the construction and regeneration group

report and accounts 2007

Who we are

Morgan Sindall, the construction and regeneration group, employs over 8,500 people. The Group now operates through five divisions: Fit Out, Construction, Infrastructure Services, Affordable Housing and Urban Regeneration. The strength of the Group is derived from this balance of activity and the ability to provide integrated solutions across these five areas.

What we do

Fit Out

Fit Out operates through four businesses. Overbury is the leading office fit out and refurbishment specialist and Morgan Lovell provides a design and build service for office interiors. Vivid Interiors fits out hotel, retail, leisure and education facilities. Backbone Furniture supplies and installs commercial office furniture.

Construction

Morgan Ashurst is a construction and design business with activities ranging from small works, repair and maintenance services to large-scale projects. It operates across the UK with expertise in the health, education, light industrial, property services, defence and retail sectors.

Infrastructure Services

Morgan Est is a major UK provider of infrastructure services across the public and private sectors. The business specialises in the design and delivery of complex civil engineering projects and utilities services to the defence, water, gas, electricity and transport sectors.

Affordable Housing

Lovell specialises in mixed tenure developments, urban regeneration and large-scale housing refurbishment schemes, working in partnership with housing associations and local authorities.

Urban Regeneration

Muse Developments is a UK-wide urban regeneration business specialising in the delivery of complex mixed use development projects, predominantly in town and city centre locations. Muse Developments has a portfolio of around 30 projects, the majority of which are delivered in partnerships with public and private sector landowners.

We are growing

Overall the Group made a significant step forward during 2007 with continued growth across all divisions and with the acquisition of DPS and Muse Developments. The Group has started 2008 with confidence and with the forward order book at £4.3bn it is well positioned to take advantage of challenges and opportunities in the coming year.

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Highlights

£2,115m Revenue (up 41%)

£62.1m Adjusted profit before tax[1] (up 30%)

£57.6m Profit before tax (up 21%)

£219m Net cash balance (up 131%)

104.5p Adjusted earnings per share[1] (up 34%)

93.8p Basic earning per share (up 20%)

28.0p Final dividend per share (up 40%)

[1]Adjusted for amortisation of intangible assets

Our strategy is to develop leading positions in each of our chosen sectors within the construction and regeneration markets.

Chairman and chief executive's statement

We are pleased to report a year of significant progress and another set of record results. Profit before tax and amortisation of intangible assets rose by 30% to £62.1m (2006: £47.6m) on revenue that increased by 41% to £2.1bn (2006: £1.5bn). Adjusted earnings per share before amortisation increased by 34% to 104.5p (2006: 78.2p).

Profit before tax for the year (after amortisation of intangible assets) was £57.6m (2006: £47.6m). The Board recommends a final dividend of 28.0p (2006: 20.0p) giving a total dividend for the year of 38.0p (2006: 28.0p), an increase of 36%.

Operating cash flow was particularly strong in 2007 with year end net cash of £219m (2006: £95m) driven by the increased profitability of the Group and an improvement in working capital management.

Acquisition and performance

Our strategy is to develop leading positions in each of our chosen sectors within the construction and regeneration markets. The acquisition in July of two businesses from Amec plc, Amec Developments (renamed Muse Developments) and Amec's Design and Project Services business ('DPS'), was driven by this objective. DPS' construction and civil engineering activities have been integrated into our existing Construction and Infrastructure Services divisions. The acquisition has been significant in strengthening the market positions of both these divisions. In addition, the acquisition of Muse Developments has created a fifth division of the Group, Urban Regeneration.

Muse Developments is a leader in inner city regeneration, specialising in complex, mixed use schemes in partnership with both private and public sector landowners. Overall the acquisition has delivered revenue for the five months to December of £305m and made a positive contribution. Further details of the impact of the acquisition on the Group are given in the business review following this statement.

During 2007, Fit Out benefited from its leading position in the commercial property sector with strong growth in revenue and profit from operations. Affordable Housing continued its focus on mixed tenure regeneration, improving its operating margin for a fifth consecutive year. Construction's performance improved as anticipated. It has broadened its offering following the acquisition of DPS to provide nationwide coverage across a full range of project sizes. Infrastructure Services increased its activity, as expected, and also benefited from the acquisition of DPS, strengthening its market positions in the water and transport sectors as well as enhancing its tunnelling expertise. The newly created Urban Regeneration division, created by the acquisition of Muse Developments, traded slightly ahead of expectations since its acquisition and secured a number of key mixed use projects during the year.

Board changes

We welcome back Geraldine Gallacher to the Board as a non-executive director. Geraldine's experience in the area of executive development will be valuable to the Board as the Group continues to grow.

Outlook

The forward order book at the start of 2008 was £4.3bn compared with £3.3bn last year. It was boosted by £0.6bn from the acquisition of DPS, hence the organic growth, year on year, was 12%. In addition Muse Developments' forward development pipeline, its share of regeneration projects in which it has an interest, is valued at £1.2bn.

In the coming year against a macro economic backdrop where there is a degree of uncertainty, Fit Out is seeking to maintain its level of performance. The fit out market continues to be strong in the short-term and we remain of the view that it will be robust at least until the second half of the year. Construction and Infrastructure Services divisions are both experiencing positive market conditions led by public sector investment. The Affordable Housing and Urban Regeneration divisions will continue to target opportunities in the regeneration market, which remains a key Government priority.

Overall the Group made a significant step forward during 2007 with continued growth across all divisions and with the acquisition of DPS and Muse Developments. The Group has started 2008 with confidence and with the forward order book at £4.3bn it is well positioned to take advantage of challenges and opportunities in the coming year.

Business review

Morgan Sindall's strategy is to develop a construction and regeneration group with market leading positions in a number of sectors within the UK construction market. This strategy aims to provide long-term success for the Group and its shareholders delivered through both organic and acquisitive growth.

£62.1m

Profit before tax and amortisation (up 30%)

Group overview

Group structure

Morgan Sindall, the construction and regeneration group, has activities which span the UK construction market. The main market sectors in which the Group operates are commercial property, affordable housing, health, education, leisure, transport, utilities, retail and defence.

The Group is structured into five main operating divisions, namely Fit Out, Construction, Infrastructure Services, Affordable Housing and Urban Regeneration. In addition Group Activities encompasses the activities of the parent company and the project finance investment team (Morgan Sindall Investments).

The performance and outlook of each division are set out below in this business review. A more detailed description of each of the divisions is then given on pages 18 to 27.

Strategy and objectives

Morgan Sindall's strategy is to develop a construction and regeneration group with market-leading positions in a number of sectors within the UK construction market. This strategy aims to provide long-term success for the Group and its shareholders delivered through both organic and acquisitive growth. In addition the strategy gives a balanced exposure across the public and private sectors, as well as the ability to adapt to changes within the market as a whole.

In order to deliver this strategy, Morgan Sindall's key objectives are:

- to focus on the quality of our delivery and to ensure we continue to satisfy our clients' needs and expectations
- to attract, develop and retain talented employees, who are key to our long-term success
- to develop businesses that operate safely with predictable and sustainable profit streams
- to ensure we generate the cash resources to develop our businesses and to fund acquisitions.

Operating as a decentralised Group is at the heart of Morgan Sindall's strategy. The Group seeks to minimise the activities of the parent company and allows the operating divisions to structure themselves to best suit the different sectors in which they operate. We believe that this approach allows the divisions to be responsive to the changing demands of their respective markets and clients.

The role of the Board is to set the Group's overall strategy and direction, ensure the right leadership of each division is in place, agree business plans and objectives for each division, to monitor performance against these plans, and establish Group policies and standards for business operations. In addition, certain key functions are co-ordinated and managed centrally including treasury, insurance, company secretarial, information systems, taxation and audit and assurance.

Market

The UK construction market grew by 2.2% in 2007 (2006: 1.2%) against overall forecast growth of the UK economy of 2.9% (2006: 2.6%). Within the overall UK construction market the public housing and private commercial sectors in particular experienced strong growth in 2007, which benefited the Group. The overall long-term outlook for the sectors in which the Group operates remains positive despite the current uncertainties in the wider economic environment. Further detailed comments are given below in the review of each division's performance.

Key risks

Morgan Sindall has a risk management process in place that identifies the risks that the Group faces in achieving its strategy and objectives, confirms the controls required to manage these risks and puts in place early warning mechanisms to monitor them. This risk management process is underpinned by our internal audit and assurance activities that test and review the effectiveness of our control environment. Further information is given on page 43 of the corporate governance statement.

The principal risks that have been identified that may impact on the Group and its operations are:

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 the key to the Group's future success. Accordingly, we continue to develop our policies, procedures and key performance indicators in the areas of recruitment, training and development. A key element of employee development has been the Morgan Sindall Development Programme ('MSDP'). The MSDP has been directed at the Group's senior managers and has sought to develop greater commonality of skills and management techniques across the Group.

38p

Total dividend (up 36%)

Operate safely as a construction business

We need to ensure that we continue to 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 15 to 16.

Market related risks

The market sectors in which the Group operates are affected by general macro economic conditions and Government spending priorities. As a result, the level of activity within 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, by talking to our clients and understanding their plans and priorities and by gathering formal and informal market intelligence. The market risks affecting particular divisions are set out under the section on divisional performance and outlook below.

Regulatory risks

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-conformity. The main approach to managing this risk is to ensure our systems and processes evolve and develop to enable the Group to continue to meet its legal obligations. In addition this risk is managed through technical briefings by our advisors to our employees on relevant topics and legislative changes as they occur, through training of staff and through regular review and updating of the Group's policies and procedures.

Contract related risks

The Group undertakes several hundred contracts each year and the commercial risk attached to 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 projects 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.

Acquisition related risks

The Group regularly identifies and evaluates potential acquisitions. As an opportunity develops the Group identities the risks relating to an acquisition and determines whether the acquisition should be progressed. In the latter case financial and commercial due diligence is undertaken by the Group, using its own employees, led by senior managers. The Group also uses external specialists to review risk areas such as legal, pensions, tax and property. The Group needs to ensure that risks relating to any acquisition are properly identified, managed and reflected in the formal valuation of the business. Risks associated with the post acquisition integration of acquired businesses are mitigated by developing detailed integration plans and by closely managing the integration process to ensure the value of goodwill is protected and that anticipated synergies are fully realised.

Group performance and outlook

Profit before tax and amortisation of intangible assets rose by 30% to £62.1m (2006: £47.6m) on revenue that increased by 41% to £2.1bn (2006: £1.5bn). Adjusted earnings per share before amortisation increased by 34% to 104.5p (2006: 78.2p).

Profit before tax for the year (after amortisation of intangible assets) was £57.6m (2006: £47.6m). The Board recommends a final dividend of 28.0p (2006: 20.0p) giving a total dividend for the year of 38.0p (2006: 28.0p), an increase of 36%.

Operating cash flow was particularly strong in 2007 with year end net cash of £219m (2006: £95m) driven by the increased profit of the Group and an improvement in working capital management.

The following key performance indicators have been developed to measure the ongoing success of the Group's strategy and objectives.

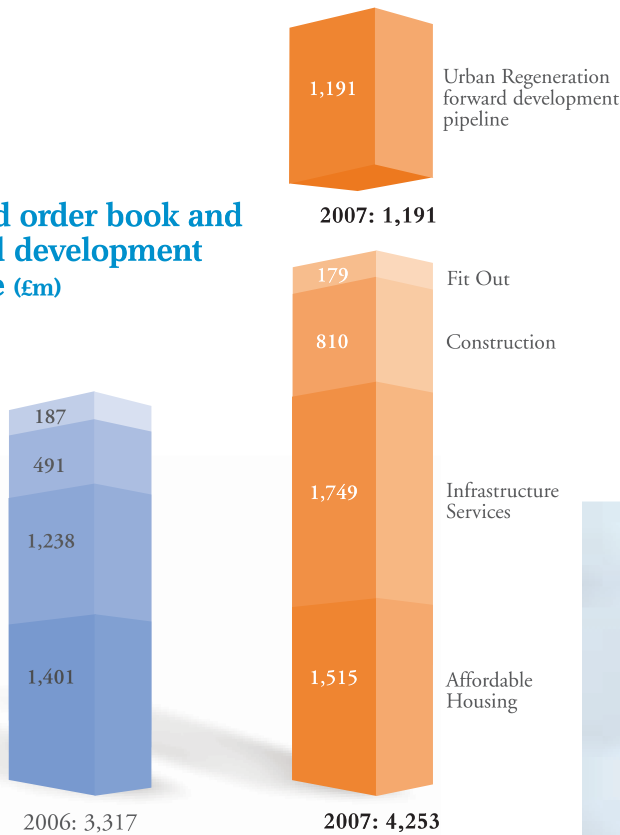
	2007	2006	2005
Annual net margin[1]	**2.9%**	3.2%	3.2%
Forward order book	**£4.3bn**	£3.3bn	£2.8bn
Year end net cash balance	**£219m**	£95m	£72m
Annual accident incident rate	**738**	736	981

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

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

[1]Adjusted for amortisation of intangible assets.

Forward order book and forward development pipeline (£m)



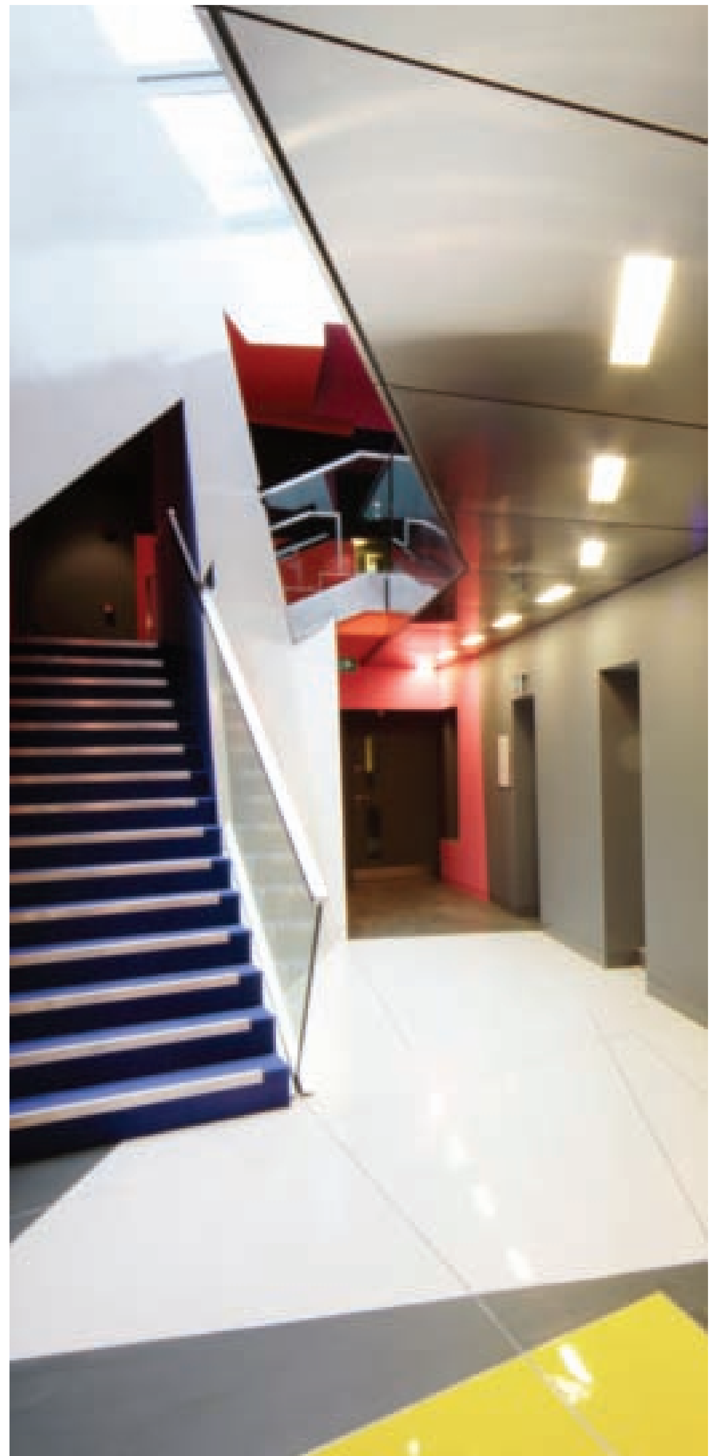
The success of the Group's strategy of developing market leading positions in its chosen sectors is measured by the margin. We believe that the measure of a market leading position is the quality of the margin rather than the absolute level of revenue. This better reflects the value premium that clients place on the services that our businesses provide. The Group's net margin is a blend of each of the divisions' margins. This year operating margins before the impact of integration costs have improved at Affordable Housing, Infrastructure Services and at Construction whilst those at Fit Out have remained consistent with the prior year. Urban Regeneration made a margin of 16% on its five month contribution to the Group's performance. Overall the net margin has fallen slightly, principally as a result of integration costs absorbed during the year. Further comments on divisional margins are made below.

The forward order book includes the value of work still to be undertaken on projects that are legally committed to by clients as well as a conservative assessment of the expected level of activity under framework arrangements. This is an important measure of future activity levels within the Group's market sectors, which allows the divisions to plan and adapt accordingly. In addition, Urban Regeneration has interests in a number of regeneration projects. At this point in time individual elements within projects may not be legally committed but the diagram above shows the value of the division's forward development pipeline.

The net cash balance is monitored on a daily basis and is important for generating the financial resources to develop and grow the Group's businesses and to fund acquisitions.

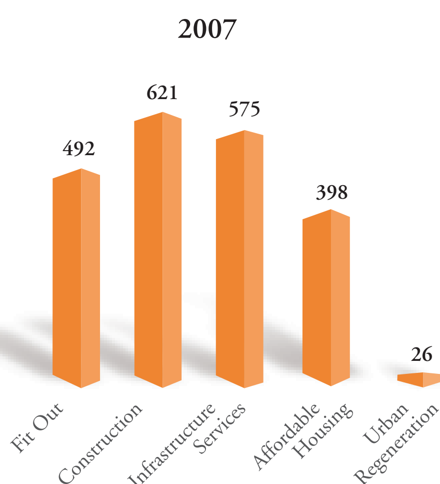
The accident incident rate is a key measure of the safe operation of our businesses and is one of a suite of health and safety measures the Group uses to monitor its activities.

The Group does not have any standard measures of client satisfaction and employee satisfaction as each division tailors measures to its individual needs, consistent with the Group's decentralised structure.

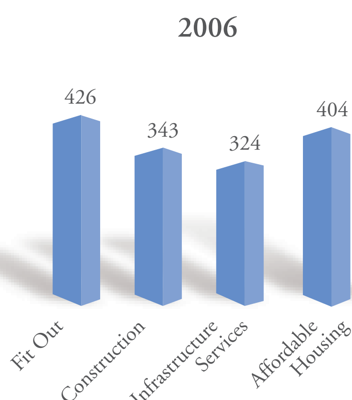


Revenue analysis (£m)

2007



2006



Divisional performance and outlook

The performance of each of the five operating divisions in 2007 was as follows. Operating profit is the profit from operations for each division stated before the amortisation of intangible assets.

Fit Out

	2007	2006
Revenue	**£492m**	£426m
Operating profit	**£25.9m**	£22.6m
Margin	**5.3%**	5.3%
Forward order book	**£179m**	£187m

Fit Out provides fit out and refurbishment services to the financial, legal, public, leisure, education, hotel and retail sectors. The fit out market in 2007 showed strong growth. Fit Out, with around a 20% share of the office fit out market, grew strongly with revenue increasing by 15% to £492m (2006: £426m) and the division achieved a record operating profit of £25.9m (2006: £22.6m), an increase of 15%. Margins were maintained above 5% for the third year in succession at 5.3% (2006: 5.3%).

Fit Out's activities are largely centred on London and the South East with around 70% of its revenues derived from the West End and City of London. Projects range in size from £10,000 to £50m. The division is pursuing a strategy of building on its strength in the London commercial property market by opening offices outside London and continuing to develop Vivid Interiors, a business focused on the hotel, retail, leisure and education sectors. During 2007 the division opened a new office in Birmingham and grew Vivid Interiors' revenue by 51%. In addition, the division has been targeting larger projects (in excess of £20m) in order to develop its business.

£219m

Net cash balance (up 131%)

The immediate outlook to the middle of 2008 for Fit Out remains encouraging with the forward order book at the start of the year at £179m, a similar level to that at the start of 2007. The forward order book is usually not more than four to five months in length in this division due to the short lead times for projects. Consequently, longer term market predictions are more difficult to make.

