
Income taxes paid	(13,937)	(11,658)
Interest paid	(2,265)	(1,758)
Net cash from operating activities	**47,909**	14,477

Additions to property, plant and equipment during the year amounting to £2.1m and additions to leasehold property amounting to £0.5m 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.

27 Share based payments

Equity-settled share options

The Company's Executive Remuneration Plan 2005 ('the 2005 Plan') provides for a grant price equal to the average quoted middle market price of the Company's shares on the five dealing days preceding the date of grant. The Company's 1988 share option scheme and the 1995 share option scheme provide for the average quoted middle market price of the Company's shares on the three dealing days preceding the date of grant. Details of the 1988 and 1995 schemes option vesting periods are given in note 22 and the vesting periods for options granted under the Plan are given in the directors remuneration report on pages 30 to 36.

	2006		2005	
	Options No.	Weighted average exercise price (£)	Options No.	Weighted average exercise price (£)
Outstanding at beginning of year	1,817,599	3.38	1,668,575	2.70
Granted during the year	258,532	9.35	318,024	4.48
Forfeited during the year	(265,330)	3.01	-	-
Exercised during the year	(204,120)	3.59	(169,000)	2.03
Outstanding at the end of the year	**1,606,681**	**4.90**	1,817,599	3.38
Exercisable at the end of the year	87,625	3.57	54,075	2.83

The weighted average share price at the date of exercise for share options exercised during the year was £11.62. The options outstanding at 31 December 2006 had a weighted average exercise price of £4.90, and a weighted average remaining contractual life of 1.3 years. In 2006 options under the 2005 Plan were granted on 5 April. The estimated fair value of the options granted on that date is £1.0m. In 2005 options under the 2005 Plan were granted on 20 May and the estimated fair value of the options granted on that date is £0.7m.

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

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 £698,491 in 2006 (2005: £64,074). Fair value of the SAR is determined by use of a modified Black-Scholes model using the assumptions noted in the table below. The Group recorded expenses of £634,417 in 2006 (2005: £64,074). The total intrinsic value at 2006 and 2005 was £1.9m and £0.8m, respectively.

27 Share based payments (continued)

	2006 Plan options Apr 06	2006 Plan shares Apr 06	Share award (a) Apr 06	Phantom (b) Apr to Aug 06
Number of options/shares granted	258,538	56,593	20,000	150,000
Weighted average fair value at date of grant (per option/share)	£3.70	£12.38	£12.38	£3.74
Weighted average share price on date of grant	£12.38	£12.38	£12.38	£11.98
Weighted average exercise price	£12.59	nil	nil	£12.17
Expected term (from date of grant (c))	6 years	3 years	2 years	5 years
Expected volatility (d)	30%	23%	23%	26%
Expected dividends (e)	2.0%	nil (f)	nil (f)	2.0%
Risk-free interest rate	4.5%	4.5%	4.5%	5.1%

(a) The deferred share award granted to Paul Smith, details of which are set out on page 35 of the directors' remuneration report.

(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 2006.

(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 the Company's share price 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 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.

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 to 6 years.

The Group recognised total expenses of £958,946 and £524,725 related to equity-settled share based payment transactions in 2006 and 2005 respectively.

28 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.

Trading transactions
During the year, Group companies entered into transactions with related parties. Transactions and amounts owed at the year end are as follows:

	Provision of goods and services		Amounts owed by related parties	
	2006 £'000s	2005 £'000s	**2006 £'000s**	2005 £'000s
Claymore Roads (Holdings) Limited	**13**	15,731	**820**	1,337
Morgan-Vinci Limited	**12**	476	**196**	36
Community Solutions for Primary Care (Holdings) Limited	**11,921**	13,310	**100**	367
Morgan Sindall Investments (3PD) Limited	**104**	-	**468**	-
	12,050	29,517	**1,584**	1,740

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 33 to 36.

	2006 £'000s	2005 £'000s
Short-term employee benefits	**2,242**	2,054
Other long-term benefits	**214**	–
Post-employment benefits	**116**	105
	2,572	2,159

Directors' transactions
There were no transactions between the Group and the directors during the year or in the subsequent period to 20 February 2007 beyond those disclosed in the remuneration report.

