

MORGAN  SINDALL

# the construction and regeneration group

report and  
accounts 2008

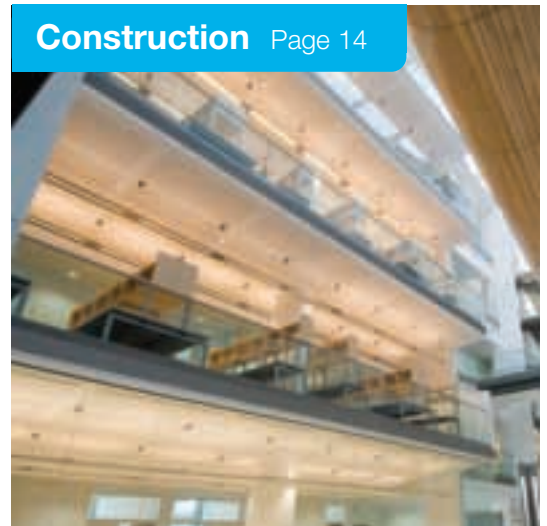


Morgan Sindall is a leading UK construction and regeneration business employing over 8,500 people and operating in the public and commercial sectors. Its five main operating divisions are Fit Out, Construction, Infrastructure Services, Affordable Housing and Urban Regeneration.

**Fit Out** Page 12



**Construction** Page 14



**Affordable Housing** Page 18



**Urban Regeneration** Page 20





## Infrastructure Services Page 16



### Fit Out

Fit Out operates through four businesses. Overbury is the UK's leading office fit out and refurbishment specialist while 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

Construction comprises Morgan Ashurst and Morgan Professional Services. Morgan Ashurst is a construction business working across the public and commercial sectors with particular expertise in education and health. Morgan Professional Services is a multi-disciplined design and project management business.

### Infrastructure Services

Morgan Est is one of the UK's leading providers of integrated infrastructure services. It operates primarily in the transport, water and energy sectors and has particular expertise in tunnelling, utilities services and complex engineering projects.


### Affordable Housing

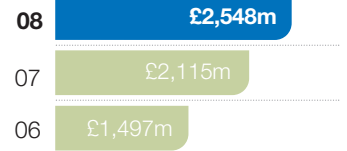
Lovell develops, constructs and refurbishes social and open market affordable housing. It specialises in schemes in partnership with Registered Social Landlords that contain a mix of homes for rent, homes for sale under shared ownership and shared equity and affordable homes for sale to the open market.

### Urban Regeneration


Muse Developments delivers large scale mixed use urban regeneration projects through development agreements in partnership with public and private landowners. The business operates in the office, industrial, residential, leisure and ancillary retail sectors.

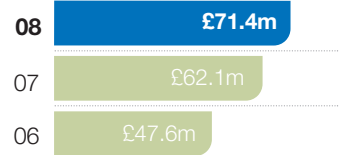
## Revenue

 **20%** Group revenue increased by 20% in 2008, see **page 68** for a breakdown.




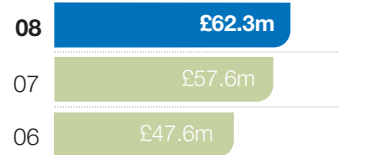
## Profit before tax and amortisation

 **15%** The Group reports a 15% increase in profit before tax and amortisation, detailed on **page 68**.



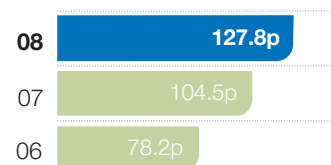
## Profit before tax

 **8%** An increase in profit before tax in 2008 of 8% demonstrates the financial resilience of the Group, see income statement on **page 54**.



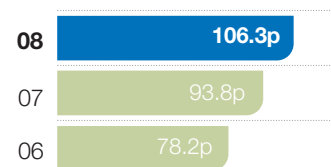
## Adjusted EPS

**22%** Earnings per share before amortisation of intangible assets is 127.8p, representing an increase from 2007 of 22%, see **page 73**.



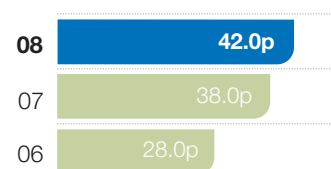
## Basic EPS

**13%** A 13% increase in basic earnings per share in 2008, outlined further on **page 73**.



## Dividends

**11%** The final dividend for the year is recommended at 30.0p giving a total dividend of 42.0p, an increase of 11% for the year. The dividends are detailed on **page 73**.



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## We are pleased to report that Morgan Sindall produced a record result in 2008.