Construction

	2007	2006
Revenue	£621m	£343m
Operating profit*	£4.9m	£3.4m
Margin	0.8%	1.0%
Forward order book	£810m	£491m

** After deducting £2.8m of integration costs*

The Construction division experienced positive market conditions in 2007 helped in particular by growth in the commercial sector and by public sector spending on education and health. The key highlight of the year was the acquisition of the Design and Project Services ('DPS') business from Amec plc which added size, scale and additional capabilities to the division and was a significant step towards delivering its strategy of market leadership in the general construction sector. The business was subsequently rebranded as Morgan Ashurst (formerly Bluestone). The acquisition has also extended the sectors that the division covers from health, education, light industrial and property services to include defence, retail and the pharmaceutical and manufacturing sectors. In addition project capabilities have been broadened to include projects over £300m and to provide a nationwide construction and design service. Revenue derived from key client relationships, frameworks and negotiated arrangements remains key to the division's strategy.

Overall the operating profit increased by 44% to £4.9m (2006: £3.4m) on revenue of £621m (2006: £343m), an increase of 81%. The acquisition contributed revenue of £179m, with organic revenue growth of 29% to £442m (2006: £343m).

The operating profit is stated after £2.8m of integration costs. Adjusting the operating profit for these integration costs gives an operating margin of 1.2% for the year (2006: 1.0%).

In addition, the division made a significant contribution to the overall improvement in the Group's operating cash flow during 2007.

Other highlights from 2007 include securing the construction contract for a fifth NHS LIFT concession at Bury, Tameside and Glossop, as well as for the Dorset Emergency Services and Police Initiative PFI project. Also, the division developed its presence in the education sector with the construction contract for the East Dunbartonshire Schools PFI project.

The division begins 2008 with a forward order book of £810m (2006: £491m). Overall the outlook for the general construction sector remains positive, supported by the Government's commitments to education and health. The priority for the division remains to improve the quality of its margin and to fully realise the benefits of the integrated business following the acquisition.

Infrastructure Services

	2007	2006
Revenue	£575m	£324m
Operating profit*	£10.6m	£5.1m
Margin	1.8%	1.6%
Forward order book	£1.7bn	£1.2bn

** After deducting £1.4m of integration costs*

The infrastructure services market experienced further improved market conditions during 2007 driven in particular by increased investment by key clients such as the Scottish Executive, Network Rail and the Highways Agency. The division also benefited from the acquisition of DPS which complemented the growth in the underlying business.

£4.3bn

Forward order book (up 30%)

The acquisition introduced new clients to the division such as BAA, Defence Estates and Welsh Water. In addition the acquisition strengthened the division's tunnelling capabilities, creating the UK's leading tunnelling business.

Overall revenue increased by 77% to £575m (2006: £324m) and delivered an operating profit of £10.6m (2006: £5.1m), an increase of 108% on the previous year. The acquisition contributed revenue of £100m, with organic revenue growth of 47% to £475m (2006: £324m).

The operating profit is stated after £1.4m of integration costs. Adjusting the operating profit for these integration costs gives an operating margin of 2.1% for the year (2006: 1.6%) and was in line with the expected improvement in the margin for the year. The division also made an important contribution to the improvement in the Group's operating cash flow through its improved profitability and management of its working capital.

After securing £800m of new orders in 2006, the division prioritised operational delivery of its key projects, which have progressed well during 2007. In 2007 it also secured framework contracts across the utilities sector as well as major road projects such as the M1 widening at junctions 25 to 28 for the Highways Agency and the A1073 project for Lincolnshire County Council, both under the Early Contractor Involvement (ECI) procurement process.

The division started 2008 with a forward order book of £1.7bn (2006: £1.2bn). The overall outlook for the division remains positive with further growth in the market expected in 2008. In January 2008, the division completed the acquisition of the isolations and possessions business of Elec-Track Installations for £1m, which will strengthen its electrical capabilities in the rail sector.

Affordable Housing

	2007	2006
Revenue	**£398m**	£404m
Operating profit	**£25.5m**	£24.0m
Margin	**6.4%**	5.9%
Forward order book	**£1.5bn**	£1.4bn

The Affordable Housing division, Lovell, continued with its focus on mixed tenure developments with profits rising by 6% to £25.5m (2006: £24.0m) on revenue of £398m (2006: £404m). The focus on mixed tenure developments (schemes including both social housing for rent and houses built for sale on the open market) helped to increase the margins for the eighth year in succession to 6.4% (2006: 5.9%).

A highlight in 2007 was the division achieving financial close of its first PFI housing and refurbishment project at Miles Platting in Manchester. This was an important milestone as PFI will be an important method of procurement to enable the Government to meet its housing regeneration agenda in the coming years. In addition, the division secured notable new opportunities at Coalville in Stoke-on-Trent (via its Compendium joint venture with Riverside Housing Association) and at Mildmay in Islington. The Decent Homes programme also continues to provide new refurbishment framework opportunities.

The Government's commitment to the affordable housing and regeneration sector was reiterated with the announcement in 2007 of the target to build 70,000 new social homes per annum by 2010, from around 25,000 currently. Whilst the impact of the 'credit crunch' on the housing sector has been widely reported, the effect on Lovell has been limited as open market sales represent only 30% of the division's revenues (and only around 5% of the Group's revenue). The division experienced a modest fall in demand for open market sales during the last quarter of 2007, but this was compensated for by resilient refurbishment and new build social housing work.

The division started 2008 with an order book of £1.5bn (2006: £1.4bn). The priority for the division will be to continue to develop its mixed tenure capabilities and secure larger scale regeneration schemes including those with commercial, retail and leisure components, which we believe to be an increasingly important part of the market moving forward.

Urban Regeneration

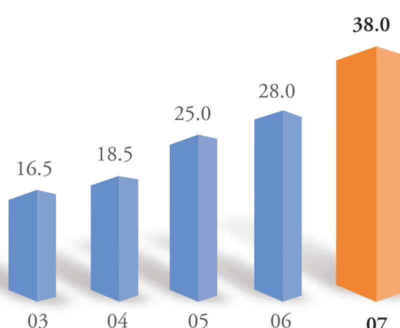
	2007
Revenue	**£26m**
Operating profit	**£4.2m**
Margin	**16%**
Forward development pipeline	**£1.2bn**

The newly formed fifth division, Urban Regeneration, was created following the acquisition of Amec Developments in July 2007, which has been renamed Muse Developments. The division is a leading mixed use property development and urban regeneration business.

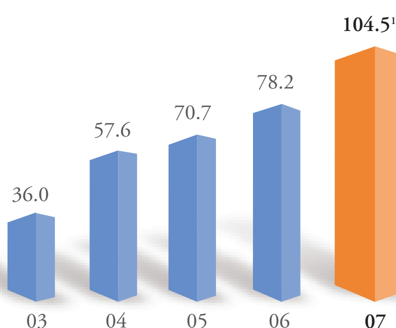
2007 was a success for Muse Developments. For the five months to December 2007 the division achieved an operating profit of £4.2m on revenue of £26m. In addition, in 2007 the division was appointed as preferred bidder for four large urban regeneration schemes in Swindon, Doncaster, Manchester and Blackpool with a combined development value of £1.1bn. The division also successfully completed schemes at Wakefield, Bromley and Durham.

The division starts 2008 with interests in 30 projects with a projected future value of £2.6bn, of which the division's share is £1.2bn. In addition, the division will be seeking to finalise and sign development agreements for the four projects referred to above, which are currently being negotiated, and the opportunities for the division remain encouraging. With its focus on long-term strategic partnership arrangements the division is well placed with a secure forward development pipeline and limited exposure to the revaluation issues currently affecting the property sector.

Dividends per share (p)



Adjusted basic EPS (p)



[1]Adjusted for amortisation of intangible assets

Financial Review

Revenue and profit from operations

Revenue increased by 41% to £2.1bn (2006: £1.5bn), of which £305m was attributed to businesses acquired from Amec plc in July 2007, otherwise the increase was driven primarily by growth in the Fit Out, Construction and Infrastructure Services divisions. Fit Out revenue increased by 15% to £492m, Construction by 81% to £621m (of which £179m was from the acquired business), and Infrastructure Services by 77% to £575m (of which £100m was from the acquired business). The Urban Regeneration division made a first time revenue contribution of £26m. Affordable Housing's revenue dropped by 1% to £398m.

Group profit from operations increased by 26% to £58.0m (2006: £46.2m) prior to the amortisation of intangible assets of £4.5m. This improvement was due to strong growth in all divisions. Fit Out increased its profit from operations by 15% to £25.9m, Construction by 44% to £4.9m, Infrastructure Services by 108% to £10.6m and Affordable Housing by 6% to £25.5m. Urban Regeneration's profit from operations (for the five month period since acquisition) was £4.2m. The cost of Group Activities increased by 47% to £13.1m (2006: £8.9m) reflecting principally the increased costs of information technology and acquisition related costs.

Profit before and after tax

Profit before tax and amortisation of intangible assets of £62.1m was 30% ahead of last year's £47.6m. This includes net finance income of £4.1m (2006: £1.4m). Profit after tax was £39.4m (2006: £32.8m). The tax charge was £18.2m (2006: £14.8m) giving an effective tax rate of 32% (2006: 31%).

Earnings per share and dividends

Basic earnings per share was 93.8p (2006: 78.2p). Adjusted earnings per share (adjusted for amortisation of intangible assets) increased by 34% to 104.5p (2006: 78.2p). The final dividend is proposed at 28.0p (2006: 20.0p) giving a total dividend for the year of 38.0p which is 36% higher than last year (2006: 28.0p). Adjusted earnings cover the dividend 2.8 times (2006: 2.8 times).

The Group's dividend policy is to progressively grow the dividend in line with the growth in earnings, aiming to cover the dividend by earnings of between 2.5 times and 3 times.

Equity and capital structure

Shareholders' equity increased to £165.7m (2006: £141.9m). The number of shares in issue at 31 December 2007 was 42,801,848 (2006: 42,520,090). The increase of 281,758 shares was due to the exercise of options under employee share option schemes.

Each year the Company seeks the normal authority to allot shares with a nominal value of up to one third of the issued share capital of the Company, with the power to allot up to 5% of the issued share capital for cash on a non pre-emptive basis. In addition this year the Group has included a resolution which gives the directors authority to repurchase up to 10% of the Company's shares either for cancellation or to be held in treasury. Whilst the directors have no current intention to use this authority, it would give them the flexibility to make purchases of shares if they considered that this would be in the best interests of the Company and shareholders and would result in an increase in earnings per share.

Cash flow and treasury

Net cash from operating activities was £158.1m (2006: £47.9m) as a result of increased profitability and an improvement in working capital management. The net payment to acquire subsidiaries was £11.3m (2006: £18.2m); capital expenditure was £8.0m (2006: £3.2m) and payments to increase interests in joint ventures were £5.0m (2006: £0.9m), reflecting ongoing investment in the business. After payments for tax, dividends and servicing of finance the net increase in cash and cash equivalents was £123.5m resulting in a year end balance of £218.9m. It is anticipated that these resources will be used for the continued growth of the Group's businesses either through acquisitions or investment in working capital as required.

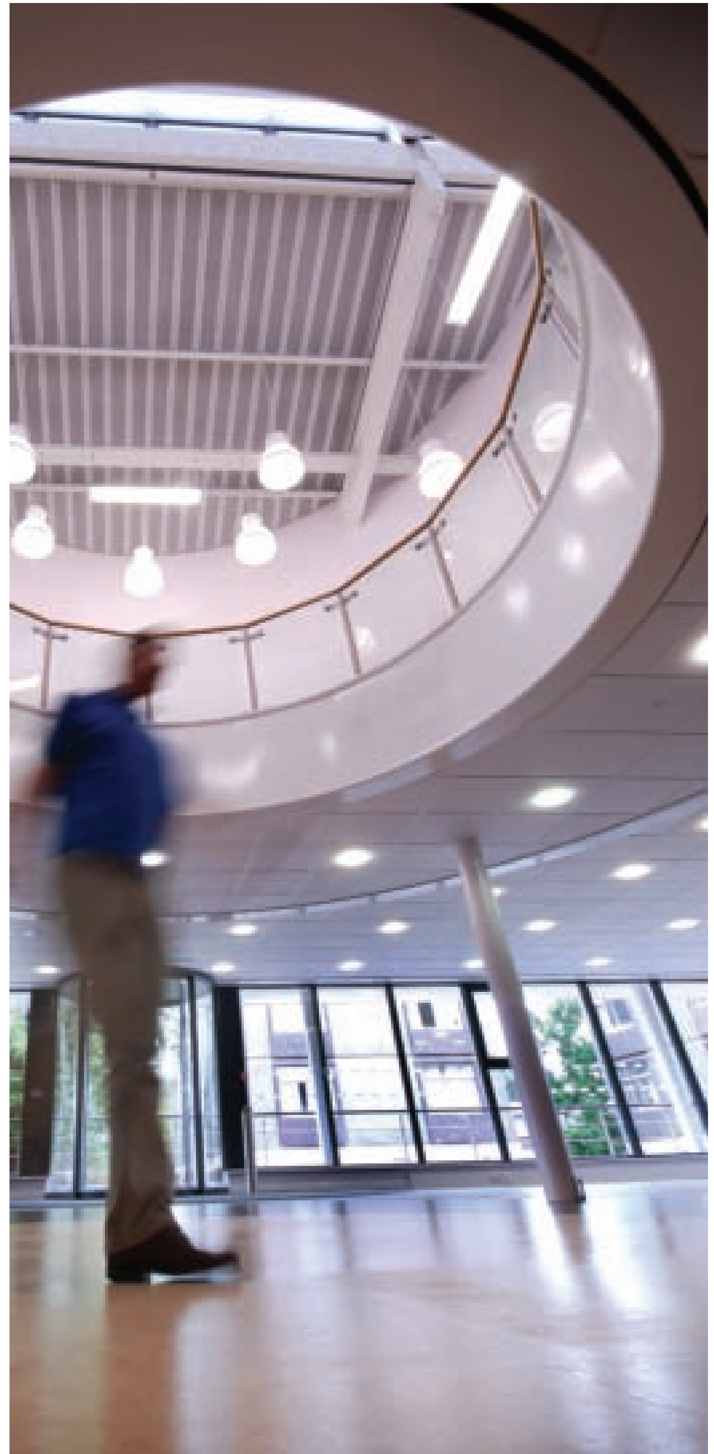
In addition to its cash resources, the Group has a £25m, three-year revolving facility available until November 2009, a further £25m, three-year revolving facility available until June 2010, a £25m, 364-day revolving facility available until June 2008 and a £10m overdraft facility with its main clearing bankers. The overdraft facility is reviewed annually. Banking facilities are subject to normal financial covenants, all of which have been met in the year. The agreements for these facilities, and also the Group's facilities for surety bonding, provide for early repayment of drawings upon a change of control of the Company.

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 very limited exposure to foreign exchange risk because its operations are based almost entirely in the UK, where 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 and a Retail Price Index swap to hedge inflation exposure. The Group considers that its exposure to interest rate and inflation movements is appropriately managed.

Going concern

After making enquiries, 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.



Corporate social responsibility ('CSR') review

The Group recognises that its financial success is reinforced by its behaviour and actions affecting its employees, customers, shareholders, suppliers and the communities and environment in which it operates. It believes that its performance in this area is critical to the creation of long-term value for shareholders.

Through its commitment to CSR, the Group seeks to:
- encourage changes in behaviour in order to develop safe working conditions in which the risks of potential accidents are identified and actions are taken to manage those risks
- drive continuous improvement across all of the constituent areas of its CSR activity
- comply with all relevant legislation as a minimum standard
- treat all employees equally and invest in training to improve skill levels across the Group
- invest in the communities in which it operates in ways that will contribute to meeting their needs
- manage its environmental footprint to try and reduce any aspects of environmental degradation associated with its activities
- engage the supply chain to assist in its drive towards good practice in sustainability and corporate social responsibility
- improve internal and external awareness of its CSR activities and initiatives.

The commercial director is the executive director responsible for CSR activities on behalf of the Board. He is supported by the CSR forum, which comprises members from each of the Group's divisions, together with the Group's head of procurement and the deputy company secretary. The forum is responsible for the development and review of these commitments.

Specialist forums, namely the Health and Safety forum, the Environmental forum and the Human Resources forum report to the CSR forum on CSR issues specific to their particular area of expertise. The boards of each division are responsible for implementation and reporting on performance.

People

The Human Resources forum consists of the heads of human resources from each division and is responsible for identifying specific initiatives that will enable the Group to continue to attract and retain high quality employees.

The Group actively promotes a policy of equal opportunity employment 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 does 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 regular 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 every three months and reviews the Group's performance and activities and outlines its future plans to give employees a better understanding of the Group's developments. Individual divisions issue their own newsletters from time to time addressing matters of interest to that division. During 2007, a number of the divisions have engaged with employees through the use of facilitated focus groups and employee surveys as part of an ongoing process of seeking regular feedback.

At the forthcoming annual general meeting the Company is seeking approval for the introduction of an employee savings related share option plan, recognising the benefit of encouraging employees to participate in the performance of the Group.

The Group has continued its commitment to training with an ongoing increase in the number of training days provided per employee. Training opportunities include induction, job specific training and personal and management development courses. In 2004 Morgan Sindall introduced a modular development programme ('MSDP') for its senior managers based upon five residential modules. In 2007, there were 272 managers (2006: 261) in the Group at various stages of MSDP.

KPI's	2007	2006
Average number of employees	**7,228**	5,552
Average number of days absence due to sickness per employee	**5 days**	5 days
Number of training days per employee	**6 days**	4 days
Number of women employed as a percentage	15%	16%

Within a wider social context, the Group continues to develop and expand a variety of initiatives that provide benefit to the communities in which it operates. For example:

- providing training and development by offering opportunities to gain practical experience with its site based teams for ex-offenders who have completed NVQ Gas Network Operations level 1 and Street Works training courses whilst they are in prison
- building a sensory trail at Quidenham Hospice in Norfolk as part of its annual commitment to complete a charitable project within 3 days through the assistance of its employees and its supply chain network
- an initiative to encourage young people to consider a career in the construction industry. The programme offers a mentoring process for those who wish to explore the opportunities further. During the year, 180 students at Enfield County Girls School took part in a bridge building challenge as part of this initiative.

The Group continues to support various local charities in a number of ways including financial assistance or benefits in kind, such as the donation of office equipment. Charitable donations are shown on page 32.

Health and safety

The Board remains fully committed to ensuring that its employees and subcontractors enjoy the benefit of a safe working environment and acknowledges the importance of health and safety in all its activities. The introduction in April 2008 of the Corporate Manslaughter and Corporate Homicide Act 2007 will increase the importance of appropriate inductions, training and the adoption of behavioural change amongst all in the construction industry. The commercial director is the executive director responsible on behalf of the Board for health and safety matters. The other members of the committee are the health and safety managers of each of the divisions.

The Group is committed to:

- developing a positive health and safety culture throughout the organisation
- developing organisational structures within the subsidiary companies appropriate to meet the objectives identified by the Group's policy 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 with employees, subcontractors and clients as necessary to implement and maintain industry best practice standards across all areas of health and safety.

The health and safety statistics for the Group for the years ended 31 December 2005, 2006 and 2007 are shown on page 16.

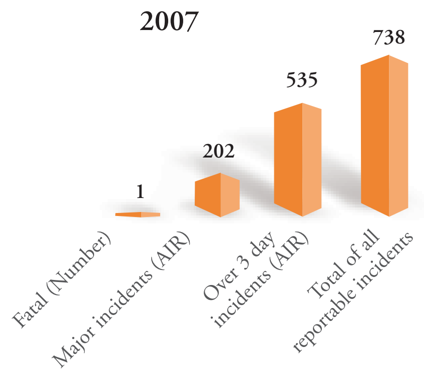
During the course of the year one of the Group's employees, whilst on secondment to a joint venture company, died during an incident which is still the subject of formal independent investigations. The accident is deeply regrettable and our condolences go out to the family of the deceased.

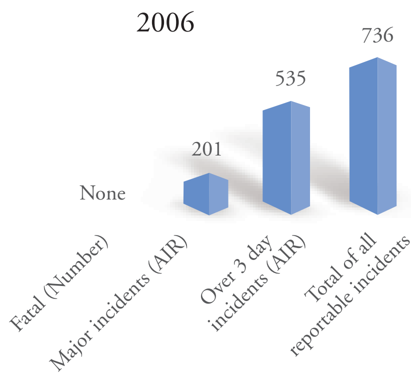
The acquisition in July 2007 had the effect of increasing the average daily workforce on the Group's projects by 45%, as well as increasing the scale and complexity of the business. The harmonisation of health and safety policies and management systems and the amalgamation of the two workforces was a priority following the acquisition and provides a platform from which health and safety performance is expected to steadily improve.