There have been no related party transactions with any director either during the year or in the subsequent period to 20 February 2007.

Directors' material interests in contracts with the Company
No director held any material interest in any contract with the Company or any Group company in the year or in the subsequent period to 20 February 2007.

We have audited the parent company financial statements of Morgan Sindall plc for the year ended 31 December 2006 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 parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Morgan Sindall plc for the year ended 31 December 2006 and on the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the report of the directors is consistent with the parent company financial statements. The information given in the report of the directors includes that specific information presented in the business review that is cross referred from the business review and future developments section of the report of the directors.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company 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 parent company financial statements.

Opinion

In our opinion:

- the parent company 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 2006;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the parent company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St Albans, United Kingdom
20 February 2007

Company balance sheet at 31 December 2006

	Notes	2006 £'000s	2005 £'000s
Fixed assets			
Tangible assets	4	**1,642**	1,909
Investments	5	**156,333**	133,315
		157,975	135,224
Current assets			
Trade debtors		**-**	1
Amounts owed by subsidiary undertakings		**47,590**	10,993
Other debtors		**1,785**	1,361
Prepayments and accrued income		**717**	2,702
Corporation tax recoverable		**2,035**	1,040
Deferred tax	6	**1,897**	559
Amounts owed by joint ventures		**50**	367
Cash at bank and in hand	7	**-**	4,888
		54,074	21,911
Creditors: amounts falling due within one year			
Bank overdraft	7	**(508)**	-
Loan notes		**-**	(120)
Trade creditors		**(4,037)**	(2,060)
Amounts owed to subsidiary undertakings		**(42,024)**	(24,556)
Other creditors		**(1,546)**	(90)
Other tax and social security		**(257)**	(393)
Accruals and deferred income		**(10,209)**	(6,080)
		(58,581)	(33,299)
Net current liabilities		**(4,507)**	(11,388)
Total assets less current liabilities		**153,468**	123,836
Provision for liabilities and charges			
Deferred tax	6	**(39)**	(54)
Retirement benefit obligation	8	**(1,774)**	(2,346)
Net assets		**151,655**	121,436
Shareholders' funds			
Share capital	9	**2,126**	2,116
Share premium account		**26,169**	26,014
Capital redemption reserve		**623**	623
Own shares		**(3,387)**	(1,775)
Special reserve		**13,644**	13,644
Retained earnings		**112,480**	80,814
Total shareholders' funds		**151,655**	121,436

The financial statements were approved by the Board of directors and authorised for issue on 20 February 2007 and were signed on its behalf by:

Paul Smith
David Mulligan

	Share capital £'000s	Share premium account £'000s	Investment in own shares £'000s	Capital redemption reserve £'000s	Special reserve £'000s	Retained earnings £'000s	Total shareholders' funds £'000s
Balance at 1 January 2006	2,116	26,014	(1,775)	623	13,644	80,814	121,436
Profit for the year	-	-	-	-	-	39,199	39,199
Recognition of share based payments	-	-	-	-	-	959	959
2006 interim dividend declared and paid	-	-	-	-	-	(3,365)	(3,365)
2005 final dividend declared and paid	-	-	-	-	-	(7,549)	(7,549)
Own shares purchased	-	-	(1,612)	-	-	-	(1,612)
Options exercised	10	155	-	-	-	-	165
Deferred tax arising on recognition of share based payments	-	-	-	-	-	1,074	1,074
Actuarial gain on defined benefit liabilities	-	-	-	-	-	700	700
Deferred tax on defined benefit liabilities	-	-	-	-	-	(282)	(282)
Income tax credit in respect of share options	-	-	-	-	-	930	930
Balance at 31 December 2006	**2,126**	**26,169**	**(3,387)**	**623**	**13,644**	**112,480**	**151,655**

Basis of accounting

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of pension assets and liabilities and in accordance with applicable United Kingdom accounting standards.

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

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
Plant, machinery, motor vehicles and equipment	between 10% and 33% per annum

Deferred tax

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and 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.

Pensions

The expense of defined benefit liabilities is determined using the projected unit method and charged to the profit and loss account based on actuarial assumptions at the beginning of the financial year. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses 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.

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 goods or 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.

1 Employees

The average number of people employed by the Company including directors during the year was 16 (2005: 30).