Trading across the Group was in line with our expectations and we are pleased to report a 20% increase in revenue to £2,548m (2007: £2,115m) and a 15% increase in profit before tax and amortisation to £71.4m (2007: £62.1m).

Profit before tax (after amortisation of intangible assets) rose by 8% to £62.3m (2007: £57.6m) while earnings per share before amortisation of intangible assets increased by 22% to 127.8p (2007: 104.5p). A final dividend of 30.0p (2007: 28.0p) is recommended by the Board, giving a total dividend for the year of 42.0p (2007: 38.0p), an increase of 11%.

The Group remains financially strong with average cash balances for the year of £77m (2007: £75m), year end cash of £120m (2007: £219m) and debt facilities available if required to help us exploit opportunities presented by our markets.

### Strategy

This record performance was achieved through our long-term strategy of creating a construction and regeneration group with market leading positions in our chosen sectors within the UK construction market. In 2008 Fit Out produced an excellent performance, expanding its workload in the public sector to offset the decline in the commercial sector, matching the record operating profit achieved in 2007 and delivering a peak operating margin. The Construction and Infrastructure Services divisions both increased in size, scale and capability and generated record operating profits in 2008 reflecting the full year impact of the July 2007 acquisition from Amec in addition to organic growth from public and regulated sector work. Affordable Housing concentrated on its refurbishment and new build social housing capabilities to largely offset the impact of the subdued open market housing sector.



# Chairman and chief executive's statement

Finally, Urban Regeneration performed in line with our expectations in 2008 and remains ideally positioned to take advantage of opportunities presented when its market recovers. We report more fully on each division and explain in greater detail the diversity and balance of our work in the business review following this statement.

## Changes to the Board

We welcome Adrian Martin to the Board as a non-executive director. The Board will benefit from his accounting and financial expertise as well as his experience over a number of years in various executive and non-executive roles.

Bernard Asher will retire from the Board at the forthcoming Annual General Meeting. We would like to extend our personal thanks and recognition for his wisdom, guidance and support to the Group for over a decade during which time our revenue has grown from £331m to £2.5bn.

## Looking ahead

We expect 2009 to remain challenging for the Group as the construction and regeneration markets continue to be affected by the general economic downturn. As previously announced, we expect the strength in the infrastructure market to continue, as will the ongoing weakness of the commercial property and open market housing sectors. Overall, we expect a reduction in the Group's level of profitability in 2009 compared to the previous year. Nevertheless we do expect opportunities to present themselves and we remain positive given the financial strength of the Group and its market leading positions in a number of construction and regeneration market sectors. Fit Out is well positioned with a broad sector spread, which gives it flexibility to react to changes in any one particular sector. Construction's exposure to the public sector and the education market in particular will help to counter

any further softening in demand from the private sector. Infrastructure Services' market is set for further growth with expansion in the transport, water and energy sectors given a number of major projects currently being procured. Affordable Housing is seeing buoyant demand for refurbishment and social housing new build, which will help to mitigate the impact of weak open market demand. Finally, Urban Regeneration is continuing to secure development agreements, particularly with the public sector, although its short-term outlook remains subdued.

Given the general economic downturn we continue to place an increased emphasis on cash and working capital management, cost reductions and supply chain improvements in each of our divisions. At the same time, however, we are seeking to exploit growth opportunities where they arise.

Our forward order book at the start of 2009 stood at £3.7bn (2007: £4.3bn) and, in addition, Urban Regeneration's forward development pipeline, its share of regeneration projects in which it has an interest, is valued at £1.3bn (2007: £1.2bn). The forward order book gives us good visibility and a measure of confidence over the coming year's performance. This, added to a healthy pipeline of opportunities, particularly a number of major upcoming infrastructure projects, and our financial resources, provides us with confidence as we progress into 2009.

Overall, therefore, we are well placed to emerge from these challenging times as an even stronger business. We all face 2009 with the positive attitude, enthusiasm and drive that has characterised Morgan Sindall for so long.

**John Morgan**  
Executive chairman

**Paul Smith**  
Chief executive

24 February 2009

## Business review

### Forward looking statements

This business review on pages 4 to 21 has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. It should not be relied on by any other party or for other purposes.

The business review contains certain forward looking statements. These statements have been made by the directors in good faith based on information available to them up until the day 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.