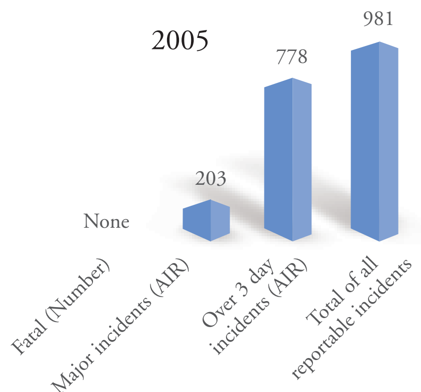
The Group as part of its ongoing commitment to the objectives of the Major Contractors Group's Health and Safety Charter has continued to tackle the issues of Occupational Health. The Group uses external consultants to screen all existing and new employees for the symptoms of hand/arm vibration syndrome, vibration white finger, impaired hearing, dermatitis and musculo-skeletal disorders.

The Group has continued its development of information to support daily safety briefings and 'tool box talks' on key health and safety themes. As at 31 October 2007, 70% (2006: 84%) of the Group's employees held the appropriate Construction Skills Certification Scheme ('CSCS') card. This reduction reflects the fact that the acquired Amec businesses had a lower proportion of accredited employees. Conversely, the percentage of subcontractors similarly certified as compliant has increased to 75% (2006: 68%). This reflects the fact that an increasing proportion of the industry's supply chain is achieving accreditation for their direct employees. 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 with a preference 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.

Health and safety statistics







The new Construction (Design and Management) Regulations 2007 came into effect in April 2007 and the Group is continuing to incorporate the new requirements into its training regimes. The Group is also a co-sponsor of the Trojan Horse research and development project which is aimed at improving the labelling of packaging for construction products to assist in the recognition of health and safety risks to employees. The project is a joint venture initiative involving the Group, the Health and Safety Executive, Construction Skills and construction product manufacturers to produce pictorial images for delivering health and safety messages to an increasingly multi-lingual workforce.

Environment

The Group is committed to minimising the impact of its business on the environment in which it operates. The commercial director is the executive director responsible on behalf of the Board for environmental affairs. The environmental forum is responsible for agreeing and implementing the Group's environmental management policy and consists of the heads of environmental management from each division.

Examples of the Group's commitment to the environment are as follows.

All sites across the Group now incorporate environmental training into their site inductions and have spill kits present to prevent pollution discharges to the environment.

On the Upper Forth Crossing project at Kincardine a significant amount of waste materials from mining, railways and electricity production as well as concrete and rock waste generated on site have been used as fill for the road and embankment areas. The local sourcing and nature of these materials has resulted in a significant reduction in the environmental impacts of heavy haulage and quarrying of virgin materials as well as providing significant cost benefits.

2007 Objectives	2007 Progress
Maintaining ISO14001 accreditations within each division	100% accreditation maintained
Total tonnage of waste diverted from landfill	80% of the Group by turnover monitored the amount of their waste diverted from landfill and reported that 505,000 tonnes of waste were diverted from landfill out of a total of 808,000 tonnes
Monitoring the kilowatt hours for offices where the Group receives energy bills	The Group has used 2,300,000 kwhrs of energy in offices where it receives the energy bills
Improving the amount of sustainable timber purchased as a percentage of total timber purchased	46% of the Group by turnover purchase 98% of their timber from sustainable sources

In 2007, the Construction division introduced a campaign to raise the awareness of the impact of individuals and the business on the environment. The division is in the process of developing a business calculator that will recognise the combined impacts of:

- travel
- procurement of materials/services
- resource use
- waste management.

The Affordable Housing division is firmly engaged in the challenges of delivering sustainable housing and achieving zero-carbon homes ahead of the Government's target of 2016. An example of an initiative already undertaken is a Partnership Housing Project in Scotland that features a range of sustainable and renewable energy initiatives such as ground source heat pumps to provide underfloor heating which are intended to improve energy efficiency and reduce carbon emissions.

In the Fit Out division, the refurbishment of Morgan Lovell's London office set a new standard for energy efficiency and sustainable procurement for a commercial office design and refurbishment project in Central London. This project incorporated the use of energy efficient lighting, heating and cooling systems, certified sustainable timber, natural fabrics and recycled carpets. In addition, the division, in conjunction with a carefully selected group of preferred waste contractors, is achieving recycling rates ahead of the industry average. During 2007, Fit Out made nine client projects carbon neutral, offsetting 374 tonnes of carbon dioxide as well as raising environmental awareness amongst its client base.

Commercial

The Group is committed to seeking predictability and sustainability in its profit streams to ensure that it will be able to meet its commitments to the environment and the communities in which it operates.

The Fit Out and Construction divisions have developed a programme for measuring client satisfaction called Perfect Delivery. The Fit Out division achieved the Perfect Delivery standard on 440 of the 522 projects (84%) undertaken during the year, whilst the Construction division achieved the same status on 106 of the 173 projects (61%) it completed in 2007.

The Group continues to develop its relationship with its insurers and insurance brokers, assimilating their proactive input into 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. In 2008, the Group will be working closely with its insurers on improving its approach to motor risk management.

During 2007 the Group's head of procurement has worked with the divisions to develop projects that will help the Group to improve performance in the following key areas:

- direct purchases of timber by the Group are now made from a select number of pre-qualified suppliers who are able to develop a full chain of custody and to demonstrate a clear auditable supply chain to ensure that the timber sources are sustainable
- during 2007, the Group commenced a programme with a rigorous pre-qualification process to ensure that its waste collection service suppliers are registered for legal compliance and can demonstrate best practice in segregation and the minimisation of materials sent to landfill
- the Group is in the process of launching a project to measure the amount of recycled materials being used on its projects to enable it to measure its performance in the future based on clear and auditable statistics.

Forward-looking statements

This business review has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed. It should not be relied on by any other party for other purposes. Forward-looking statements have been made by the directors in good faith using information available up until the date that they approved the report of the directors. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

Fit Out

The Fit Out division is a leading provider of fit out and refurbishment services to clients in the UK. The division comprises four businesses, namely Overbury, Morgan Lovell, Vivid Interiors and Backbone Furniture. Each business focuses on a different part of the fit out sector. Overbury provides traditional fit out and refurbishment services to the commercial office sector. Morgan Lovell also focuses on commercial offices but provides a complete interior design and fit out service. Vivid Interiors undertakes fit outs and refurbishments in the hotel, retail, leisure and education sectors and Backbone Furniture is a furniture supplier for commercial interiors. The division has national coverage and operates from locations in London, the South East, the Midlands and the North of England. It employs around 650 people.

The division works for a broad range of clients both public and private, which allows it to adapt to changes in any particular sector. The average contract size is £1.0m although projects can range in size from £10,000 to £50m.

Projects typically encompass elements such as ceilings, floors, air conditioning, mechanical and electrical services, partitioning, finishes and furniture. Recent market growth has been driven principally by activity in the financial services sector and closely linked to this, the business services sectors. In addition, the public sector market has been strong as the Government seeks to improve the quality of its property estate.

The division's clients are the occupiers of property rather than the owners. Lead times to projects are relatively short which results in the division's order book only being around four to five months in length.

Morgan Lovell
Inspiring office transformation

The division works for a broad range of clients both public and private, which allows it to adapt to changes in any particular sector.

Morgan Ashurst was formed during 2007 following the acquisition of Amec plc's Design and Project Services ('DPS') business when the construction activities of DPS were combined with Bluestone, Morgan Sindall's existing construction business. The combined business provides construction and design services across the UK with projects ranging from £50,000 to over £300m. The division's expertise is in the health, education, light industrial, property services, defence, retail and the pharmaceutical and manufacturing sectors.

Morgan Ashurst also offers design, engineering and project management expertise through its sister company, Morgan Professional Services, a leading design business with particular strengths in the pharmaceutical and manufacturing sectors.

The division focuses on key client relationships and frameworks to reduce reliance on competitively tendered projects as a source of work.

Highlights from 2007 include the strengthening of the division's presence in the health sector through the securing of construction services to its fifth NHS LIFT scheme at Bury Tameside and Glossop, and further expansion in the education sector through securing the construction for the East Dunbartonshire Schools PFI, in addition to the delivery of the first five PFI schools for the South Lanarkshire PFI project.

The division employs 2,100 people across 28 locations in the UK.

Construction

Infrastructure Services

Morgan Est is a leading UK provider of civil engineering and utilities services to the transport, utilities and defence sectors. It has particular expertise in tunnelling and bridges and focuses on complex engineering projects from early stage design through to delivery and completion. The division comprises five businesses covering tunnelling, infrastructure, rail, utilities and specialist plant.

In the utilities sector, the division undertakes both capital projects for utility companies, such as water treatment plants, as well as utilities services such as the renewal of water and sewerage networks. The market remained buoyant in 2007 and, amongst other notable achievements, the division won a contract to widen the M1 between junctions 25 and 28 and a contract to improve the A1073 in Lincolnshire, and it strengthened its presence in the electricity sector by securing a £165m contract to build substations for National Grid as well as a £48m contract for the renewal of overhead power lines for EDF Energy.

The division's activities were also strengthened in 2007 by the acquisition of DPS. This introduced new clients such as Welsh Water, BAA and Defence Estates and broadened the division's capabilities in piling and tunnelling.

The division is based in Rugby, operates across the UK and employs 3,000 people.

morgan est

Morgan Est has particular expertise in tunnelling and bridges and focuses on complex engineering projects from early stage design through to delivery and completion.

This photograph was staged for publicity purposes.

Lovell's expertise is in mixed tenure developments, whereby houses for open market sale are developed alongside homes built for rent by housing associations.

Lovell is a leading provider of affordable housing in the UK. Working in partnership with local authorities and housing associations, Lovell builds homes for rent and affordable open market housing for private sale, principally in mixed tenure developments, whereby open market homes are developed alongside homes built for rent for Registered Social Landlords. Additionally, the division undertakes refurbishment of existing social rented properties as part of the Government's Decent Homes programme.

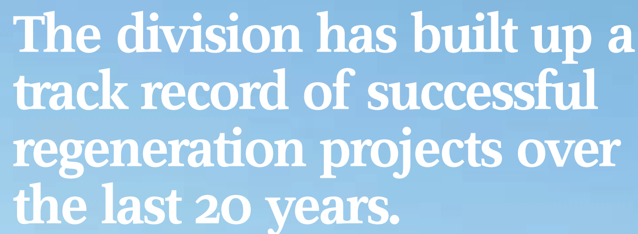
Lovell operates nationally through its network of eight regions, each of which has the capability to carry out new build and refurbishment projects. New build developments are typically on brown-field sites and existing estates and have the aim of improving and regenerating whole areas. Lovell's involvement in such schemes is from initial design through the planning process, to development and completion leaving a legacy of regenerated communities. Around half of the division's activities are focused on new build housing with a broadly even split between open market and new build social homes.

The balance of the division's activities is focused predominantly on the improvement of homes as part of the Decent Homes programme which can range from kitchen and bathroom replacement through to complete interior and exterior refurbishment. This programme is being delivered through framework arrangements which provide a planned schedule of refurbishment works, typically over a five year period.

The division is also focusing on larger housing-led regeneration schemes which may also embrace mixed use elements such as commercial, retail and leisure. The first regeneration PFI was secured during 2007 at Miles Platting in Manchester, a project that involves the refurbishment of 1,600 existing properties as well as the building of 1,200 homes for open market sale, thereby creating a mixed tenure community encompassing both private and public ownership. Compendium, the joint venture with Riverside Housing Association has also secured its first scheme at Coalville, Stoke-on-Trent in 2007.

The division is based at Tamworth, Staffordshire, operates through eight regions, and employs 1,500 people.

Affordable Housing



Muse Developments is a mixed use property development and urban regeneration business. It works in partnership with both the public sector and also large private landowners, whereby its development expertise is applied to land assets held by its partners for mutual reward. The division has established a track record of successful regeneration projects over the last 20 years.

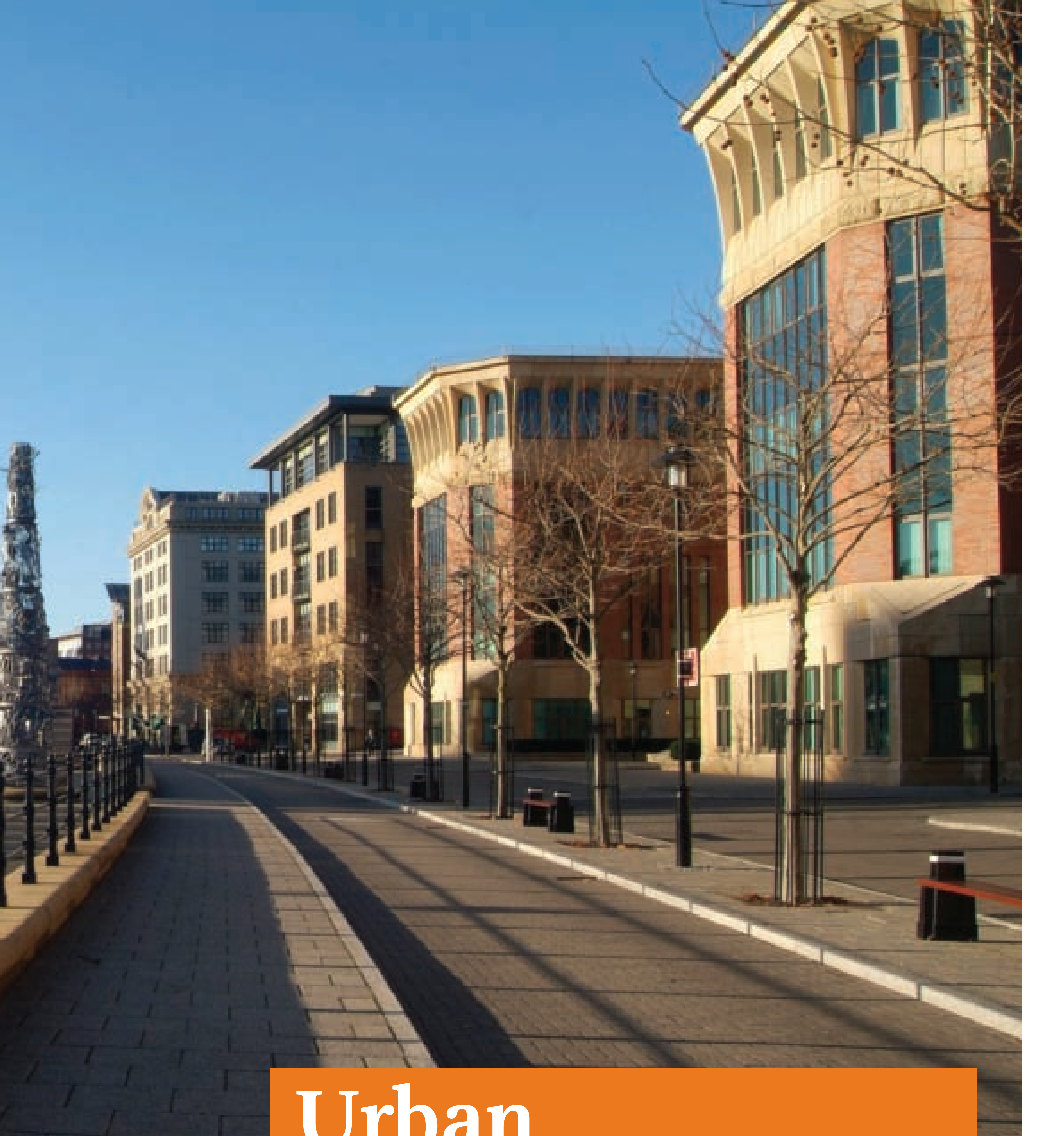
Currently Muse Developments has interests in 30 projects with a projected future development value of £2.6bn. Around half of these projects are in construction and, in addition, there are four major regeneration schemes at Doncaster, Swindon, Blackpool and Manchester Victoria where Muse Developments has been appointed preferred bidder with a potential additional value of £1.1bn.

The division's activities include offices, residential, retail, leisure and distribution development. From inception to completion projects take up to 15 years, and Muse Developments actively manages schemes from outline design, master planning, detailed planning, development funding, construction procurement, to the letting and/or sale of properties and ultimate completion of the regeneration scheme.

The market as a whole continues to be driven by Government policy in relation to its support for employment, regeneration, housing affordability, economic prosperity and social inclusion/mix throughout the country. Muse Developments' business model and development portfolio is substantially aligned with this approach and its objectives.

Two of Muse Developments' important partnerships are ISIS Waterside Regeneration ('ISIS') and English Cities Fund ('ECf'). ISIS is a limited partnership with British Waterways and Morley Fund Management which is focused on the regeneration of land alongside the UK's canal network. ECf is a joint venture with English Partnerships and Legal & General which is focused on area-wide regeneration initiatives within six major cities across England.

The division has offices in Manchester, Leeds and Surbiton and employs 60 people.



Urban Regeneration

Board of directors

John Morgan
Executive chairman

Co-founded Morgan Lovell in 1977 which then reversed into William Sindall plc in 1994 to form Morgan Sindall plc. Chief executive from 1994 to 2000 and executive chairman from 2000 to date. Non-executive chairman of Genetix Group plc and non-executive director of Newfound N.V.

Paul Smith
Chief executive

Appointed chief executive in March 2003. His previous positions include managing director of Accord plc, managing director of Cleanaway Limited and manager at McKinsey & Co. Inc. Non-executive director of Young Samuel Chambers ('YSC') Limited.

David Mulligan
Finance director

Appointed finance director in April 2004 having been group financial controller since 1998. Prior to this he worked at Smiths Group plc and Ernst & Young where he qualified as a chartered accountant.

Paul Whitmore
Commercial director

Appointed a director in April 2000. He had previously undertaken various roles, over a 27 year period at Laing Construction plc, latterly as chief executive. Paul is a chartered surveyor.

Bernard Asher
Independent non-executive

Appointed to the Board in March 1998 and recognised as the senior independent director. 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
Independent non-executive

Appointed a director in September 2004. Gill is currently marketing director of John Lewis plc. Her previous positions include chief executive of Deliverance Limited and business development director at Woolworth plc. Prior to this she held various positions with Kingfisher plc, KPMG plc and Freemans plc.

Jon Walden
Independent non-executive

Appointed a director in May 2001. Jon 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).

Geraldine Gallacher
Independent non-executive

Appointed a director in August 2007. Geraldine is managing director of The Executive Coaching Consultancy. Previously, she was head of group management development for The Burton Group plc (now Arcadia plc) and with the Ford Motor Company. She was an independent non-executive director of the Company between 1995 and 2004.

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

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Report of the directors

Business review

The Companies Act 1985 requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2007 including an analysis of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (a 'business review').

The information that fulfils the business review requirements can be found in this report and the following sections of the annual report and accounts, which are incorporated into this report by reference:

- chairman and chief executive's statement on pages 2 and 3
- business review on pages 4 to 17, which includes an overview of the Group, its strategy and objectives, key risks, key performance indicators, a financial review and a corporate social responsibility review.

All the information detailed in those sections which is required for the business review or otherwise for this report is incorporated by reference in (and shall be deemed to form part of) this report. The liabilities of the directors in connection with this report shall be limited as provided by applicable English law.

Principal activities

Morgan Sindall is a construction and regeneration group with five divisions: Fit Out, Construction, Infrastructure Services, Affordable Housing and Urban Regeneration. Further details of the Group's activities are provided in the business review on pages 4 to 17 and the divisional descriptions on pages 18 to 27. The principal subsidiary companies operating within this divisional structure are shown on page 97.

Results and dividends

The Group's profit before tax for the year amounted to £57.6m (2006: £47.6m). An interim dividend of 10.0p (2006: 8.0p) per ordinary share amounting to £4.2m (2006: £3.4m) was paid on 14 September 2007. The directors are recommending a final dividend for the year of 28.0p (2006: 20.0p) per share amounting to £12.0m (2006: £8.4m) payable on 6 May 2008 to shareholders on the register at close of business on 11 April 2008.

Acquisitions during the year

On 27 July 2007, the Group acquired Amec Developments Limited and certain assets and business carried on by Amec Investments Limited and the assets, liabilities and contracts relating to the Design and Project Services division of Amec plc, save for certain excluded assets and liabilities. Full details of the acquisition can be found in note 23 to the accounts on page 76.

Share capital

Details of shares allotted and issued during the year on the exercise of options under employee share option schemes appear in note 25 to the accounts on pages 77 to 80. No other shares were issued during the year.

The Board will be seeking authority at the forthcoming annual general meeting for the Company to make limited market purchases of its shares, as detailed in the accompanying circular to shareholders and notice of annual general meeting.

Directors

The names of the directors at the date of this report are set out below under Directors' interests. All of these directors held office throughout the year except for Geraldine Gallacher, who was appointed on 16 August 2007. Jack Lovell retired from the Board on 19 April 2007.

In accordance with the articles of association, John Morgan, David Mulligan, Paul Whitmore, Jon Walden and Gill Barr will be retiring by rotation at the forthcoming annual general meeting, having last been re-elected in 2005 and, being eligible, will offer themselves for re-election and Geraldine Gallacher, having been appointed by the directors during the year, will also retire and stand for election at the annual general meeting. As recommended by the Combined Code on Corporate Governance, Bernard Asher, having served as a non-executive director since 1998, will also stand for re-election at the annual general meeting.