2 Staff costs

	2006 £'000s	2005 £'000s
Wages and salaries	**3,492**	4,595
Social security costs	**1,704**	1,152
Pension costs	**299**	383
	5,495	6,130

3 Profit of the parent company

The Company has taken advantage of section 230 of the Companies Act 1985 and consequently the profit and loss account of the parent company is not presented as part of these accounts. The profit of the parent company for the financial year amounted to £39.2m (2005: £19.9m).

4 Tangible assets

	Owned plant, machinery & equipment £'000s	Freehold property £'000s	Total £'000s
Cost or valuation			
At 1 January 2006	3,217	10	3,227
Additions	449	-	449
At 31 December 2006	**3,666**	**10**	**3,676**
Depreciation			
At 1 January 2006	1,318	-	1,318
Charge in the year	716	-	716
At 31 December 2006	**2,034**	**-**	**2,034**
Net book value at 31 December 2006	**1,632**	**10**	**1,642**
Net book value at 31 December 2005	1,899	10	1,909

5 Investments

	Subsidiary undertakings		Joint ventures	
	Shares £'000s	Loans £'000s	Shares £'000s	Total £'000s
Cost				
At 1 January 2006	128,189	10,421	4	138,614
Additions	23,018	-	-	23,018
Disposals	-	-	(4)	(4)
At 31 December 2006	**151,207**	**10,421**	**-**	**161,628**
Provisions				
At 1 January 2006	890	4,405	4	5,299
Disposals	-	-	(4)	(4)
At 31 December 2006	**890**	**4,405**	**-**	**5,295**
Net book value at 31 December 2006	**150,317**	**6,016**	**-**	**156,333**
Net book value at 31 December 2005	127,299	6,016	-	133,315

On 1 February 2006 the Company disposed of its 47.5% share in Primary Medical Property Limited to its subsidiary Morgan Sindall Investments Limited. This transaction was at book value and did not generate a profit or loss for the Company.

On 24 March 2006 the Company acquired the entire issued share capital of Gleeson MCL Limited for a consideration of £22.8m paid in cash with associated costs of £0.2m.

6 Deferred tax

The major deferred tax liabilities and assets recognised by the Company 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 2006	(54)	1,005	559	1,510
Credit to profit and loss account	15	37	264	316
(Debit)/credit to equity	-	(282)	1,074	792
At 31 December 2006	**(39)**	**760**	**1,897**	**2,618**

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:

Deferred tax within:	**2006 £'000s**	2005 £'000s
Provisions for liabilities and charges	**(39)**	(54)
Current assets	**1,897**	559
Retirement benefit obligations	**760**	1,005
	2,618	1,510

At the balance sheet date, the Company has unused tax losses of £552,000 (2005: £552,000) available for offset against future profit. No deferred tax asset has been recognised in respect of £165,000 (2005: £165,000) of such losses due to the unpredictability of future profit streams.

7 Financial instruments

The financial instruments, excluding short-term debtors and creditors comprise cash or overdrafts 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 (2005: £nil) 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. The final £120,000 outstanding at 31 December 2005 were redeemed on 2 January 2006.

8 Retirement benefit schemes

Defined contribution scheme

The Morgan Sindall Retirement Benefits Plan ('the Plan') was established on 31 May 1995 and operates on defined contribution principles for employees of the Group. The assets of the Plan are held separately from those of the Group in funds under the control of the Trustees of the Plan. The total cost charged to income of £4.8m (2005: £4.7m) represents contributions payable to the defined contribution section of the Plan by the Group at rates specified in the Plan rules. As at 31 December 2006, contributions of £0.4m (2005: £0.4m) due in respect of the current reporting period had not been paid over to the Plan.

Defined benefits scheme

The Plan includes some defined benefit liabilities and transfers of funds representing the accrued benefit rights of former active and deferred members and pensioners of pension plans of companies which are now part of the Group. These include final salary related benefits for members in respect of benefits accrued before 31 May 1995. No further defined benefit membership rights can accrue after that date.

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

The last triennial valuation of the Plan was undertaken on 5 April 2004 and was prepared using assumptions of a rate of investment return of 6.0% per annum, a rate of earnings escalation of 4.0% per annum and rate of inflation of 2.5% per annum. The ongoing liabilities of the Plan 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 Plan'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 as at 5 April 2007 when the funding position will be re-appraised.