Biographical details, including details of the roles, responsibilities and significant external commitments of all the directors standing for re-election at the annual general meeting are set out on page 28.

Report of the directors

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.

	2007 Number of shares	2006 Number of shares
John Morgan	**4,448,612**	4,085,170
Paul Smith	**21,672**	2,876
David Mulligan	**3,250**	1,250
Paul Whitmore	**12,705**	6,006
Bernard Asher	**5,000**	5,000
Gill Barr	**1,013**	1,013
Geraldine Gallacher	**7,772**	n/a
Jon Walden	**2,000**	0

There have been no changes in the interests of the directors between 31 December 2007 and 19 February 2008.

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 38 to 39.

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, and 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 John Morgan, as set out above, as at 18 February 2008, the Company had been notified of the following voting rights attaching to the Company's shares in accordance with the Disclosure Rules and Transparency Rules of the UK Listing Authority:

Name of holder	**Number**	**Percentage held**
Aviva plc	5,581,718	13.04%
Standard Life Investments Ltd	5,190,720	12.13%
John James Clifford Lovell	2,415,273	5.64%
JPMorgan Chase & Co	2,081,221	4.86%
Legal & General Group plc	1,718,816	4.02%
Barclays Global Investors	1,303,861	3.05%

Employment

The average number of employees in the Group during the year is given in note 3 on page 60.

Information on the Group's employment policies and practices, including its policies on equal opportunities for disabled employees and employee involvement are included in the corporate social responsibility review in the business review on pages 14 to 17.

Report of the directors

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 2007 the Group's number of creditor days outstanding was equivalent to 28 days' purchases (2006: 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 £70,444 (2006: £64,783) principally to local charities serving the communities in which the Group operates. More details of the Group's involvement in the community can be found in the corporate social responsibility review within the business review on page 15. 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, 'Presentation of financial statements' 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 virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. 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.

Report of the directors

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.

Annual general meeting

The notice of annual general meeting to be held on 22 April 2008 is set out, together with explanatory notes, in the circular to shareholders accompanying this report.

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.

Approved by the Board and signed on its behalf by

Mary Nettleship
Company Secretary
19 February 2008

Directors' remuneration report

Introduction

This report is prepared in accordance with schedule 7A to the Companies Act 1985 ('the Act'). This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and the Combined Code on Corporate Governance ('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 22 April 2008.

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 2007 were Gill Barr (chair), Bernard Asher, Jon Walden and Geraldine Gallacher, who joined on her appointment to the Board on 16 August 2007. All members 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 consulted the chief executive, the chairman and the finance director, but in each case not in relation to their own remuneration. The committee did not receive significant assistance from external consultants during the year.

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 determined in line with 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.

During 2007 the committee reviewed the executive directors' remuneration structure, which has been in place since 2005, to ensure that it continued to reflect the principles established as outlined above. The committee considered that the total remuneration packages and specifically the current annual cash bonus potential for executive directors of 75% of base salary had fallen behind that of its peers and that the annual cash bonus element should therefore be increased to a maximum bonus of 100% of base salary from 2008, whilst retaining the existing principle of setting challenging profit-related targets for the financial year. The committee considers that these short term rewards, together with the existing fixed element of remuneration and the existing long-term incentive arrangements will provide a balanced mix of long-term and short-term rewards to ensure that executives focus on sustained performance rather than just short-term performance, whilst ensuring an appropriate combination of fixed and performance-related remuneration.

Base salary

The base salary of individual executive directors is determined by the committee prior to the beginning of each year and, if appropriate, in the event of a change in an individual's position or responsibilities. 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. Whilst the committee has no wish to 'chase the median', it is also aware of the importance of maintaining competitive levels of fixed remuneration to retain key individuals.

In setting salaries for the executive directors for 2007, the committee took into account the need to ensure that the level of fixed remuneration remained competitive in order to retain and motivate key individuals. The committee considers that the increases in salaries for 2007, when taken with relatively low pension contributions and other benefits, achieved this objective in line with the principles outlined above.

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 2007 financial year, the performance criteria were Group profit-based targets, taking into account the likely outturn profit for the 2006 financial year and growth expectations based on the Group's budget for 2007. The maximum bonus represented 75% per cent of base salary and this was achieved. As noted above, for the 2008 financial year, the committee has decided to increase the bonus potential for executive directors from 75% of base salary to 100% of base salary. The bonus will continue to be based on a range of challenging profit-based targets set by reference to the Group budget. The maximum bonus has been similarly increased for other senior executives, with performance criteria aligned primarily to the performance of the divisions over which they have a direct management influence.

Long-term incentives

The Group's long-term incentive arrangement for senior executives is the 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 2007, 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 2008 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 a normalised 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 2008, based on a three year performance period to 31 December 2010.

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

Performance shares and options in respect of 495,450 shares, representing 1% of the issued share capital of the Company, were granted in total to employees under share plans of the Company during 2007. These will be settled primarily by shares purchased in the market and held in the Morgan Sindall Employee Benefit Trust. Any use by the Company of newly issued shares will be within the constraints of the Association of British Insurers compliant dilution limits contained in its scheme rules.

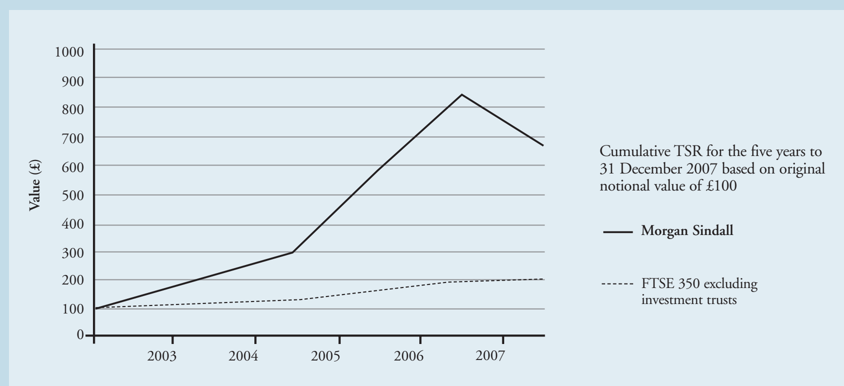
Pension arrangements

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

Directors' remuneration report

Performance graph

The graph below shows a comparison of the Total Shareholder Return ('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. Paul Smith was appointed a non-executive director of Young Samuel Chambers ('YSC') Limited for which he receives a fee of £25,000 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
Geraldine Gallacher	16 August 2007
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 non-executive directors, having remained constant since 2005, have been increased for 2008 to comprise a basic fee of £40,000 and, to reflect their additional responsibilities and time commitment, an additional fee of £7,500 and £5,000 to be paid to the chairs of the audit and remuneration committees respectively. Non-executive directors receive no other benefits and do not participate in short-term or long-term reward schemes.

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2007 £'000s	2006 £'000s
Emoluments	**2,341**	2,242
Amounts vesting under long-term incentive schemes	**290**	214
Money purchase pension contributions	**132**	116

Directors' emoluments

Name of director	Fees/basic salary £'000s	Benefits £'000s	Annual cash bonuses[1] £'000s	Total 2007 £'000s	Total 2006 £'000s
Executive					
John Morgan	383	17	287	**687**	612
Paul Smith[2]	450	17	182	**649**	717
David Mulligan	250	14	188	**452**	364
Paul Whitmore	230	16	173	**419**	401
	1,313	**64**	**830**	**2,207**	2,094
Non-executive					
Bernard Asher	40	-	-	**40**	40
Gill Barr	38	-	-	**38**	38
Geraldine Gallacher[3]	13	-	-	**13**	-
Jon Walden	35	-	-	**35**	35
	126	-	-	**126**	113
Former director					
Jack Lovell[4]	8	-	-	**8**	35
Totals	**1,447**	**64**	**830**	**2,341**	2,242

[1] The maximum Group target of £56m profit before tax and amortisation was achieved in 2007 and the executive directors are therefore eligible to receive their maximum cash bonus.

[2] Paul Smith has waived £156k of his 2007 annual bonus. The Company will make an additional contribution to his account within The Morgan Sindall Retirement Benefits Plan in March 2008 of £156k. This amount is not included within the annual cash bonus above.

[3] Geraldine Gallacher was appointed on 16 August 2007.

[4] Jack Lovell retired as a non-executive director of the Company on 19 April 2007. The figure above reflects fees earned in 2007 whilst a director. Since stepping down from the Board, he has been employed by the Company on a part-time, consultative basis in relation to specific projects, for which he received £27,000 during the year.

Pensions

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

	2007 £'000s	2006 £'000s
John Morgan	**38**	34
Paul Smith[1]	**45**	40
David Mulligan	**26**	20
Paul Whitmore	**23**	22

[1] Paul Smith has waived £156k of his 2007 annual bonus. The Company will make an additional contribution to his account within The Morgan Sindall Retirement Benefits Plan in March 2008 of £156k. This amount is not included within the pension costs above.

Directors' remuneration report

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
	6 March 2007	13,889	6 March 2010
David Mulligan	20 May 2005	8,805	20 May 2008
	5 April 2006	4,766	5 April 2009
	6 March 2007	6,790	6 March 2010
Paul Whitmore	20 May 2005	20,718	20 May 2008
	5 April 2006	13,106	5 April 2009
	6 March 2007	14,189	6 March 2010

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
	6 March 2007	94,444	£12.15	6 March 2010
Paul Smith	20 May 2005	68,370	£7.24	20 May 2008
	5 April 2006	47,656	£12.59	5 April 2009
	6 March 2007	55,556	£12.15	6 March 2010
David Mulligan	20 May 2005	35,220	£7.24	20 May 2008
	5 April 2006	28,594	£12.59	5 April 2009
	6 March 2007	27,160	£12.15	6 March 2010

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, on 5 April 2006 was £12.38 and on 6 March 2007 was £12.32
- 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)
- Average EPS (adjusted for amortisation of intangible assets) growth for the three financial years ended 31 December 2007 has exceeded RPI + 10% and the performance shares granted in May 2005 will therefore vest in full and the options granted on that date will become exercisable on the third anniversary of the date of award or grant.

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 allocated

Name	As at 1 January 2007 No.	Vested 9 March 2007[1] No.	Monetary value of vested shares [2] £'000s	As at 31 December 2007 No.
John Morgan	53,875	13,025	167	40,850
Paul Whitmore	47,251	11,355	145	35,896

[1] Awards that vested in the year were granted on 9 March 2002 when the Company's share price was £2.09.
[2] Based on the Company's share price on the date of vesting of £12.79.

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, on 5 April 2006 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. The market price of a share on the date of grant 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	Date granted	No. of options granted	Exercise price	Date from which exercisable	Expiry date
Paul Smith	10 March 2003	100,000	£2.07	10 March 2008	9 March 2010

The market price of a share at 31 December 2007 was £10.39 and the range during the year was £10.27 to £17.70.

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 25 to the accounts on pages 77 to 80. 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 FTSE100 companies over a period of five consecutive financial years. This performance condition has been satisfied for the five financial years ended 31 December 2007.

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

Gill Barr
Chair of the Remuneration Committee
19 February 2008

Corporate governance statement

Governance framework

The Board recognises the importance of high standards of corporate governance and is committed to managing the Group's affairs in accordance with the principles of good governance set out in section 1 of the Combined Code on Corporate Governance ('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 2007, 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. Since the retirement of Jack Lovell from the Board on 19 April 2007 this provision has been complied with.

Directors

The Board commenced the year with an executive chairman, three further executive directors and four non-executive directors. All of the non-executive directors were considered by the Board to be independent, with the exception of Jack Lovell. Jack retired from the Board on 19 April 2007. On 16 August 2007, Geraldine Gallacher was appointed to the Board. Geraldine had previously been a non-executive director of the Company, stepping down in September 2004. Having had no material dealings with the Company since that time, the Board is satisfied in regarding her as independent. The Board therefore now comprises an executive chairman, three further executive directors and four independent non-executive directors.

The senior independent director is Bernard Asher. Notwithstanding that Bernard has served on the Board for ten years, the Board is entirely satisfied with his continued independence of character and judgement.

The Board has a separate chairman and chief executive in line with 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 its 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. Geraldine Gallacher, having been appointed during the year, will be submitting for election at the forthcoming annual general meeting. In addition John Morgan, Paul Whitmore, David Mulligan, Jon Walden and Gill Barr were last re-elected in 2005 and will be standing for re-election at the forthcoming annual general meeting. Bernard Asher, having been a non-executive director since 1998, is subject to annual re-election in accordance with the Code and will also stand for re-election.

Unusually, all of the non-executive directors will be standing for election at the forthcoming annual general meeting. Geraldine Gallacher was invited back to the Board in particular for her experience of consulting in executive development and people skills, which the directors consider will add significant strength to the Board. Gill Barr continues to make a valuable contribution to Board discussions, drawing on her retail and marketing background and Jon Walden with his experience, both as a chartered accountant and in roles within listed companies, continues to be an important member of the Board. Following the annual evaluation of their performance, which included consideration of the fact that Jon Walden has now served for more than six years, the chairman is satisfied with their continued effectiveness and commitment to their roles. Equally, Bernard Asher's tremendous breadth of experience from the senior positions he holds and has held in a number of listed companies and his wise counsel remains highly valued by the Board. As required by the Code, the length of his service was considered carefully as part of his evaluation and his continued effectiveness and commitment to the role, as well as his independence of judgement, were established.

Board effectiveness

Eleven scheduled meetings of the Board were held during the year. The key purposes of the scheduled meetings were to review all significant aspects of the Group's activities, supervise the executive management and to make decisions in relation to those matters that are specifically reserved to the Board. There is a formal schedule of these matters, which includes the approval of the Group's strategic plans, annual budget, significant capital expenditure and investment proposals, major projects, acquisitions and disposals, internal control arrangements and annual and interim results. Other specific responsibilities are delegated to the Board committees described below and under 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 2007 at scheduled Board meetings and at meetings of the remuneration, audit and nominations committees are set out below.

	Board	Remuneration committee	Audit committee	Nominations committee
Total no. of meetings	**11**	**4**	**5**	**1**
John Morgan	11	-	-	1
Paul Smith	10	-	-	-
David Mulligan	11	-	-	-
Paul Whitmore	11	-	-	-
Bernard Asher	10	4	4	1
Gill Barr	10	4	5	1
Geraldine Gallacher[1]	3	1	-	-
Jon Walden	10	3	4	1
Jack Lovell[2]	2	-	-	-

[1] Three board meetings and one remuneration committee meeting were held since Geraldine's appointment

[2] Four board meetings were held prior to Jack's retirement

Non-attendance by directors at meetings was due to conflicting commitments and in each case was previously agreed with the chairman. Jon Walden missed one board meeting and one audit committee meeting due to ill health.

Professional development and Board evaluation

The Company provides training facilities for directors on first appointment and subsequently as necessary. In particular, the directors have received guidance on the changes relevant to directors in the new Companies Act 2006. 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 also 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 took the form of an assessment form to be completed by each director followed by one-to-one meetings between the chairman and each director using the assessment form as the framework for the discussions. The assessment form 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 assessment forms and 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 these meetings is distributed to members of the Board. The senior non-executive director and the other non-executive directors are available to meet with shareholders to listen to their views.

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.

Corporate governance statement

Board committees

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

Remuneration committee

The members of the remuneration committee during 2007 were Gill Barr (chair), Bernard Asher, Jon Walden and, following her appointment, Geraldine Gallacher. The remuneration committee's terms of reference are available for review on request and on the Company's website under the investor relations section. Four meetings were held in the year to cover all elements of the directors' remuneration.

A report to shareholders on directors' remuneration is shown on pages 34 to 39.

Nominations committee

The members of the nominations committee during 2007 were John Morgan (chair), Bernard Asher, Jon Walden, Gill Barr and, following her appointment, Geraldine Gallacher. 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 formally during the year to approve the recommendation to the Board of Geraldine Gallacher's appointment. It also met informally on a number of occasions to review the structure, size and composition of the Board.

Audit committee

The members of the audit committee during 2007 were Bernard Asher (chair), Gill Barr and Jon Walden. All committee members are independent non-executive directors. Biographical details of each member of the committee, including financial experience where relevant, are set out on page 28. 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 had three scheduled meetings during the year, prior to the announcement of the Company's results for 2006 and approval of the annual report, prior to the announcement of its interim statement and before commencement of the audit for 2007. Senior representatives from the external auditors, the finance director and the group 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 2008. The committee also reviewed the Group's whistle blowing 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 their independence and objectivity. 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 Institute of Chartered Accountants of England and Wales '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. During the year the committee approved the appointment of Deloitte & Touche LLP to assist the Company in connection with the acquisition from Amec plc, in particular on the working capital report in the Class I circular to shareholders and certain other ancillary work connected to the circular. The committee was satisfied that it was appropriate for Deloitte & Touche LLP to undertake this appointment and that it would not impact adversely on their independence and objectivity as external auditors. This was primarily because the services that Deloitte & Touche LLP would be instructed to carry out in relation to this transaction were not such that would now or in the future require to be audited by the external auditor.

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 60. In aggregate these represented approximately 39% 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. It 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 strategy and 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 5 and 6.

Audit and assurance

The group head of audit and assurance, who reports to the chief executive and to the audit committee, is responsible for managing the audit and assurance function and assisting with risk management practices. Internal audit and assurance work carried out during the year included operational, project and financial reviews across the key business units within the Group. 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.

A new group head of audit and assurance was appointed during the year and the audit and assurance team has been expanded to meet the demands of the newly enlarged Group (following the acquisition from Amec plc). The Board remains committed to expanding the internal audit capability across the key operating divisions as the Group continues to grow. The team will focus its attention in 2008 on the higher risk business areas and major projects, whilst ensuring an appropriate level of review across all operating divisions.

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.

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. In addition, the internal audit plan for the year includes specific financial reviews to validate the integrity of the division's management accounts.

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 has detailed policies and procedures.

Health, 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.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2007 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 internal audit work and effectiveness of the process.

Independent auditors' report for the year ended 31 December 2007

We have audited the Group financial statements of Morgan Sindall plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated statement of cash flows, the statement of significant accounting policies and the related notes 1 to 28. These Group financial statements have been prepared under the significant 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 2007.

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 2006 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.

Independent auditors' report for the year ended 31 December 2007

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 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 significant accounting policies, 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 2007 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
St Albans, United Kingdom
19 February 2008

Consolidated income statement for the year ended 31 December 2007

	Notes	**2007 £m**	2006 £m
Continuing operations			
Revenue	1	**2,114.6**	1,496.8
Cost of sales		**(1,892.9)**	(1,331.4)
Gross profit		**221.7**	165.4
Other administrative expenses		**(168.4)**	(118.4)
Amortisation of intangible assets		**(4.5)**	-
Total administrative expenses		**(172.9)**	(118.4)
Share of net profit/(loss) of equity accounted joint ventures	1, 11	**4.7**	(0.8)
Profit from operations		**53.5**	46.2
Finance income	5	**8.5**	3.8
Finance expenses	5	**(4.4)**	(2.4)
Net finance income		**4.1**	1.4
Profit before income tax expense	1	**57.6**	47.6
Income tax expense	6	**(18.2)**	(14.8)
Profit for the year attributable to equity holders of the parent company	2	**39.4**	32.8

Earnings per share			
From continuing operations			
Basic	8	**93.8p**	78.2p
Diluted	8	**91.7p**	76.3p

There were no discontinued operations in either the current or comparative periods.

Consolidated balance sheet at 31 December 2007

	Notes	2007 £m	2006 £m
Non current assets			
Property, plant and equipment	9	**24.0**	16.6
Goodwill	10	**122.8**	72.7
Other intangible assets	10	**35.2**	-
Investments in equity accounted joint ventures	1, 11	**38.1**	5.3
Investments	11	**0.1**	0.1
Deferred tax assets	18	**5.0**	3.6
		225.2	98.3
Current assets			
Inventories	12	**128.8**	86.8
Amounts recoverable on construction contracts	14	**209.1**	145.9
Trade and other receivables	13	**238.3**	134.9
Cash and cash equivalents	27	**218.9**	95.4
		795.1	463.0
Total assets		**1,020.3**	561.3
Current liabilities			
Trade and other payables	15	**(756.5)**	(379.4)
Amounts received in advance on construction contracts	14	**(67.4)**	(27.3)
Current tax liabilities		**(10.6)**	(6.4)
Finance lease liabilities	16	**(1.4)**	(1.3)
		(835.9)	(414.4)
Net current (liabilities)/assets		**(40.8)**	48.6
Non current liabilities			
Trade and other payables	15	**(12.2)**	-
Retirement benefit obligation	17	**(3.3)**	(2.5)
Finance lease liabilities	16	**(3.2)**	(2.5)
		(18.7)	(5.0)
Total liabilities		**(854.6)**	(419.4)
Net assets		**165.7**	141.9
Equity			
Share capital	21, 22	**2.1**	2.1
Share premium account	22	**26.3**	26.2
Capital redemption reserve	22	**0.6**	0.6
Own shares	22	**(5.5)**	(3.4)
Hedging reserve	22	**(2.2)**	(0.8)
Retained earnings	22	**144.4**	117.2
Total equity		**165.7**	141.9

The financial statements were approved by the Board of directors and authorised for issue on 19 February 2008 and signed on its behalf by:

Paul Smith
David Mulligan

Consolidated statement of recognised income and expense for the year ended 31 December 2007

	2007 **£m**	2006 £m
Actuarial (losses)/gains arising on defined benefit plan	**(0.9)**	0.7
Income tax credit in respect of share options recognised directly in equity	**-**	0.9
Deferred tax on retirement benefit obligation recognised directly in equity	**0.3**	(0.3)
Movement on hedged items on cash flow hedges in equity accounted joint ventures	**(1.4)**	1.4
Net (expense)/income recognised directly in equity	**(2.0)**	2.7
Profit for the year	**39.4**	32.8
Total recognised income and expense for the year attributable to equity holders of the parent company	**37.4**	35.5

Consolidated statement of cash flows for the year ended 31 December 2007

	Notes	**2007 £m**	2006 £m
Net cash inflow from operating activities	24	**158.1**	47.9
Cash flows from investing activities			
Interest received		**8.4**	3.8
Dividends received from joint ventures		**-**	7.2
Proceeds on disposal of property, plant and equipment		**0.6**	1.1
Purchases of property, plant and equipment		**(8.0)**	(3.2)
Payments to acquire interests in joint ventures		**(5.0)**	(0.9)
Payment for the acquisition of a subsidiary		**(25.5)**	(23.0)
Net cash acquired on acquisition of a subsidiary		**14.2**	4.8
Net cash outflow from investing activities		**(15.3)**	(10.2)
Cash flows from financing activities			
Payments to acquire own shares		**(2.1)**	(1.6)
Dividends paid		**(12.6)**	(10.9)
Repayments of obligations under finance leases		**(4.7)**	(1.9)
Repayment of loan notes		**-**	(0.1)
Proceeds on issue of share capital		**0.1**	0.2
Net cash outflow from financing activities		**(19.3)**	(14.3)
Net increase in cash and cash equivalents		**123.5**	23.4
Cash and cash equivalents at beginning of year		**95.4**	72.0
Cash and cash equivalents at end of year			
Bank balances and cash		**218.9**	95.4

Significant accounting policies for the year ended 31 December 2007

Reporting entity

Morgan Sindall plc (the 'Company'), is a company domiciled in the United Kingdom. The financial report includes separate financial statements for the Company and the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the 'Group') and the Group's interest in joint ventures.

Basis of preparation

(a) Statement of compliance

The consolidated 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 8 'Operating Segments' ('IFRS 8'), International Accounting Standard ('IAS') 23 Revised 'Borrowing Costs' and International Financial Reporting Interpretations Committee ('IFRIC') 11 'IFRS 2 Group and Treasury Share Transactions', IFRIC 12 'Service Concession Agreements', IFRIC 13 'Customer Loyalty Programmes', and IFRIC 14 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' ('IFRIC 14') were in issue but not yet effective and have not been applied in these financial statements, and are not anticipated to have any material impact on the Group's consolidated income statement or balance sheet.

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures in relation to IFRS 8. It is not anticipated that the application of IFRIC 14 will affect the financial statements given the current net pension liability position of the Group.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except where otherwise indicated.

(c) Functional and presentation currency

These consolidated financial statements are presented in pounds sterling, which is the Group's functional currency. All financial information, unless otherwise stated, has been rounded to the nearest £0.1m.

(d) Use of estimates and judgements

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis and any revision to estimates or assumptions are recognised in the period in which revised and in any future periods affected.

No individual judgements have been made that have a significant impact upon the financial statements, apart from those involving estimations, which are dealt with below.

(i) Accounting for construction contracts under IAS 11 'Construction Contracts'

Under this standard, management is required to estimate total expected contract costs and the percentage of contract completion in determining the appropriate revenue and profit to recognise in the period. The Group has appropriate control procedures to ensure all estimates are determined on a consistent basis and subject to appropriate review and authorisation. Management also exercised judgement in respect of determining the fair value of certain construction contract related provisions relating to the acquisition from Amec plc.

Significant accounting policies for the year ended 31 December 2007 (continued)

(d) Use of estimates and judgements (continued)

(ii) Impairment of goodwill under IAS 36 'Impairment of Assets'

Subject to the initial recognition of goodwill under IFRS 3 'Business Combinations', goodwill is subject to an impairment test on an annual basis or earlier where any event or change in circumstance is identified that indicates that the carrying value may not be recoverable. Testing for impairment under this accounting standard requires a comparison of the carrying amount of goodwill against the recoverable amount, which is determined by an estimation of the value-in-use of the cash-generating unit to which the goodwill is allocated.

Value-in-use requires estimation of the future cash flows expected from the cash-generating unit as well as an appropriate growth factor and discount rate to calculate the present value of the cash flows.

(iii) Accounting for the Group's Defined Benefit Plan under IAS 19 'Employee Benefits'

The directors engage an independent and qualified actuary to calculate the Group's liability in respect of the defined benefit plan. In order to arrive at this valuation, certain assumptions in respect of discount rates, salary escalations, medical cost trend rate, expected return on the plan's assets and future pension increases have been made. Assumptions regarding future mortality are based on published statistics and mortality tables. As the actual rates of increase and mortality may differ from those assumed, the actual pension liability may differ from that recognised in these financial statements.

(iv) Recognition and measurement of intangible assets under IFRS 3 'Business Combinations' and IAS 38 'Intangible Assets'

As a result of the acquisition from Amec plc in the year and the subsequent exercise to fair value the assets and liabilities acquired, the Group recognised certain intangible assets in respect of secured customer contracts, other contracts and related relationships, software, a non-compete agreement and goodwill. The recognition and subsequent measurement of these intangible assets required management to make certain assumptions and estimates, particularly in respect of the estimated useful lives over which the future economic benefits embodied in those finite life intangible assets recognised are expected to flow to the Group. To assist in making these judgements, the directors engaged an independent expert to assist in the determination of the fair values and the estimated useful lives of these assets.

Significant accounting policies for the year ended 31 December 2007 (continued)

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements. Certain comparatives have been reclassified to conform with the current year's presentation.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control is exerted where the Group has the power to govern, directly or indirectly, the financial and operating policies of the entity so as to obtain benefits from its activities. Typically a shareholding of more than 50% of the voting rights is indicative of control; however the impact of potential voting rights currently exercisable is taken into consideration.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences to the date that control ceases. The accounting policies of new subsidiaries have been changed where necessary to align with those of the Group.

(b) Joint ventures

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, which requires unanimous consent for strategic financial and operating decisions. A jointly controlled entity is a joint venture that involves the establishment of an entity in which each venturer has an interest. The Group's investments in joint ventures are accounted for using the equity method of accounting and are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture, net of any subsequent impairment losses.

Goodwill relating to a joint venture which is acquired directly is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group's investments in joint ventures are reviewed to determine whether any additional impairment loss in relation to the net investment in the joint venture is required. The consolidated income statement includes the Group's equity accounted share of joint ventures' revenue and expenses net of tax. When there is a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, where applicable, in the statement of recognised income and expense.

Where the Group's share of losses exceed its equity accounted investment in a joint venture, the carrying amount of the equity is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations. Appropriate adjustment is made to the results of joint ventures where material differences exist between the joint ventures' accounting policies and those of the Group.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

The Group's share of the results and net assets of contracts carried out in joint venture are included under each relevant heading in the income statement and balance sheet.

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investments are eliminated to the extent of the Group's interest in that investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Significant accounting policies for the year ended 31 December 2007 (continued)

Revenue

(a) Construction contracts

Revenue related to construction contracts includes the amount initially agreed in the contract plus any variations in contract work and incentive payments to the extent that it is probable they will result in revenue and can be reliably measured. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expense is recognised in the income statement on a stage of contract completion basis. The stage of completion is determined by reference to a survey of work performed. Losses expected in bringing a contract to completion are recognised immediately in the income statement as soon as they are foreseen.

(b) Service contracts

Revenue from service contracts is recognised in the income statement in proportion to the stage of completion of the contract at reporting date. The stage of completion is assessed by reference to surveys of work performed.

(c) Sale of development properties

Revenue from the sale of development properties and other goods is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, there is no continuing management involvement with the goods and the amount of revenue can be estimated reliably.

The transfer of risks and rewards vary depending on the individual terms of the contract of sale. For properties, transfer usually occurs when the ownership has been legally transferred to the purchaser. Revenue from the sale of properties taken in part exchange is not included in revenue. Pre-contract costs incurred prior to the appointment as preferred bidder for a contract are expensed.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes direct materials, direct labour and those overheads that have been incurred in bringing the inventory to its present location and condition.

Property, plant and equipment

Freehold and 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 — Over the period of the lease
- Plant, machinery and equipment — Between 10% and 33% per annum
- Motor vehicles — Between 20% and 25% 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. Assets under construction are not depreciated until they become available for productive use.

Gains and losses on disposal are determined by comparing the proceeds from disposal against the carrying amount and are recognised in other income in the income statement.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount only where it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

Significant accounting policies for the year ended 31 December 2007 (continued)

Intangible assets

(a) Goodwill

(i) Initial recognition

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill represents the excess of the cost of acquisition over the fair value of Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. Where that excess is negative (i.e. negative goodwill), it is immediately recognised in the income statement.

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.

(ii) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investments, goodwill is included in the carrying amount of the investment.

(iii) Impairment

Goodwill is subject to an impairment review on an annual basis or earlier where a factor or change in circumstance has been identified which may indicate impairment. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units of the Group at acquisition. The cash-generating units to which the goodwill has been allocated is the lowest level within the Group at which the goodwill is monitored for internal management purposes.

If the recoverable amount of the cash-generating unit is lower than the carrying amount of the unit, then the impairment loss is first applied to the goodwill allocated to the cash-generating unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any such impairment loss is recognised immediately in the income statement and is not subsequently reversed.

(b) Other intangible assets

Other intangible assets, such as those identified on acquisition by the Group that have finite useful lives, are recognised at fair value and measured at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight line basis in the income statement over the estimated useful life of finite life intangible assets, from the date that they are available for use.

The Group has the following significant classes of finite life intangible assets:

(i) Secured customer contracts

On acquisition, value is attributable to customer contracts to the extent that future economic benefits are expected to flow from the contracts. The fair value of customer contracts recognised in the Group financial statements has been determined with the assistance of an independent expert. Secured customer contracts are amortised over their expected useful lives.

(ii) Other contracts and related relationships

On acquisition, value is attributed to non-contractual relationships and other contracts with long-standing or valuable clients to the extent that future economic benefits are expected to flow from the relationships. The fair value of other contracts and related relationships recognised in the Group financial statements has been determined with the assistance of an independent expert. Other contracts and related relationships are amortised over their expected useful lives.

(iii) Software

Software acquired on acquisition is valued on a replacement cost basis and is amortised over its expected useful life.

(iv) Non-compete agreements

Value is attributable to contractual non-compete agreements acquired through acquisition to the extent they ensure that the value paid for a business is not diminished by the previous owner or its employees taking away revenue through competition. Non-compete agreements are amortised over their useful lives.

The estimated useful lives for the Group's finite life intangible assets are:

• Secured customer contracts	1 – 3 years
• Other contracts and related relationships	1 – 16 years
• Software	1 – 3 years
• Non-compete agreements	3 years

Significant accounting policies for the year ended 31 December 2007 (continued)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as 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 (including previously unrecognised intangible assets), liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is immediately recognised in the income statement.

Income tax

The income tax expense represents the current tax and deferred tax charges. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the Group's expected tax liability on taxable profit for the year using tax rates enacted, or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Taxable profit differs from that reported in the income statement because it is adjusted for items of income or expense that are assessable or deductible in other years and is adjusted for items that are never assessable or deductible.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases used in tax computations. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is recognised 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 the tax rates expected to apply when they reverse based on the laws that have been enacted or substantively enacted at the reporting date. 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 and are only offset where there is a legally enforceable right to offset current tax assets and liabilities.

Finance income and expense

Finance income comprises bank and other interest. Interest income is recognised as it accrues in the income statement using the effective interest rate method.

Finance expense comprises interest on bank overdrafts, unwinding of the discounts on provisions, impairment losses recognised on financial assets, and losses on hedging instruments recognised through the income statement. The finance charge component of minimum lease payments made under finance leases is also recognised as a finance expense using the effective interest rate method.

Borrowing costs are recognised in the income statement on an effective interest method in the period in which they are incurred.

Significant accounting policies for the year ended 31 December 2007 (continued)

Leased assets

(a) **Finance leases**

Leases in which the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance lease assets are recognised as assets of the Group at an amount equal to the lower of their fair value and the present value of the minimum lease payments, each determined at the inception of the lease. Subsequent to recognition, finance lease assets are measured at cost less accumulated depreciation and impairment losses.

The lease liability is included in the balance sheet as a finance lease liability. Lease payments are apportioned between finance charges and the reduction of lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

(b) **Operating leases**

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

Retirement benefit schemes

(a) **Defined contribution pension plans**

A defined contribution plan is a post-retirement benefit plan under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The Group recognises payments to defined contribution pension plans as an employee expense in the income statement as and when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction on future payments is available.

(b) **Defined benefit pension plans**

A defined benefit plan is a post-retirement plan other than a defined contribution plan. The Group's net liability is recognised in the balance sheet and is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting this to its present value. Any unrecognised past service costs and the fair value of the plan's assets are deducted.

The calculation is performed by a qualified actuary on an annual basis using the projected unit credit method. The cost of the scheme is charged to the income statement based on actuarial assumptions at the beginning of the financial year. Where the calculation results in a benefit to the Group, the asset recognised is limited to the net of the total unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of the plan are improved, the portion of increased benefit relating to past service by employees is recognised in the income statement on a straight line basis over the average period until the benefits become vested. Where the benefits vest immediately, the expense is recognised in the income statement immediately.

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.

Share based payments

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 and are recognised as an employee expense, with a corresponding increase in equity, over the period from date of grant to the date on which the employees become unconditionally entitled to the options.

Cash-settled share based payments are measured at fair value at each balance sheet date and recognised as an expense, with a corresponding increase in liabilities, over the period from date of grant to the date on which the employees become unconditionally entitled to the payment. Any changes in the fair value of the liability are recognised as an employee expense in the income statement. 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.

The Group has applied the requirements of IFRS 2 'Share Based Payments' ('IFRS 2'). 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.

Significant accounting policies for the year ended 31 December 2007 (continued)

Trade receivables

Trade receivables are measured on 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 in 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.

Derivative financial instruments and hedge accounting

Derivative financial instruments are used in joint ventures to hedge long-term floating interest rate and retail price index risks. Under IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'), interest rate swaps are stated in the balance sheet at fair value. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Where financial instruments are designated as cash flow hedges 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.

Note 27 contains details of the fair values of the derivative instruments used for hedged purposes. Movements on the hedging reserve in equity are also detailed in note 22.

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.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been reduced. For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of a provision for impairment losses. When a trade receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against the provision. Changes in the carrying amount of the allowance are recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the consolidated financial statements for the year ended 31 December 2007

1 Business segments

For management purposes, the Group is organised into five operating divisions: Fit Out, Construction, Infrastructure Services, Affordable Housing and Urban Regeneration. 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:

2007	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Group Activities £m	Total £m
Revenue	**491.7**	**621.4**	**575.4**	**398.0**	**25.9**	**2.2**	**2,114.6**
Operating profit before amortisation	**25.9**	**4.9**	**10.6**	**25.5**	**0.9**	**(14.5)**	**53.3**
Share of results of associates and joint ventures after tax	**-**	**-**	**-**	**-**	**3.3**	**1.4**	**4.7**
Profit from operations before amortisation	**25.9**	**4.9**	**10.6**	**25.5**	**4.2**	**(13.1)**	**58.0**
Amortisation of intangible assets	**-**	**(1.0)**	**(0.3)**	**-**	**(3.2)**	**-**	**(4.5)**
Profit from operations	**25.9**	**3.9**	**10.3**	**25.5**	**1.0**	**(13.1)**	**53.5**
Net finance income							**4.1**
Profit before tax							**57.6**

2006	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Group Activities £m	Total £m
Revenue	425.6	343.3	323.7	404.2	-	-	1,496.8
Operating profit before amortisation	22.6	3.4	5.1	24.0	-	(8.1)	47.0
Share of results of associates and joint ventures after tax	-	-	-	-	-	(0.8)	(0.8)
Profit from operations before amortisation	22.6	3.4	5.1	24.0	-	(8.9)	46.2
Amortisation of intangible assets	-	-	-	-	-	-	-
Profit from operations	22.6	3.4	5.1	24.0	-	(8.9)	46.2
Net finance income							1.4
Profit before tax							47.6

Notes to the consolidated financial statements for the year ended 31 December 2007

1 Business segments (continued)

Balance sheet analysis of business segments:

2007	Fit Out	Construction	Infrastructure Services	Affordable Housing	Urban Regeneration	Group Activities	Total
	£m	£m	£m	£m	£m	£m	£m
Equity accounted joint ventures	**-**	**-**	**-**	**-**	**28.4**	**9.7**	**38.1**
Other assets	**125.2**	**279.5**	**207.9**	**166.1**	**72.5**	**131.0**	**982.2**
Total assets	**125.2**	**279.5**	**207.9**	**166.1**	**100.9**	**140.7**	**1,020.3**
Total liabilities	**(118.2)**	**(297.3)**	**(160.8)**	**(130.1)**	**(58.0)**	**(90.2)**	**(854.6)**
Other information:							
Capital additions	**3.0**	**1.7**	**7.0**	**0.3**	**-**	**1.3**	**13.3**
Depreciation	**1.0**	**0.9**	**3.2**	**0.3**	**-**	**0.9**	**6.3**

2006	Fit Out	Construction	Infrastructure Services	Affordable Housing	Urban Regeneration	Group Activities	Total
	£m	£m	£m	£m	£m	£m	£m
Equity accounted joint ventures	-	-	-	-	-	5.3	5.3
Other assets	111.4	120.1	145.6	150.7	-	28.2	556.0
Total assets	111.4	120.1	145.6	150.7	-	33.5	561.3
Total liabilities	(105.1)	(84.5)	(96.9)	(117.3)	-	(15.6)	(419.4)
Other information:							
Capital additions	0.5	0.7	3.5	0.3	-	0.8	5.8
Depreciation	0.7	0.8	2.3	0.3	-	0.9	5.0

The Group's operations are principally carried out in the United Kingdom.

Notes to the consolidated financial statements for the year ended 31 December 2007

2 Profit for the year

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

	2007 £m	2006 £m
Depreciation of property, plant and equipment (note 9)	**6.3**	5.0
Loss/(gain) on disposal of property, plant and equipment	**1.2**	(0.1)
Staff costs (note 4)	**319.9**	227.7
Amortisation of intangible assets (note 10)	**4.5**	-
Impairment of trade receivables (note 27)	**3.6**	(0.1)
Auditors' remuneration for audit and other services (see below)	**1.5**	0.5

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

	2007 £m	2006 £m
Statutory audit[1]	**0.8**	0.4
Auditing of accounts of subsidiaries, associates and joint ventures pursuant to legislation (including that of countries and territories outside the United Kingdom)	**0.3**	0.1
Services to joint ventures relating to taxation	**0.1**	-
Other services[2]	**0.3**	-
	1.5	0.5

[1] Statutory audit includes a fee of £0.1m (2006: £0.1m) in respect of the parent company audit.

[2] Other services relates to fees in respect of work on the Class I circular to shareholders for the acquisition from Amec plc.