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was as at 31 December 2006. The present value of the defined benefit liabilities, the related current service cost and past service cost were measured using the projected unit method.

8 Retirement benefit schemes (continued)

Key assumptions used:

	Notes	2006 %	2005 %	2004 %
Discount rate		**5.3**	4.9	5.5
Expected rate of salary increases		**4.1**	3.9	3.75
Inflation per annum		**3.1**	2.9	2.75
Future pension increases – members who left before 1 June 1995		**3.5**	3.5	3.5
Future pension increases – members who left after 31 May 1995	a	**3.0**	3.0	3.0
Future pension increases – non guaranteed deferred pensions		**3.1**	2.9	2.75

The amount included in the balance sheet arising from the Group's liabilities in respect of the Plan is as follows:

	Notes	2006 £'000s	2005 £'000s	2004 £'000s
Present value of the Plan liabilities		**(7,363)**	(7,781)	(6,143)
Fair value of the Plan assets	b	**4,829**	4,430	3,918
Deficit in the Plan		**(2,534)**	(3,351)	(2,225)
Related deferred taxation at 30%		**760**	1,005	668
Liability recognised in the balance sheet		**(1,774)**	(2,346)	(1,557)

The total pension costs for the Company in respect of:

	Notes	2006 £'000s	2005 £'000s	2004 £'000s
Defined benefit section of the Plan	c	**240**	240	216
Defined contribution section of the Plan	c	**300**	377	392

There are no amounts to be included within the operating profit for current or past service costs in either 2006, 2005 or 2004.

8 Retirement benefit schemes (continued)

Amounts recognised in other finance costs in respect of the Plan:

	Notes	2006 £'000s	2005 £'000s	2004 £'000s
Interest cost		**(378)**	(334)	(265)
Expected return on the Plan assets		**255**	252	269
Net periodic cost		**(123)**	(82)	4

Analysis of the movement in the Plan deficit during the year:

	2006 £'000s	2005 £'000s	2004 £'000s
Deficit at 1 January	**(3,351)**	(2,225)	(736)
Interest cost	**(378)**	(334)	(265)
Actuarial gains/(losses)	**700**	(1,284)	(1,493)
Expected return on the Plan assets	**255**	252	269
Contributions from sponsoring companies	**240**	240	-
Deficit at 31 December	**(2,534)**	(3,351)	(2,225)

The Plan assets and the expected rate of return at the balance sheet date were as follows:

	Fair value of assets			Expected return		
	2006 £'000s	2005 £'000s	2004 £'000s	2006 %	2005 %	2004 %
Equity instruments	**2,023**	1,844	2,194	**7.7**	7.5	7.5
Fixed interest	**1,123**	1,256	-	**4.7**	4.5	-
Corporate bonds	**1,373**	1,256	1,528	**5.3**	5.0	5.0
Other assets	**310**	74	196	**5.0**	4.5	4.0
	4,829	4,430	3,918			

8 Retirement benefit schemes (continued)

History of experience adjustments is as follows:

	2006 £'000s	% asset or liability value	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 the Plan assets	**20**	**0.4**	168	3.8	(175)	(4.5)	179	4.6	(1,153)	(25.8)
Experience gain/(loss) arising on the Plan liabilities	**290**	**(3.9)**	60	0.8	(1,065)	17.3	(187)	4.0	29	(0.5)
Effects of changes in assumptions underlying the present value of the Plan liabilities	**390**	**(5.3)**	(1,512)	19.4	(253)	4.1	152	3.3	114	(2.1)
Total actuarial gain/(loss)	**700**		(1,284)		(1,493)		144		(1,010)	

Notes

a: 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.

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

c: In view of the funding position of the defined benefit section of the Plan 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 at 5 April 2007. Employer's contributions for defined contribution benefits remains unchanged at agreed standard rates.

9 Share capital

	2006 No. '000s	2006 £'000s	2005 No. '000s	2005 £'000s
Authorised:				
Ordinary shares of 5p each	**60,000**	**3,000**	60,000	3,000
Issued and fully paid:				
At the beginning of the year	**42,316**	**2,116**	42,147	2,107
Exercise of share options	**204**	**10**	169	9
At the end of the year	**42,520**	**2,126**	42,316	2,116

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

9 Share capital (continued)

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.