3 Employees

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

	2007 No.	2006 No.
Fit Out	**657**	577
Construction	**1,788**	1,213
Infrastructure Services	**3,210**	2,175
Affordable Housing	**1,510**	1,555
Urban Regeneration	**25**	-
Group Activities	**38**	32
	7,228	5,552

4 Staff costs

	2007 £m	2006 £m
Wages and salaries	**284.1**	199.8
Social security costs	**29.6**	23.0
Other pension costs	**6.2**	4.9
	319.9	227.7

5 Finance income and expense

	2007 £m	2006 £m
Interest income on bank deposits	**6.3**	2.9
Other interest income	**1.5**	0.9
Interest receivable from joint ventures	**0.7**	-
Finance income	**8.5**	3.8
Interest payable on bank overdrafts	**(3.9)**	(2.3)
Interest payable on finance leases	**(0.3)**	(0.1)
Interest payable to joint ventures	**(0.2)**	-
Finance expenses	**(4.4)**	(2.4)
Net finance income	**4.1**	1.4

6 Income tax expense

	2007 £m	2006 £m
Current tax expense:		
UK corporation tax	**19.7**	14.7
Adjustment in respect of prior years	**0.3**	0.5
	20.0	15.2
Deferred tax expense:		
Current year	**(0.1)**	(0.1)
Adjustment in respect of prior years	**(1.7)**	(0.3)
Income tax expense for the year	**18.2**	14.8

Corporation tax is calculated at 30% (2006: 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:

	2007		2006	
	£m	**%**	£m	%
Profit before tax	**57.6**		47.6	
Income tax expense at UK corporation tax rate	**17.3**	**30.0**	14.3	30.0
Tax effect of:				
Share of net profit of equity accounted joint ventures	**(1.4)**	**(2.4)**	0.2	0.5
Expenses that are not deductible in determining taxable profits	**3.7**	**6.4**	0.2	0.5
Movements not reflected in income statement	**(0.3)**	**(0.5)**	(0.1)	(0.4)
Adjustments in respect of prior years	**(1.4)**	**(2.4)**	0.2	0.5
Effects of rate change	**0.3**	**0.5**	-	-
Income tax expense and effective tax rate for the year	**18.2**	**31.6**	14.8	31.1

Notes to the consolidated financial statements for the year ended 31 December 2007

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2007 £m	2006 £m
Final dividend for the year ended 31 December 2006 of 20.00p (2005: 18.00p) per share	**8.4**	7.5
Interim dividend for the year ended 31 December 2007 of 10.00p (2006: 8.00p) per share	**4.2**	3.4
	12.6	10.9
Proposed final dividend for the year ended 31 December 2007 of 28.00p (2006: 20.00p) per share	**12.0**	8.4

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	2007 £m	2006 £m
Earnings before taxation	**57.6**	47.6
Deduct taxation expense per the income statement	**(18.2)**	(14.8)
Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to equity holders of the parent company	**39.4**	32.8
Add back current year's amortisation expense (see note 2, 10)	**4.5**	-
Earnings for the purposes of basic and dilutive earnings per share adjusted for amortisation expense being attributable to equity holders of the parent company	**43.9**	32.8

Number of shares	2007 No. '000s	2006 No. '000s
Weighted average number of ordinary shares for the purposes of basic earnings per share	**41,989**	41,949
Effect of dilutive potential ordinary shares:		
Share options	**720**	877
Conditional shares not vested	**239**	179
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**42,948**	43,005

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the period that the options were outstanding. The weighted average share price for the period was £14.13 (2006: £11.57).

Earnings per share as calculated in accordance with IAS 33, 'Earnings per Share' are disclosed below:

	2007	2006
Basic earnings per share	**93.8p**	78.2p
Diluted earnings per share	**91.7p**	76.3p
Basic and diluted earnings per share adjusted for amortisation expense:		
Basic earnings per share excluding amortisation expense	**104.5p**	78.2p
Diluted earnings per share excluding amortisation expense	**102.2p**	76.3p

There is no tax impact on earnings per share for the amortisation expense adjustment.

9 Property, plant and equipment

	Owned plant, machinery & equipment £m	Leased plant, machinery & equipment £m	Motor vehicles £m	Freehold property £m	Leasehold property £m	Total £m
Cost or valuation						
Balance at 1 January 2006	33.7	5.0	0.2	0.1	3.7	42.7
Additions for the year	3.2	2.1	-	-	0.5	5.8
Additions through acquisitions	0.2	-	0.1	-	-	0.3
Disposals during the year	(4.9)	(0.1)	(0.1)	-	-	(5.1)
Balance at 31 December 2006	32.2	7.0	0.2	0.1	4.2	43.7
Balance at 1 January 2007	32.2	7.0	0.2	0.1	4.2	43.7
Additions for the year	7.9	3.0	0.1	-	2.3	13.3
Additions through acquisitions	1.6	-	-	0.6	-	2.2
Disposals during the year	(6.5)	(0.1)	(0.1)	-	(1.2)	(7.9)
Balance at 31 December 2007	**35.2**	**9.9**	**0.2**	**0.7**	**5.3**	**51.3**
Accumulated depreciation						
Balance at 1 January 2006	21.9	1.8	0.2	-	2.2	26.1
Depreciation charge for the year	3.7	0.7	0.1	-	0.5	5.0
Disposals during the year	(3.9)	-	(0.1)	-	-	(4.0)
Balance at 31 December 2006	21.7	2.5	0.2	-	2.7	27.1
Balance at 1 January 2007	21.7	2.5	0.2	-	2.7	27.1
Depreciation charge for the year	4.4	1.3	-	-	0.6	6.3
Disposals during the year	(5.3)	(0.1)	-	-	(0.7)	(6.1)
Balance at 31 December 2007	**20.8**	**3.7**	**0.2**	**-**	**2.6**	**27.3**
Net book value						
Balance at 31 December 2007	**14.4**	**6.2**	**-**	**0.7**	**2.7**	**24.0**
Balance at 31 December 2006	10.5	4.5	-	0.1	1.5	16.6

Within the carrying value of property, plant and equipment is £0.5m (2006: £nil) of assets under construction. Total additions to assets under construction were £0.5m (2006: £nil).

Notes to the consolidated financial statements for the year ended 31 December 2007

10 Intangible assets

	Secured customer contracts £m	Other contracts, and related relationships £m	Software £m	Non-compete agreement £m	Goodwill £m	Total £m
Cost or valuation						
At 1 January 2006	-	-	-	-	56.7	56.7
Additions through acquisitions	-	-	-	-	16.0	16.0
At 1 January 2007	-	-	-	-	72.7	72.7
Additions through acquisitions (note 23)	3.1	30.7	0.9	5.0	50.1	89.8
At 31 December 2007	**3.1**	**30.7**	**0.9**	**5.0**	**122.8**	**162.5**
Accumulated amortisation						
At 1 January 2006	-	-	-	-	-	-
Charge for the year	-	-	-	-	-	-
At 1 January 2007	-	-	-	-	-	-
Charge for the year	(0.8)	(2.8)	(0.2)	(0.7)	-	(4.5)
At 31 December 2007	**(0.8)**	**(2.8)**	**(0.2)**	**(0.7)**	**-**	**(4.5)**
Carrying amount at 31 December 2007	**2.3**	**27.9**	**0.7**	**4.3**	**122.8**	**158.0**
Carrying amount at 31 December 2006	-	-	-	-	72.7	72.7

The carrying amounts of goodwill by business segment are as follows:

	2007 £m	2006 £m
Fit Out	**-**	-
Construction	**29.7**	6.6
Infrastructure Services	**64.5**	50.7
Affordable Housing	**15.4**	15.4
Urban Regeneration	**13.2**	-
Group Activities	**-**	-
	122.8	72.7

Note 23 provides further details in respect of the fair value of intangible assets identified on acquisition and for the determination of goodwill arising on acquisition.

Amortisation charges in respect of intangible assets with a finite life are recorded within administration expenses in the income statement. The amortisation rates are given in the significant accounting policies.

In order to test goodwill for impairment the Group prepares cash flow forecasts for each Cash Generating Unit 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 Gross Domestic Product. The rate used to discount the forecast cash flows is 8%.

11 Investments and interests in joint ventures

The Group has the following interests in significant joint ventures:

Morgan Sindall Investments (3PD) Limited 50% share

Morgan Sindall Investments (3PD) Limited has a portfolio of primary health care centres.

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 sector.

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.

Renaissance Miles Platting Limited 33$^{1}/_{3}$% share

Renaissance Miles Platting Limited is a joint venture with IIC Miles Platting Equity Limited and Adactus Housing Association to refurbish existing homes and build new homes on a mixed tenure development under a PFI arrangement for Manchester City Council.

Eurocentral Partnership Limited 50% share

Eurocentral Partnership Limited is developing a large industrial site in Scotland comprising commercial premises and Scotland's first Channel Tunnel rail freight terminal.

Lingley Mere Business Park Development Company Limited 50% share

Lingley Mere Business Park Development Company Limited is developing existing and new office space at Warrington in Cheshire.

Bromley Park Limited 50% share

Bromley Park Limited is developing a site for housing in Kent acquired from the Ministry of Defence.

English Cities Fund 12.5% equity participation

ECf is a limited partnership with English Partnerships and Legal & General to develop mixed use regeneration schemes in assisted areas. Joint control is exercised through the board of the General Partner at which each partner is represented by two directors and no decision can be taken without the agreement of a director representing each partner.

ISIS Waterside Regeneration 25% equity participation

ISIS Waterside Regeneration is a limited partnership between British Waterways and Warp 4 Limited Partnership (itself a joint venture between Morley Fund Management and Muse Developments) to undertake regeneration of waterside sites. Joint control is exercised through the board of the General Partner at which each of British Waterways and Warp 4 is represented by three directors and no decision can be taken without the agreement of a director representing each partner.

Notes to the consolidated financial statements for the year ended 31 December 2007

11 Investments and interests in joint ventures (continued)

Interests in joint ventures and trade investments are as follows:

	Joint ventures 2007 £m	**Trade investments 2007 £m**	Joint ventures 2006 £m	Trade investments 2006 £m
At 1 January	**5.3**	**0.1**	11.0	0.1
Additions on acquisition	**24.5**	**-**	-	-
Equity accounted share of net profits/(losses) for the year	**4.7**	**-**	(0.8)	-
Dividends from joint ventures	**-**	**-**	(7.2)	-
Increase in investment	**5.0**	**-**	0.9	-
Movement on hedged items on cash flow hedges	**(1.4)**	**-**	1.4	-
At 31 December	**38.1**	**0.1**	5.3	0.1

Financial information related to equity accounted joint ventures:

	2007 £m	2006 £m
Current assets (100%)	**266.3**	17.9
Non current assets[1] (100%)	**247.1**	230.7
Current liabilities (100%)	**(98.0)**	(15.8)
Non current liabilities (100%)	**(283.8)**	(222.4)
Net assets reported by equity accounted joint ventures (100%)	**131.6**	10.4
Revenues (100%)	**117.5**	16.8
Expenses (100%)	**(100.6)**	(17.1)
Net profit/(loss) (100%)	**16.9**	(0.3)

Results of equity accounted joint ventures:

	2007 £m	2006 £m
Group share of profits before tax	**7.4**	1.5
Group share of income tax expense	**(2.7)**	(2.3)
Group share of profits/(loss) after tax	**4.7**	(0.8)

[1] Within non current assets are financial receivables of £124.1m (2006: £129.3m) which are carried at fair value following the application of IAS 39. 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

	2007 £m	2006 £m
Raw materials	**3.6**	3.0
Work in progress	**125.2**	83.8
	128.8	86.8

Notes to the consolidated financial statements for the year ended 31 December 2007

13 Trade and other receivables

	2007 £m	2006 £m
Trade receivables (note 27)	**206.9**	120.6
Provision for impairment losses (note 27)	**(4.9)**	(1.5)
	202.0	119.1
Amounts owed by joint ventures (note 26)	**4.5**	1.6
Deferred tax asset (note 18)	**0.3**	0.3
Other receivables	**16.4**	5.7
Prepayments and accrued income	**15.1**	8.2
	238.3	134.9

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

The average credit period on revenues is 23 days (2006: 25 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

Included in the Group's trade receivable balance are debtors with a carrying amount of £57.3m (2006: £37.8m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 134 days (2006: 116 days).

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 27, Financial Instruments.

In determining the recoverability of the trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and spread across the Group's operating segments. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for impairment losses.

Within the provision for impairment losses there are no specific trade receivables (2006: £nil) which have been placed under liquidation. No collateral is held by the Group as security.

At the reporting date there were no trade and other receivables which have had renegotiated terms that would otherwise have been past due. Included in the provision for impairment losses there is no specific provision for debtors currently in liquidation or administration (2006: £nil).

14 Construction contracts

Contracts in progress at balance sheet date:	2007 £m	2006 £m
Amounts due from construction contract customers	**209.1**	145.9
Amounts due to construction contract customers	**(67.4)**	(27.3)
Carrying amount at end of year	**141.7**	118.6
Contract costs incurred plus recognised profits less recognised losses to date	**9,979.0**	5,832.2
Less: progress billings	**(9,837.3)**	(5,713.6)
Net work in progress	**141.7**	118.6

Included within contract costs incurred plus recognised profits less recognised losses to date and progress billings are amounts relating to contracts existing at the date of acquisition.

Amounts recoverable on construction contracts are stated at cost plus the profit attributable to that contract, less any impairment losses. Progress payments for construction contracts are deducted from amounts recoverable. Payments in advance on construction contracts represent amounts received in excess of amounts recoverable on construction contracts.

At 31 December 2007 retentions held by customers for contract work amounted to £66.2m (2006: £41.7m).

All of the Group's amounts due from construction contract customers' balance are not past due at the reporting date (2006: £nil). The Group does not hold any collateral over these balances or other trade and other receivables.

Notes to the consolidated financial statements for the year ended 31 December 2007

15 Trade and other payables

	2007 £m	2006 £m
Trade payables	**204.9**	111.0
Other payables	**17.1**	9.6
Amounts payable to joint ventures (note 26)	**13.3**	-
Other tax and social security	**32.5**	16.4
Accruals and deferred income	**488.7**	242.4
	756.5	379.4

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

The directors consider that the carrying amount of trade payables approximates their fair value. The average credit period taken for trade purchases is 28 days (2006: 26 days). No interest is charged on outstanding balances. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

In addition, non-current liabilities includes trade and other payables of £12.2m (2006: £nil) that fall due between 2 and 5 years.

16 Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
	2007 £m	2006 £m	2007 £m	2006 £m
Amounts payable under finance leases:				
Within one year	**1.6**	1.5	**1.4**	1.3
In the second to fifth years inclusive	**2.7**	2.5	**2.3**	2.4
After five years	**1.0**	0.1	**0.9**	0.1
	5.3	4.1	**4.6**	3.8
Less: future finance charges	**(0.7)**	(0.3)	**n/a**	n/a
Present value of lease obligations	**4.6**	3.8	**4.6**	3.8
Current lease liability			**1.4**	1.3
Non-current lease liability			**3.2**	2.5
			4.6	3.8

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is 3 years (2006: 5 years). For the year ended 31 December 2007, the average effective borrowing rate was 7% (2006: 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 leases relate.

17 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 the income statement of £6.1m (2006: £4.8m) represents contributions payable to the defined contribution section of the Plan by the Group. As at 31 December 2007, contributions of £0.6m (2006: £0.4m) were due in respect of December 2007's contribution not 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 active and deferred members and pensioners of pension plans of companies which are now part of the Group. These include salary related benefits for members in respect of benefits accrued before 31 May 1995 (and benefits transferred in from The Snape Group Limited Retirement Benefits Scheme include accruals up to 1 August 1997). No further defined benefit membership rights can accrue after those dates.

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was as at 31 December 2007. 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:

	2007 %	2006 %
Discount rate	**6.0**	5.3
Expected return on the Plan assets	**5.3**	6.0
Expected rate of salary increases	**4.5**	4.1
Future pension increases	**3.5**	3.1
Inflation increases	**3.5**	3.1

Life expectancy:

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in the UK.

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2007	2006
Male	**86.9**	84.0
Female	**89.8**	86.9

The average life expectancy in years of a pensioner retiring at age 65, twenty years after the balance sheet date is as follows:

	2007	2006
Male	**88.0**	84.0
Female	**90.8**	86.9

Notes to the consolidated financial statements for the year ended 31 December 2007

17 Retirement benefit schemes (continued)

There is uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment. For the disclosures as at 31 December 2007, the PXA92 series of tables from the Continuous Mortality Investigation were adopted appropriate to members' actual years of birth and with a medium cohort projection for future improvements in life expectancy.

An increase of 1 year to the average life expectancy at 65 would increase the value of the defined benefit obligation by around 2.5%. If such an assumption had been adopted as at 31 December 2007, the defined benefit obligation would have increased to £8.2m (2006: increase of 3% with the defined benefit obligation increasing from £7.3m to £7.6m).

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

	2007 £m	2006 £m
Present value of the Plan liabilities	**(8.0)**	(7.3)
Fair value of the Plan assets	**4.7**	4.8
Deficit in the Plan	**(3.3)**	(2.5)
Liability recognised in the balance sheet	**(3.3)**	(2.5)

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

	2007 £m	2006 £m
Interest cost	**(0.4)**	(0.4)
Expected return on the Plan assets	**0.3**	0.3
Net periodic cost	**(0.1)**	(0.1)

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 £0.3m (2006: £0.3m).

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

	2007 £m	2006 £m
Liabilities at 1 January	**(7.3)**	(7.7)
Interest cost	**(0.4)**	(0.4)
Actuarial (losses)/gains	**(0.4)**	0.7
Benefits paid	**0.1**	0.1
Liabilities at 31 December	**(8.0)**	(7.3)

The liabilities in respect of pensions in payment account for around 17% of the total. The average term to retirement is 7 years for active members (i.e. members who are still employed by the Company and whose past service benefits are linked to their final salary but are no longer accruing final salary benefits) and 5 years for deferred members.

17 Retirement benefit schemes (continued)

Movement in the value of the Plan assets were as follows:

	2007 **£m**	2006 £m
At 1 January	**4.8**	4.4
Expected return on the Plan assets	**0.3**	0.3
Actuarial losses	**(0.5)**	-
Contributions from sponsoring companies	**0.2**	0.2
Benefits paid	**(0.1)**	(0.1)
At 31 December	**4.7**	4.8

Included within the actuarial losses arising on the Plan's assets is an amount of £0.5m (2006: £nil) in respect of contributions included in the opening Plan assets, which are no longer available for use by the Defined Benefit Plan.

The effect of a 1% movement in the key financial assumptions is set out below:

	Increase of 1% £m	Decrease of 1% £m
Discount rate		
Effect on interest cost	-	-
Effect on the defined benefit obligation	(1.1)	1.3
Inflation rate		
Effect on interest cost	-	-
Effect on the defined benefit obligation	0.3	(0.3)
Expected rate of return on assets		
Effect on the expected return on the Plan assets	0.1	(0.1)

The sensitivities to the interest cost and expected return on assets shown above relate to the calendar year ending 31 December 2008. The sensitivities to the defined benefit obligation relate to the liability as at 31 December 2007.

	2007 **£m**	2006 £m
Actuarial losses/(gains) recognised in the statement of recognised income and expense	**0.9**	(0.7)
Cumulative actuarial losses recognised in the statement of recognised income and expense	**3.0**	2.1

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

	Fair value of assets		Expected return	
	2007 **£m**	2006 £m	**2007** **%**	2006 %
Equity instruments	**0.5**	2.0	**7.4**	7.7
Fixed interest gilts	**2.4**	1.1	**4.4**	4.7
Corporate bonds	**1.8**	1.4	**6.0**	5.3
Other assets	**-**	0.3	**5.5**	5.0
	4.7	4.8		

Notes to the consolidated financial statements for the year ended 31 December 2007

17 Retirement benefit schemes (continued)

The expected return on the Plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity reflect long-term real rates of return expected in the respective markets. The history of experience adjustments is as follows:

	2007	2006	2005	2004	2003
	£m	£m	£m	£m	£m
Present value of the Plan liabilities	**(8.0)**	(7.3)	(7.7)	(6.1)	(4.7)
Fair value of the Plan assets	**4.7**	4.8	4.4	3.9	3.9
Deficit in the Plan	**(3.3)**	(2.5)	(3.3)	(2.2)	(0.8)
Experience adjustments on the Plan liabilities:					
Amount	**(0.4)**	0.7	(1.5)	(1.3)	-
Percentage of the Plan liabilities	**4.4%**	(9.2%)	18.7%	21.5%	0.8%
Experience adjustments on the Plan assets:					
Amount	**(0.5)**	-	0.2	(0.2)	0.2
Percentage of the Plan assets	**(11.0%)**	0.4%	3.8%	(4.5%)	4.6%

The amount of contributions expected to be paid to the Plan during 2008 is £0.7m.

18 Deferred tax

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

	Accelerated tax depreciation	Short-term timing differences	Retirement benefit obligations	Share based payments	Total
	£m	£m	£m	£m	£m
At 1 January 2006	0.9	0.2	1.1	0.5	2.7
Credit to income	-	0.1	-	0.3	0.4
(Charge)/credit to equity	-	-	(0.3)	1.1	0.8
At 31 December 2006	0.9	0.3	0.8	1.9	3.9
At 1 January 2007	0.9	0.3	0.8	1.9	3.9
Credit to income	0.5	1.6	(0.1)	0.1	2.1
(Charge)/credit to equity	-	-	0.3	(0.6)	(0.3)
Effect of change in tax rate:					
Income statement	(0.1)	(0.1)	(0.1)	-	(0.3)
Equity	-	-	-	(0.1)	(0.1)
Arising on acquisition	-	-	-	-	-
At 31 December 2007	**1.3**	**1.8**	**0.9**	**1.3**	**5.3**

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:

	2007	2006
	£m	£m
Deferred tax within trade and other receivables	**0.3**	0.3
Deferred tax within non current assets	**5.0**	3.6

At 31 December, the Group has unused tax losses of £0.6m (2006: £0.6m) 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.

19 Operating lease commitments

	2007	2006
	£m	£m
Minimum lease payments under operating leases recognised as an expense for the year	**28.9**	13.2

At 31 December, the Group has outstanding commitments for minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007			2006		
	Land and buildings	**Other**	**Total**	Land and buildings	Other	Total
	£m	**£m**	**£m**	£m	£m	£m
Leases which expire:						
Within one year	**6.8**	**2.1**	**8.9**	3.6	3.0	6.6
Within two to five years	**20.5**	**5.2**	**25.7**	9.5	2.3	11.8
After five years	**10.3**	**2.0**	**12.3**	5.1	-	5.1
Total operating lease commitments	**37.6**	**9.3**	**46.9**	18.2	5.3	23.5

Operating lease payments represent rentals payable by the Group for certain properties and other items. Leases are negotiated for an average term of 5 years (2006: 5 years) and rentals are fixed for an average of 4 years (2006: 5 years).

20 Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of bonds, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business.

In 2006 the Office of Fair Trading ('OFT') wrote to the Company along with a number of other construction companies, in relation to potential breaches of competition law in earlier years. The Group has fully co-operated with the OFT and will continue to do so as appropriate. At present the directors are unable to estimate the size of any potential liability and as a result no provision has been made in these financial statements.

21 Share capital

	2007		2006	
	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	**42,520**	**2,126**	42,316	2,116
Exercise of share options	**282**	**14**	204	10
At the end of the year	**42,802**	**2,140**	42,520	2,126

The Company has one class of ordinary share which carries no rights to fixed income. All ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Notes to the consolidated financial statements for the year ended 31 December 2007

21 Share capital (continued)

Ordinary shares

Details of the Company's ordinary shares of 5p each issued during the year under employee share option schemes are given in note 25.

Share options

The Company has four 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. The third scheme, the Morgan Sindall Employee Share Option Plan 2007 ('the ESOP 2007') received approval from the Board on 7 June 2007. The ESOP 2007 does not require shareholder approval because all outstanding options exercised under the plan will be settled with market purchased shares. All options under the 1988 Scheme were exercised or lapsed during the period. Options under the 1995 Scheme are exercisable between five and seven years from the date of grant and options under the ESOP 2007, between three and ten years from the date of grant. The period for the granting of options under the 1988 and 1995 Schemes expired in January 1998 and May 2005 respectively. The period for granting options under the ESOP 2007 expires on 6 June 2017. Details of the options outstanding under the 1995 Scheme and the ESOP 2007 and the respective exercise prices are shown in note 25. In addition, details of the Morgan Sindall Executive Remuneration Plan 2005 are disclosed in the directors' remuneration report on pages 34 to 39.

Own shares

Own shares at cost represent 752,169 (2006: 621,381) ordinary shares in the Company held in the Morgan Sindall Employee Benefit Trust ('the Trust') in connection with certain share incentive schemes as detailed in the directors' remuneration report on pages 34 to 39. The trustees of the Trust purchase 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 615,766 (2006: 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 2007 of £10.39 (2006: £13.28), the market value of the shares was £7,815,036 (2006: £8,251,940).

Notes to the consolidated financial statements for the year ended 31 December 2007

22 Reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Reserve for own shares held £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2006	2.1	26.0	0.6	(1.8)	(2.2)	91.9	116.6
Total recognised income and expense	-	-	-	-	1.4	34.1	35.5
Share-based payments	-	-	-	-	-	1.0	1.0
Issue of shares at a premium	-	0.2	-	-	-	-	0.2
Exercise of share options (note 21)	-	-	-	-	-	-	-
Deferred tax asset on share-based payments	-	-	-	-	-	1.1	1.1
Own shares bought back	-	-	-	(1.6)	-	-	(1.6)
Dividends paid:							
Final dividend - 2005	-	-	-	-	-	(7.5)	(7.5)
Interim dividend - 2006	-	-	-	-	-	(3.4)	(3.4)
Balance at 31 December 2006	2.1	26.2	0.6	(3.4)	(0.8)	117.2	141.9
Balance at 1 January 2007	2.1	26.2	0.6	(3.4)	(0.8)	117.2	141.9
Total recognised income and expense	-	-	-	-	(1.4)	38.8	37.4
Share-based payments	-	-	-	-	-	1.7	1.7
Issue of shares at a premium	-	0.1	-	-	-	-	0.1
Exercise of share options (note 21)	-	-	-	-	-	-	-
Deferred tax (liability) on share-based payments	-	-	-	-	-	(0.7)	(0.7)
Own shares bought back	-	-	-	(2.1)	-	-	(2.1)
Dividends paid:							
Final dividend - 2006	-	-	-	-	-	(8.4)	(8.4)
Interim dividend - 2007	-	-	-	-	-	(4.2)	(4.2)
Balance at 31 December 2007	**2.1**	**26.3**	**0.6**	**(5.5)**	**(2.2)**	**144.4**	**165.7**

Capital redemption reserve

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

Cash flow hedging reserve

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

Notes to the consolidated financial statements for the year ended 31 December 2007

23 Acquisitions

On 27 July 2007 the Group acquired Amec Developments Limited and certain assets and business carried on by Amec Investments Limited and the assets, liabilities and contracts relating to the Design and Project Services ('DPS') division of Amec plc, save for certain excluded assets and liabilities.

Details of the net assets acquired and goodwill arising are as follows:

	£m
Purchase consideration:	
Cash paid	23.7
Costs directly attributable to the acquisition	1.8
Total purchase consideration	25.5
Net liabilities acquired	(24.6)
Goodwill (note 10)	**50.1**

The goodwill is attributable to the workforce of the acquired businesses, expertise and the anticipated operating synergies expected to arise after the acquisition.

	Acquiree's carrying amount £m	Provisional fair value adjustments £m	Fair value £m
Cash and cash equivalents	14.2	-	14.2
Intangible fixed assets:			
Secured customer contracts	-	3.1	3.1
Other contracts and related relationships	-	30.7	30.7
Software	-	0.9	0.9
Non-compete agreement	-	5.0	5.0
Tangible fixed assets	2.0	0.2	2.2
Investments in joint ventures and associates	28.7	(4.2)	24.5
Inventories	33.6	(2.0)	31.6
Trade receivables	149.8	(16.7)	133.1
Trade payables	(251.6)	(18.3)	(269.9)
Net liabilities acquired	**(23.3)**	**(1.3)**	**(24.6)**
Purchase consideration settled in cash			23.7
Directly attributable acquisition costs			1.8
Cash and cash equivalents acquired			(14.2)
Cash outflow on acquisition			**11.3**

At 31 December 2007, certain fair value adjustments in relation to the acquisition were subject to finalisation. Further fair value adjustments may occur as a result of final settlements in respect of certain construction contracts novated to the Group on acquisition and from the subsequent revision of estimates made at the acquisition date. In accordance with IFRS 3 'Business Combinations', the Group has twelve months from the acquisition date to finalise these values. Any adjustment to the provisional fair values of net assets acquired will result in an adjustment to intangible assets or, where the purchase consideration changes, to the net liabilities acquired and goodwill.

Impact of the acquisition on the Group's revenue and operating profit

The acquired Urban Regeneration business (now Muse Developments) and the acquired DPS business contributed £304.7m of revenue in the period between 27 July 2007 and 31 December 2007. Due to the fact that DPS has been integrated into our existing construction and infrastructure services divisions, it is impracticable to disclose the amount of DPS profit that is included in the Group's results or for the full year.

Gleeson MCL Limited (renamed Morgan Est Rail Limited)

On 24 March 2006 the Group acquired the entire share capital of Gleeson MCL Limited for a consideration of £22.8m paid in cash with associated costs of £0.2m. In 2007, the Group has not made any adjustment to the fair values ascribed to the assets and liabilities as reported in the 2006 Annual Report.

24 Cash flows from operating activities

	2007 £m	2006 £m
Cash flows from operating activities		
Profit from operations for the year	**53.5**	46.2
Adjusted for:		
Amortisation of fixed life intangible assets	**4.5**	-
Share of net (profit)/loss of equity accounted joint ventures	**(4.7)**	0.8
Depreciation of property, plant and equipment	**6.3**	5.0
Expense in respect of share options	**1.7**	1.0
Defined benefit pension payment	**(0.2)**	(0.2)
Defined benefit pension charge	**0.1**	0.1
Loss/(gain) on disposal of property, plant and equipment	**1.2**	(0.2)
Operating cash flows before movements in working capital	**62.4**	52.7
(Increase)/decrease in inventories	**(10.4)**	0.8
(Increase) in receivables	**(33.3)**	(35.8)
Increase in payables	**159.2**	46.4
Cash generated from operations	**177.9**	64.1
Income taxes paid	**(15.8)**	(13.9)
Interest paid	**(4.0)**	(2.3)
Net cash inflow from operating activities	**158.1**	47.9

Additions to property, plant and equipment during the year amounting to £3.0m (2006: £2.1m) and additions to leasehold property amounting to £2.3m (2006: £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.

25 Share-based payments

Equity-settled share options

The Company's Executive Remuneration Plan 2005 ('the 2005 Plan') and the Employee Share Option Plan 2007 ('the ESOP 2007') provide 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 Scheme and the 1995 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 Scheme, the 1995 Scheme and the ESOP 2007 option vesting periods are given in note 21 and the vesting periods for options granted under the 2005 Plan are given in the directors' remuneration report on page 38.

The weighted average share price at the date of exercise for share options exercised during the year was £13.61 (2006: £11.62). The options outstanding at 31 December 2007 had a weighted average exercise price of £6.39 (2006: £4.90), and a weighted average remaining contractual life of 1.4 years (2006: 1.3 years). In 2007 options under the ESOP 2007 were granted on 13 August, 24 September and 20 December and the estimated fair value of the options granted on those dates was £0.6m. In 2007, options and share awards under the 2005 Plan were granted on 6 March. The estimated fair value of the options granted on that date was £1.0m and the estimated fair value of the share awards granted on that date was £0.7m.

Notes to the consolidated financial statements for the year ended 31 December 2007

25 Share-based payments (continued)

Equity-settled share options (continued)

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.

		2005 Plan options Mar 07	2005 Plan shares Mar 07	ESOP 2007 options Aug 07	ESOP 2007 options Sep 07	ESOP 2007 options Dec 07
Number of options/shares granted	(a)	271,357	60,093	23,000	41,000	100,000
Weighted average fair value at date of grant (per option/share)		£3.83	£12.32	£5.71	£5.02	£2.95
Weighted average share price at date of grant		£12.32	£12.32	£16.90	£15.64	£10.44
Weighted average exercise price		£12.15	nil	£16.76	£15.81	£10.51
Expected term (from date of grant)	(b)	6 years	3 years	6 years	6 years	6 years
Expected volatility	(c)	30.5%	30.5%	30.8%	30.8%	31.6%
Expected dividend yield	(d)	2.3%	nil (e)	1.8%	1.9%	2.9%
Risk-free rate		5.0%	5.0%	5.4%	5.1%	4.6%

(a) In March 2007, 271,357 share options were granted to executives of the Group under the Executive Remuneration Plan.

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

(c) 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.

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

(e) At the end of the vesting period, award holders may 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 £1.7m and £1.0m related to equity-settled share-based payment transactions in 2007 and 2006 respectively.

Notes to the consolidated financial statements for the year ended 31 December 2007

25 Share-based payments (continued)

Equity-settled share options (continued)

The following tables provide a summary of the options granted under the Group's employee share option schemes during the current and comparative year.

2007 Grant Date	Exercise price £	Balance at beginning of the year No.	Options granted No.	Options lapsed No.	Options cancelled No.	Options exercised No.	Balance of options in issue at end of the year No.	Balance of options exercisable at end of year No.	Proceeds received (net of settlements) £
1988 Scheme									
24 Sep 97[1]	1.71	12,625	-	-	-	12,625	-	-	21,589
1995 Scheme									
27 Sep 01[2]	3.88	75,000	-	21,381	-	53,619	-	-	2,681
14 Feb 02[3]	4.95	47,500	-	16,846	-	30,654	-	-	1,533
29 Oct 02[4]	2.70	635,000	-	70,140	-	184,860	380,000	380,000	154,993
10 Mar 03[5]	2.07	100,000	-	-	-	-	100,000	-	-
25 Feb 04[6]	4.20	100,000	-	-	-	-	100,000	-	-
14 Sep 04[7]	4.38	60,000	-	-	-	-	60,000	-	-
ESOP 2007									
13 Aug 07[8]	16.76	-	23,000	-	-	-	23,000	-	-
24 Sep 07[9]	15.81	-	41,000	-	-	-	41,000	-	-
20 Dec 07[10]	10.51	-	100,000	-	-	-	100,000	-	-
2005 Plan									
20 May 05[11]	7.24	318,024	-	-	-	-	318,024	-	-
5 Apr 06[12]	12.59	258,532	-	-	-	-	258,532	-	-
6 Mar 07[13]	12.15	-	271,357	-	-	-	271,357	-	-
Total		**1,606,681**	**435,357**	**108,367**	**-**	**281,758**	**1,651,913**	**380,000**	**180,796**

The weighted average share price of Morgan Sindall plc ordinary shares was £14.13 (2006: £11.57) during the year.

Notes:

1988 Scheme

[1] Exercisable between 24 September 2000 and 23 September 2007.

1995 scheme

[2] Exercisable between 27 September 2006 and 26 September 2008.
[3] Exercisable between 14 February 2007 and 13 February 2009.
[4] Exercisable between 29 October 2007 and 28 October 2009.
[5] Exercisable between 10 March 2008 and 9 March 2010.
[6] Exercisable between 25 February 2009 and 24 February 2011.
[7] Exercisable between 14 September 2009 and 13 September 2011.

ESOP 2007

[8] Exercisable between 13 August 2010 and 12 August 2017.
[9] Exercisable between 24 September 2010 and 23 September 2017.
[10] Exercisable between 20 December 2010 and 19 December 2017.

2005 Plan

[11] Exercisable between 20 May 2008 and 20 May 2015.
[12] Exercisable between 5 April 2009 and 5 April 2016.
[13] Exercisable between 6 March 2010 and 6 March 2017.

Notes to the consolidated financial statements for the year ended 31 December 2007

25 Share-based payments (continued)

Equity-settled share options (continued)

2006

Grant Date	Exercise price £	Balance at beginning of the year No.	Options granted No.	Options lapsed No.	Options cancelled No.	Options exercised No.	Balance of options in issue at end of the year No.	Balance of options exercisable at end of year No.	Proceeds received (net of settlements) £
1988 Scheme									
28 Mar 96[1]	0.97	4,000	-	-	-	4,000	-	-	3,880
16 Aug 96[2]	1.47	9,950	-	-	-	9,950	-	-	14,627
24 Sep 97[3]	1.71	17,125	-	-	-	4,500	12,625	12,625	7,695
1995 Scheme									
27 Mar 00[4]	2.49	23,000	-	-	-	23,000	-	-	57,270
27 Mar 01[5]	3.71	15,000	-	-	-	15,000	-	-	55,650
27 Sep 01[6]	3.88	293,000	-	70,330	-	147,670	75,000	75,000	26,533
14 Feb 02[7]	4.95	47,500	-	-	-	-	47,500	-	-
29 Oct 02[8]	2.70	790,000	-	155,000	-	-	635,000	-	-
10 Mar 03[9]	2.07	100,000	-	-	-	-	100,000	-	-
25 Feb 04[10]	4.20	140,000	-	40,000	-	-	100,000	-	-
14 Sep 04[11]	4.38	60,000	-	-	-	-	60,000	-	-
2005 Plan									
20 May 05[12]	7.24	318,024	-	-	-	-	318,024	-	-
5 Apr 06[13]	12.59	-	258,532	-	-	-	258,532	-	-
Total		**1,817,599**	**258,532**	**265,330**	**-**	**204,120**	**1,606,681**	**87,625**	**165,655**

Notes:

1988 Scheme

[1] Exercisable between 28 March 1999 and 27 March 2006.

[2] Exercisable between 16 August 1999 and 15 August 2006.

[3] Exercisable between 24 September 2000 and 23 September 2007.

1995 scheme

[4] Exercisable between 27 March 2005 and 26 March 2007.

[5] Exercisable between 27 March 2006 and 26 March 2008.

[6] Exercisable between 27 September 2006 and 26 September 2008.

[7] Exercisable between 14 February 2007 and 13 February 2009.

[8] Exercisable between 29 October 2007 and 28 October 2009.

[9] Exercisable between 10 March 2008 and 9 March 2010.

[10] Exercisable between 25 February 2009 and 24 February 2011.

[11] Exercisable between 14 September 2009 and 13 September 2011.

2005 Plan

[12] Exercisable between 20 May 2008 and 20 May 2015.

[13] Exercisable between 5 April 2009 and 5 April 2016.

25 Share-based payments (continued)

Cash-settled share-based payments

The Group issues to certain employees share appreciation rights ('phantoms') that require the Group to pay the intrinsic value of the phantoms to the employee at the date of exercise. As cash-settled share-based payment awards, the phantoms are revalued at the end of each reporting period. There were no phantoms granted during the period (2006: 150,000). The total intrinsic value at 2007 was £1.0m (2006: £1.9m). The Group has recorded liabilities of £0.8m in 2007 (2006: £0.7m).

At the reporting date, the fair value and number of phantom awards outstanding was:

Date of grant	Exercise price (£)	Number of awards outstanding	Fair value per award (£)
17 August 2005	6.65	78,000	4.02
11 October 2005	8.49	51,000	2.87
5 December 2005	8.31	90,000	2.99
5 April 2006	12.59	60,000	1.37
5 April 2006 [1]	12.59	50,000	1.37
18 May 2006	11.09	30,000	1.84
10 August 2006	10.86	10,000	1.97
	9.55 [2]	369,000	2.59 [2]

[1] This grant is subject to a performance condition. To the extent that this condition is not expected to be satisfied and the options are expected to lapse, the income statement charge is adjusted. Similar adjustment is made in the event of a bad leaver.

[2] Weigthed average

The market price of a share on 31 December 2007 was £10.39.

The fair value of the phantoms was determined by the use of a modified Black-Scholes model using the assumptions noted in the table below:

		31 December 2007
Expected term (from date of grant)	(a)	Five years
Share price at valuation date		£10.39
Expected volatility of return	(b)	28% - 30%
Expected dividend yield	(c)	2.9%
Risk free rate		4.4%

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

(b) 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.

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

The Group recorded expenses of £0.1m (2006: £0.6m) during the year in respect of phantoms.

Notes to the consolidated financial statements for the year ended 31 December 2007

26 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, not members of the Group. Transactions and amounts owed at the year end are as follows:

	Provision of goods and services		Amounts owed by/(to) related parties	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Claymore Roads (Holdings) Limited	**-**	-	**0.2**	0.8
Morgan-Vinci Limited	**-**	-	**0.1**	0.2
Community Solutions for Primary Care (Holdings) Limited	**7.7**	11.9	**0.8**	0.1
Morgan Sindall Investments (3PD) Limited	**0.2**	0.1	**-**	0.5
Eurocentral Partnership Limited	**11.3**	-	**-**	-
Lingley Mere Business Park Development Company Limited	**-**	-	**0.8**	-
Lingley Mere Business Park Development Company Limited	**2.6**	-	**(7.3)**	-
Bromley Park Limited	**8.2**	-	**(5.9)**	-
ECf (General Partner) Limited	**-**	-	**0.1**	-
Chatham Place (Building 1) Limited	**-**	-	**0.1**	-
The Compendium Group Limited	**2.2**	-	**-**	-
Ashton Moss Developments Limited	**-**	-	**(0.1)**	-
PFF Dorset Limited	**9.5**	-	**2.4**	-
	41.7	12.0	**(8.8)**	1.6

All transactions with related parties were made on an arm's length basis.

The amounts outstanding are unsecured and will be settled in cash. Other than construction related performance guarantees given in the ordinary course of business, no guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties. All amounts owed or owing by related parties are non-interest bearing.

26 Related party transactions (continued)

Remuneration of key management personnel

The remuneration of the directors, who are 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 37 to 39.

	2007 **£m**	2006 £m
Short-term employee benefits	**2.3**	2.2
Other long-term benefits	**0.3**	0.2
Post-employment benefits	**0.1**	0.1
	2.7	2.5

Directors' transactions

There were no transactions between the Group and the directors during the year or in the subsequent period to 19 February 2008 beyond those disclosed in the remuneration report.

There have been no other related party transactions with any director either during the year or in the subsequent period to 19 February 2008.

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 19 February 2008.

Notes to the consolidated financial statements for the year ended 31 December 2007

27 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 fair value.

General risk management principles

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. A formal risk assessment and management framework for assessing, monitoring and managing the strategic operational and financial risks of the Group is in place to ensure appropriate risk management of its operations. Internal control and risk management systems are embedded in the operations of the divisions.