18,450 ordinary shares were issued in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £26,202.

185,670 ordinary shares were issued in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £139,453. Some of the options under the 1995 scheme were settled on a net basis.

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 2006 there remained 12,625 options outstanding under the 1988 Scheme exercisable at a price of £1.71. On the same date there were 1,017,500 options outstanding under the 1995 Scheme exercisable at prices between £2.07 and £4.95.

Other share schemes

Details of other share schemes are disclosed in the directors' remuneration report on pages 30 to 36. It is currently intended that share awards under these other schemes will be satisfied by share purchases in the market by the Morgan Sindall plc Employee Benefit Trust (the 'Trust').

Own shares

Own shares at cost represent 621,381 ordinary shares in the Company held in the Trust in connection with certain share incentive schemes as detailed in the directors' remuneration report on pages 30 to 36. The trustee of the Trust purchases the Company's ordinary shares in the open market with financing provided by the Company on the basis of regular reviews of the share liabilities of the relevant schemes. A total of 445,502 ordinary shares were unallocated at the year end 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 is charged over the three year period to which the award relates. Based on the Company's share price at 31 December 2006 of £13.28, the market value of the shares held in the Trust was £8,251,940.

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	Activity
Lovell Partnerships Limited	Affordable housing
Morgan Lovell plc	Office transformation services
Overbury plc	Fitting out and refurbishment specialists
Vivid Interiors Limited	Retail and leisure fit out specialist
Backbone Furniture Limited	Furniture specialists
Bluestone plc	Construction
Morgan Est Holdings Limited	Infrastructure services
Morgan Est plc	Infrastructure services
Morgan Utilities Limited	Infrastructure services
Morgan Est Rail Limited	Infrastructure services
Magnor Plant Hire Limited	Construction plant hire
* Stansell QVC Limited	Construction
Newman Insurance Company Limited	Insurance

Joint Ventures	
* MSIL (3PD) Limited (50%)	Investment in medical properties
* Morgan-Vinci Limited (50%)	Infrastructure services
* Claymore Roads (Holdings) Limited (50%)	Infrastructure services
* Community Solutions for Primary Care (Holdings) Limited (50%)	Investment in the development of primary care facilities
* The Compendium Group Limited (50%)	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 Guernsey, 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 co-terminus with the renewal date for the insurance arrangements in which it participates.

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 19 April 2007 to consider and, if thought fit, approve the following resolutions which are proposed, in the case of resolutions numbered 1 to 7, as ordinary resolutions and, in the case of resolutions numbered 8 and 9, 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 2006.
2. To declare a final dividend of 20.0p per ordinary share for the year ended 31 December 2006.
3. To re-elect Bernard Asher as a director.
4. To approve the directors' remuneration report for the year ended 31 December 2006.
5. To re-appoint Deloitte & Touche LLP as independent auditors.
6. To authorise the directors to fix the independent auditors' remuneration.

Special business

Ordinary resolution

7. 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 nominal amount of £708,668 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

8. 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 £106,300

   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.

9. That the existing Articles of Association of the Company be altered as follows:

9.1 the existing paragraph 133 be deleted and replaced by the following:

'133.1 This Article applies to every balance sheet and profit and loss account to be laid before the Company's shareholders at a General Meeting with any other document which the law requires to be attached to these.

133.2 Copies of the documents set out in Article 133.1 shall be made available to the Company's shareholders and debenture holders and all other people to whom the Articles, or the legislation so require. This shall be done at least 21 days before the relevant General Meeting provided that the Company need not make these documents available to any person for whom the Company does not have a current address and it is not required to make them available to more than one joint holder of shares or debentures but any member or holder of debentures to whom a copy of such documents or any substitute permitted by the Statutes has not been made available shall be entitled to receive a copy free of charge on application at the Office. For these purposes 'made available' means being sent by post or any other means permitted by the legislation (including by electronic communications or by making them available on a website).'

9.2 the existing paragraph 136 be deleted and replaced by the following:

'136.1 Any notice or document (including a share certificate) may be served on or delivered to any member by the Company either personally or by sending it through the post in a prepaid cover addressed to such member at his registered address, or (if he has no registered address within the United Kingdom) to the address, if any, within the United Kingdom supplied by him to the Company as his address for the service of notices, or by delivering it to such address addressed as aforesaid or subject to the Statutes, electronically to an electronic address or facsimile number notified to the Company by the shareholder for this purpose provided that a share certificate may only be delivered personally or by post. In the case of a member registered on a branch register any such notice or document may be posted either in the United Kingdom or in the territory in which such branch register is maintained. Where a notice or other document is served or sent by post, service or delivery shall be deemed to be effected at the expiration of twenty four hours (or, where second class mail is employed, forty eight hours) after the time when the cover containing the same is posted and in proving such service or delivery it shall be sufficient to prove that such cover was properly addressed, stamped and posted. Where a notice or document is sent electronically service or delivery is deemed to be effected at the time of transmission and in proving such service or delivery it shall be sufficient to show the sender's equipment indicates successful transmission. The accidental failure to send, or the non receipt by any person entitled to any notice of or other document relating to any meeting or other proceeding shall not invalidate the relevant meeting or other proceeding. Any notice or other document may be served or delivered by the Company by reference to the register of members as it stands at any time not more than 15 days before the date of service or delivery, no change in the register of members after that time shall invalidate that service or delivery. The provisions of Article 129 shall mutatis mutandis apply to any other notices or communications to shareholders.

136.2 Subject to the Statutes and Article 136.1 above, the Company may also send any notice or other document pursuant to these Articles to a member by publishing that notice or other document on a website where:

(a) the Company and the member have agreed to him having access to the notice or document on a website (instead of it being sent to him);

(b) the notice or document is one to which that agreement applies;

(c) the member is notified, in a manner for the time being agreed between him and the Company for the purpose, of:

(i) the publication of the notice or document on a website;

(ii) the address of that website; and

(iii) the place on that website where the notice or document may be accessed and how it may be accessed;

(d) the notice or document is published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting to which it relates, and provided that, if the notice or document is published on that website for a part, but not all of, the publication period, the notice or document shall be treated as being published throughout that period if the failure to publish that notice or document throughout that period is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid; and

(e) a notice treated in accordance with this Article as sent to any person is to be treated as so sent at the time of the notification mentioned in Article 136.2(c).'

By order of the Board

Mary Nettleship
Company Secretary
20 February 2007

Registered office
77 Newman Street
London
W1T 3EW

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, BR3 4TU
   - 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. 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 29.
4. 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.
5. Short biographical details of the director seeking re-election are shown on page 24 of the accounts.
6. If no indication of how the proxy shall vote is given, the proxy will exercise discretion as to voting or abstention therefrom.
7. 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.

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

Registrar

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

Shareholder communication

Enquiries and information:
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 the Company's 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.

A resolution will be proposed at the forthcoming annual general meeting to amend the articles of association of the Company to incorporate the new provisions under the Companies Act 2006 s1143 to 1148 and Schedules 4 and 5 ('the Act') regarding electronic communications between the Company, shareholders and others that came into force on 20 January 2007. An explanation of the proposed changes is given in the report of the directors on page 29.

If the resolution for the proposed changes to the Company's articles of association is passed at the forthcoming annual general meeting, the Company is intending to write to shareholders individually as required by the Act later this year to seek their individual consent to receiving future communications electronically from the Company.

Unsolicited mail

The Company is obliged by law to make its share register publicly available and as a consequence some shareholders may receive unsolicited mail, including from unauthorised investment firms. For more information on unauthorised investment firms targeting UK investors, visit the website of the Financial Services Authority at www.fsa.gov.uk/consumer. If you wish to limit the amount of unsolicited mail you receive contact:

The Mailing Preference Service
FREEPOST 29 (LON20771)
London W1E 0ZT
Tel: 020 7291 3310
or register on-line at www.mpsonline.org.uk.

Financial calendar

Annual General Meeting	19 April 07
Final dividend:	
Ex-dividend date	4 April 07
Record date	10 April 07
Payment date	2 May 07
Interim results announcement	August 07

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MORGAN SINDALL

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50% recycled stock