The key business risks identified are discussed in detail in the business review on pages 4 to 17 and the corporate governance statement on page 43.

Financial risks and management

The Group has exposure to a variety of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, which are subject to periodic review by the Group's internal audit team and annual review by management. The policies include written principles for the overall management of the Group's risk management as well as specific policies, guidelines and authorisation procedures in respect of specific risk mitigation techniques such as the use of derivative financial instruments. The Group does not enter into derivative financial instruments for speculative purposes.

The following represent the key financial risks resulting from the Group's use of financial instruments:
- credit risk
- liquidity risk
- market risk.

(a) **Credit risk:**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and results primarily from the Group's trade receivables and amounts recoverable on construction contracts.

Amounts recoverable on construction contracts (AROC) and trade receivables

The Group's primary exposure to credit risk arises from the potential for non-payment or default from construction contract debtors and trade receivables. The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the project. The Group's credit risk is also influenced by the general macroeconomic conditions of the United Kingdom. The Group primarily operates in one geographical segment, being the United Kingdom. The Group does not have any concentration risk in respect of AROC or trade receivables balances at the reporting date with both receivables spread across a wide range of customers. Due to the nature of the Group's operations, it is normal practice for customers to hold retentions in respect of contracts completed. Retentions held by customers at 31 December 2007 were £66.2m (2006: £41.7m).

The Group manages its exposure to credit risk through the application of its credit risk management policies which specify the minimum requirements in respect of the credit worthiness of potential customers, assessed through reports from credit agencies, and the timing and extent of progress payments in respect of contracts. The risk management policies of the Group also specify procedures in respect of obtaining parent company guarantees or, in certain circumstances, use of escrow accounts, which in the event of default means that the Group may have a secure claim. The Group does not require collateral in respect of AROC or trade receivables.

27 Financial instruments (continued)

The Group manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact with customers so as to ensure that potential issues that could lead to the non-payment of retentions are addressed as soon as they are identified. The Group assesses AROC and trade receivables balances for impairment and establishes a provision for impairment losses that represents its estimate of incurred losses.

The ageing of trade receivables at the reporting date was as follows:

	Gross trade debtors	**Provision for impairment losses**	Gross trade debtors	Provision for impairment losses
	2007	**2007**	2006	2006
	£m	**£m**	£m	£m
Not past due	**144.7**	**-**	82.8	-
Past due 1 to 30 days	**34.3**	**-**	20.5	-
Past due 31 to 120 days	**6.2**	**-**	7.9	-
Past due 121 to 365 days	**12.3**	**1.8**	3.5	-
Greater than one year	**9.4**	**3.1**	5.9	1.5
	206.9	**4.9**	120.6	1.5

The movement in the provision for impairment losses on trade receivables during the year was as follows:

	2007	2006
	£m	£m
Balance at beginning of the year	**1.5**	1.6
Amounts written off during the year	**(0.1)**	-
Amounts recovered during the year	**(0.1)**	-
Increase/(decrease) in provision recognised in the income statement	**3.6**	(0.1)
Balance at 31 December	**4.9**	1.5

(b) Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The ultimate responsibility for liquidity risk rests with the Board.

The Group aims to manage liquidity by ensuring that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Forecast and actual cash flow is continuously monitored.

The Group actively manages its liquidity profile while ensuring that the return achieved on cash and investments is maximised. The Group has not drawn down any current debt facilities at the reporting date (2006: £nil).

As discussed below under capital management, the Group does not have any derivative or non-derivative financial liabilities with the exception of finance lease liabilities, trade and other payables, current tax liabilities and retirement benefit obligations. Current tax liabilities and trade and other payables are non-interest bearing and therefore have no weighted average effective interest rates. Retirement benefit obligations are measured at the net of the present value of retirement benefit obligations and the fair value of the Plan assets. Finance lease liabilities are carried at the present value of the minimum lease payments with the future value of finance charges. An analysis of the maturity profile for finance lease liabilities is contained in note 16.

Notes to the consolidated financial statements for the year ended 31 December 2007

27 Financial instruments (continued)

(c) **Market risk:**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or equity prices, will affect the Group's income or the carrying amount of its holdings of financial instruments. The objective of market risk management is to achieve a level of market risk that is within acceptable parameters as set out in the Group risk management framework.

Interest rate risk

The Group is not exposed to significant interest rate risk as it does not have significant interest bearing liabilities and its only interest bearing asset is cash invested on a short-term basis.

Certain of the Group's equity accounted joint ventures enter into interest rate swaps to manage their exposure to interest rate risk arising on floating rate bank borrowings.

The Group's share of joint ventures' interest rate and retail price index swap contracts with nominal values of £29.4m have fixed interest payments at an average rate of 4.98% for periods up until 2033.

The Group's share of the fair value of swaps entered into at 31 December 2007 by joint ventures is estimated at a £2.2m liability (2006: £0.8m liability). These amounts are based on market values of equivalent instruments at the balance sheet date. All interest rate swaps are designated as hedging instruments and are effective as cash flow hedges. The fair value thereof has been taken to the hedging reserve (note 22).

Currency risk

The majority of the Group's operations are carried out in the United Kingdom and the Group has an insignificant level of exposure to currency risk on sales and purchases. Given the insignificant exposure to foreign currency movements, the Group's policy is not to hedge foreign currency transactions unless they are material, at which point derivative financial instruments are entered into so as to hedge forecast or actual foreign currency exposures.

(d) **Capital management:**

The Board aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in notes 21 and 22. From time to time certain companies within the Group use short-term debt in the form of bank overdrafts. The Group overall has no debt.

The Group dividend policy is stated in the financial review on page 12.

The Board aims to achieve a suitable balance between higher returns that may be possible through borrowing and the stability afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year and the Group is not subject to any capital requirements imposed by regulatory authorities.

28 Subsequent events

On 12 January 2008, the Group acquired certain assets and contracts of Elec-Track Installations Limited for a purchase consideration of £1.0m. The combined net assets were £2.0m. An exercise to review the fair value of the assets is underway, full details of which will be included in the Group 2008 report and accounts.

Independent auditors' report for the year ended 31 December 2007

We have audited the parent company financial statements of Morgan Sindall plc for the year ended 31 December 2007 which comprise the balance sheet, the combined statement of movements in reserves and shareholders' funds, the statement of significant accounting policies and the related notes 1 to 11. 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 2007 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 2007;
- 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
19 February 2008

Company balance sheet at 31 December 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	4	**1.0**	1.6
Investments	5	**172.6**	156.3
		173.6	157.9
Current assets			
Amounts owed by subsidiary undertakings		**44.9**	47.6
Other debtors		**1.4**	1.8
Prepayments and accrued income		**0.7**	0.7
Corporation tax recoverable		**1.7**	2.0
Deferred tax	6	**1.8**	1.9
Amounts owed by joint ventures		**-**	0.1
Cash at bank and in hand	7	**40.9**	-
		91.4	54.1
Creditors: amounts falling due within one year			
Bank overdraft	7	**-**	(0.5)
Trade creditors		**(11.8)**	(4.0)
Amounts owed to subsidiary undertakings		**(93.3)**	(42.0)
Other creditors		**(0.9)**	(1.5)
Other tax and social security		**(0.5)**	(0.3)
Accruals and deferred income		**(24.2)**	(10.2)
		(130.7)	(58.5)
Net current liabilities		**(39.3)**	(4.4)
Total assets less current liabilities		**134.3**	153.5
Provision for liabilities and charges			
Deferred tax	6	**-**	(0.1)
Retirement benefit obligation	8	**(2.4)**	(1.8)
Net assets		**131.9**	151.6
Shareholders' funds			
Share capital	9	**2.1**	2.1
Share premium account		**26.3**	26.2
Capital redemption reserve		**0.6**	0.6
Own shares		**(5.5)**	(3.4)
Special reserve		**13.6**	13.6
Retained earnings		**94.8**	112.5
Total shareholders' funds		**131.9**	151.6

The financial statements were approved by the Board of directors and authorised for issue on 19 February 2008 and were signed on its behalf by:

Paul Smith
David Mulligan

Company combined statement of movement in reserves and shareholders' funds for the year ended 31 December 2007

	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Special reserve £m	Retained earnings £m	Total shareholder funds £m
Balance at 1 January 2007	2.1	26.2	(3.4)	0.6	13.6	112.5	151.6
Loss for the year	-	-	-	-	-	(5.5)	(5.5)
Recognition of share-based payments	-	-	-	-	-	1.7	1.7
2007 interim dividend declared and paid	-	-	-	-	-	(4.2)	(4.2)
2006 final dividend declared and paid	-	-	-	-	-	(8.4)	(8.4)
Own shares purchased	-	-	(2.1)	-	-	-	(2.1)
Options exercised	-	0.1	-	-	-	-	0.1
Deferred tax arising on recognition of share-based payments	-	-	-	-	-	(0.7)	(0.7)
Actuarial loss on defined benefit liability	-	-	-	-	-	(0.9)	(0.9)
Deferred tax on retirement benefit obligation	-	-	-	-		0.3	0.3
Balance at 31 December 2007	**2.1**	**26.3**	**(5.5)**	**0.6**	**13.6**	**94.8**	**131.9**

Significant accounting policies for the year ended 31 December 2007

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	Between10% 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 combined statement of movements in reserves and shareholders' funds 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 a dividend will only be recognised once the shareholders approve it.

Notes to the Company financial statements for the year ended 31 December 2007

1 Employees

The average number of people employed by the Company including directors during the year was 20 (2006: 16).

2 Staff costs

	2007 £m	2006 £m
Wages and salaries	**4.5**	3.5
Social security costs[1]	**(0.3)**	1.7
Pension costs	**0.3**	0.3
	4.5	5.5

[1]Included within this amount is £1.3m relating to the release of the accrual in respect of national insurance following the revaluation of share-based payments.

3 (Loss)/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 loss of the parent company for the financial year amounted to £5.5m (2006: a profit of £39.2m).

4 Tangible assets

	Owned plant, machinery & equipment £m	Freehold property £m	Total £m
Cost or valuation			
At 1 January 2007	3.6	0.1	3.7
Additions	1.0	-	1.0
Disposals	(2.4)	-	(2.4)
At 31 December 2007	**2.2**	**0.1**	**2.3**
Depreciation			
At 1 January 2007	2.1	-	2.1
Charge in the year	0.8	-	0.8
Disposals	(1.6)	-	(1.6)
At 31 December 2007	**1.3**	**-**	**1.3**
Net book value at 31 December 2007	**0.9**	**0.1**	**1.0**
Net book value at 31 December 2006	1.5	0.1	1.6

5 Investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2007	151.2	10.4	161.6
Additions	22.3	-	22.3
Disposals	-	(6.0)	(6.0)
At 31 December 2007	**173.5**	**4.4**	**177.9**
Provisions			
At 1 January 2007	0.9	4.4	5.3
Disposals	-	-	-
At 31 December 2007	**0.9**	**4.4**	**5.3**
Net book value at 31 December 2007	**172.6**	**-**	**172.6**
Net book value at 31 December 2006	150.3	6.0	156.3

Notes to the Company financial statements for the year ended 31 December 2007

5 Investments (continued)

On 27 July 2007, the Company acquired the entire issued share capital of AMEC Developments Limited (renamed Muse Developments Limited at the date of the acquisition), the urban regeneration business, for a purchase consideration of £20.0m.

On 13 December 2007, the Company invested £2.0m in shares of Morgan Professional Services Limited, a newly incorporated wholly owned subsidiary.

The Company made other investments in subsidiaries during the year of £0.3m.

6 Deferred tax

The major deferred tax liabilities and assets recognised by the Company and movements thereon are as follows:

	Accelerated capital allowance and other short-term timing differences £m	Retirement benefit obligations £m	Share-based payments £m	Total £m
At 1 January 2007	(0.1)	0.8	1.9	2.6
Credit/(debit) to profit and loss account	0.6	(0.1)	0.1	0.6
Credit/(debit) to equity	-	0.3	(0.6)	(0.3)
Effect of tax rate change:				
Income statement	-	(0.1)	-	(0.1)
Equity	-	-	(0.1)	(0.1)
At 31 December 2007	**0.5**	**0.9**	**1.3**	**2.7**

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:	**2007 £m**	2006 £m
Current assets	**1.8**	1.9
Retirement benefit obligations	**0.9**	0.8
Provision for liabilities and charges	**-**	(0.1)
	2.7	2.6

At the balance sheet date, the Company has unused tax losses of £0.6m (2006: £0.6m) available for offset against future profit. No deferred tax asset has been recognised in respect of £0.2m (2006: £0.2m) 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 (2006: £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.

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 £0.5m (2006: £0.2m) represents contributions payable to the defined contribution section of the Plan by the Company at rates specified in the Plan rules. As at 31 December 2007, contributions of £0.1m (2006: £nil) 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 2007 and was prepared using assumptions of a rate of investment return of 6.0% per annum, a rate of earnings escalation of 4.5% per annum and rate of inflation of 3.5% 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 £4.7m represented 59% 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 2010 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 2007. 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:

	Notes	**2007** %	2006 %	2005 %
Discount rate		**6.0**	5.3	4.9
Expected rate of salary increases		**4.5**	4.1	3.9
Inflation per annum		**3.5**	3.1	2.9
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		**3.5**	3.1	2.9

Notes to the Company financial statements for the year ended 31 December 2007

8 Retirement benefit schemes (continued)

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

	Notes	**2007 £m**	2006 £m	2005 £m
Present value of the Plan liabilities	b	**(8.0)**	(7.3)	(7.7)
Fair value of the Plan assets	b	**4.7**	4.8	4.4
Deficit in the Plan		**(3.3)**	(2.5)	(3.3)
Related deferred taxation at 28% (2006 and 2005: 30%)		**0.9**	0.8	1.0
Liability recognised in the balance sheet		**(2.4)**	(1.7)	(2.3)

The total pension costs for the Company in respect of:

	Notes	**2007 £m**	2006 £m	2005 £m
Defined benefit section of the Plan	c	**0.2**	0.2	0.2
Defined contribution section of the Plan	c	**0.3**	0.3	0.4

There are no amounts to be included within the operating profit for current or past service costs in 2007, 2006 or 2005.

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 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 2008 of £0.7m and the position will be reviewed following the next triennial valuation as at 5 April 2010. Employer's contributions for defined contribution benefits remains unchanged at agreed standard rates.

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

	2007 £m	2006 £m	2005 £m
Interest cost	**(0.4)**	(0.4)	(0.3)
Expected return on the Plan assets	**0.3**	0.3	0.2
Net periodic cost	**(0.1)**	(0.1)	(0.1)

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

	2007 £m	2006 £m	2005 £m
Deficit at 1 January	**(2.5)**	(3.3)	(2.1)
Interest cost	**(0.4)**	(0.4)	(0.3)
Actuarial (losses)/gains	**(0.9)**	0.7	(1.3)
Expected return on the Plan assets	**0.3**	0.3	0.2
Contributions from sponsoring companies	**0.2**	0.2	0.2
Deficit at 31 December	**(3.3)**	(2.5)	(3.3)

8 Retirement benefit schemes (continued)

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

	Fair value of assets			Expected return		
	2007 £m	2006 £m	2005 £m	**2007 %**	2006 %	2005 %
Equity instruments	**0.5**	2.0	1.8	**7.4**	7.7	7.5
Fixed interest gilts	**2.4**	1.1	1.3	**4.4**	4.7	4.5
Corporate bonds	**1.8**	1.4	1.3	**6.0**	5.3	5.0
Other assets	**-**	0.3	-	**5.5**	5.0	4.5
	4.7	4.8	4.4			

History of experience adjustments is as follows:

	2007 £m	**% asset or liability value**	2006 £m	% asset or liability value	2005 £m	% asset or liability value	2004 £m	% asset or liability value	2003 £m	% asset or liability value
Difference between actual and expected return of the Plan assets	**(0.5)**	**(11.0)**	-	0.4	0.2	3.8	(0.2)	(4.5)	0.2	4.6
Experience (loss)/gain arising on the Plan liabilities	**(0.1)**	**0.9**	0.3	(3.9)	0.1	(0.8)	(1.0)	17.3	(0.2)	4.0
Effects of changes in assumptions underlying the present value of the Plan liabilities	**(0.3)**	**3.5**	0.4	(5.3)	(1.6)	19.4	(0.3)	4.1	0.2	(3.3)
Total actuarial (loss)/gain	**(0.9)**		0.7		(1.3)		(1.5)		0.2	

9 Share capital

	2007		2006	
	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	**42,520**	**2,126**	42,316	2,116
Exercise of share options	**282**	**14**	204	10
At the end of the year	**42,802**	**2,140**	42,520	2,126

The Company has one class of ordinary share which carries no rights to fixed income. All ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Notes to the Company financial statements for the year ended 31 December 2007

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.

12,625 ordinary shares were issued in respect of options exercised under the Company's 1988 Scheme (referred to below) for a total consideration of £21,589.

269,133 ordinary shares were issued in respect of options exercised under the Company's 1995 Scheme (referred to below) for a total consideration of £159,207. Some of the options under the 1995 scheme were settled on a net basis.

Options

The Company has four 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. The third scheme, the Morgan Sindall Employee Share Option Plan 2007 ('the ESOP 2007') received approval from the Board on 7 June 2007. The ESOP 2007 does not require shareholder approval because all outstanding options exercised under the plan will be settled with market purchased shares. All options under the 1988 Scheme were exercised or lapsed during the period. Options under the 1995 Scheme are exercisable between five and seven years from the date of grant and options under the ESOP 2007, between three and ten years from the date of grant. The period for the granting of options under the 1988 and 1995 Schemes expired in January 1998 and May 2005 respectively. The period for granting options under the ESOP 2007 expires on 6 June 2017. Details of the options outstanding under the 1995 Scheme and the ESOP 2007 and the respective exercise prices are shown in the Group financial statements note 25. As at 31 December 2007 there remained 640,000 options outstanding under the 1995 Scheme exercisable at prices between £2.07 and £4.95. On the same date, there remained 164,000 options outstanding under the 2007 Scheme exercisable at prices between £10.51 and £16.76. In addition, details of the Morgan Sindall Executive Remuneration Plan 2005 are disclosed in the directors' remuneration report on pages 34 to 39.

Own shares

Own shares at cost represent 752,169 (2006: 621,381) ordinary shares in the Company held in the Morgan Sindall Employee Benefit Trust ('the Trust') in connection with certain share incentive schemes as detailed in the directors' remuneration report on pages 34 to 39. The trustees of the Trust purchase 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 615,766 (2006: 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 2007 of £10.39 (2006: £13.28), the market value of the shares was £7,815,036 (2006: £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 significant interests in 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
Morgan Ashurst plc	Construction
Morgan Professional Services Limited	Design services
Morgan Est Holdings Limited	Infrastructure services
Morgan Est plc	Infrastructure services
Magnor Plant Hire Limited	Construction plant hire
Muse Developments Limited	Urban regeneration
Morgan Sindall Investments Limited	Investments
* 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
* Renaissance Miles Platting Limited (33¹/₃%)	Mixed tenure development
* Eurocentral Partnership Limited (50%)	Commercial premises and rail freight terminal developer
* Lingley Mere Business Park Development Company Limited (50%)	Developer of existing and new commercial office space
* Bromley Park Limited (50%)	Residential developer
* English Cities Fund (12.5%)	Inner City regeneration
* ISIS Waterside Regeneration (25%)	Waterside regeneration

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 except for English Cities Fund and ISIS Waterside Regeneration, details of which are shown in the Group financial statements note 11. With the exception of Stansell QVC Limited, registered in Jersey and Newman Insurance Company Limited registered and operating in Guernsey, all undertakings are registered in England and 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.

11 Operating lease arrangements

The Company has an operating lease commitment in respect of land and buildings for between 2 and 5 years for £0.2m (2006: £nil). Lease payments recognised as an expense in the year amounted to £0.1m (2006: £nil).

Corporate directory

Directors

John Morgan
Paul Smith
David Mulligan
Paul Whitmore
Bernard Asher (non-executive)
Gill Barr (non-executive)
Geraldine Gallacher (non-executive)
John Walden (non-executive)

Company Secretary
Mary Nettleship

Registered office
Kent House, 14-17 Market Place,
London, W1W 8AJ
Tel: 020 7307 9200
Fax: 020 7307 9201
Registered No: 521970

Solicitors
Slaughter and May
One Bunhill Row, London, EC1Y 8YY

Wragge & Co
55 Colmore Row, Birmingham, B3 2AS

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: enquiries@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 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 was passed at the last annual general meeting to amend the articles of association of the Company to incorporate the 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 the 20 January 2007.

The Company is intending to write to shareholders individually as required by the Act to seek their 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	22 April 08
Final dividend:	
Ex-dividend date	9 April 08
Record date	11 April 08
Payment date	6 May 08
Interim results announcement	August 08

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50% recycled stock