### The construction and regeneration group

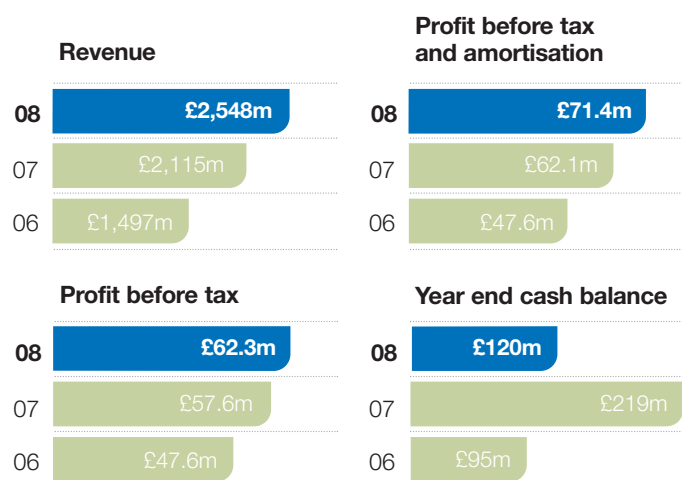
Morgan Sindall, the construction and regeneration group, is structured into five main operating divisions, namely Fit Out, Construction, Infrastructure Services, Affordable Housing and Urban Regeneration, which span the UK construction market with a balance of activities in both the public and commercial sectors. In addition the Group Activities segment includes the activities of the parent company and Morgan Sindall Investments, the Group's project investment team.

Full divisional descriptions are contained on [pages 12-21](#)

### Record performance in 2008

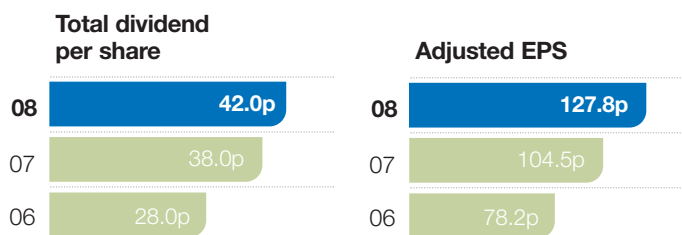
Morgan Sindall delivered a record result in 2008. Profit before tax and amortisation increased by 15% in 2008 to £71.4m (2007: £62.1m) on revenue which increased by 20% to £2,548m (2007: £2,115m). This was due to the underlying growth of Infrastructure Services as well as the full year impact of the July 2007 acquisition on the Infrastructure Services and Construction divisions offset by a fall in profit at Affordable Housing.

Profit before tax increased by 8% to £62.3m (2007: £57.6m). The income tax expense for the year reduced to £17.5m (2007: £18.2m) as a result of a reduction in the corporation tax rate and the benefit of an adjustment in respect of prior years' tax. Earnings per share before amortisation of intangible assets ('adjusted EPS') increased by 22% to 127.8p (2007: 104.5p). This performance is attributable to the consistent application of our strategy of seeking to create market leading positions in our chosen sectors of the construction and regeneration markets.



### Continued growth in dividend

The final dividend for the year recommended by the Board is 30.0p (2007: 28.0p) giving a total dividend for the year of 42.0p (2007: 38.0p), being covered by adjusted EPS by 3.0 times (2007: 2.8 times). The Group's policy is to increase the dividend broadly in line with the growth in earnings, aiming to cover the dividend by earnings between two and a half and three times.



### Strategy remains the same

Morgan Sindall's strategy is to create 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 stakeholders through both organic and acquisitive growth.

Each business within Morgan Sindall occupies or is working towards a leading position in its market by pursuing these key objectives:

- to focus on the quality of our delivery in order to satisfy our clients' needs and expectations
- to attract, develop and retain talented employees
- to develop businesses that operate safely with sustainable profit streams
- to ensure we generate the cash resources to develop our businesses and to fund acquisitions.



# £71.4m

Profit before tax and amortisation (up 15%)

The ultimate success of the Group's strategy is measured by the margin generated by each division. We continue to 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 that clients place on the services that our businesses provide.

The Group further measures success through five principal Key Performance Indicators, shown in the table below.

### Key performance indicators ('KPIs')

KPIs	Comment	Performance in 2008
<b>Margin</b>	The margin is the principal measure used by the Group to assess the success of its strategy. It is the profit from operations before amortisation of intangible assets, expressed as a percentage of revenue.	A slight reduction in 2008 to 2.6% (2007: 2.7%). The growth in revenue at the Construction and Infrastructure Services divisions, where margins tend to be lower than for the other divisions, has led to a slight reduction in the overall Group margin.
<b>Adjusted EPS</b>	Adjusted EPS is taken as an overall indicator of performance. It is basic EPS before amortisation of intangible assets.	Adjusted EPS increased by 22% to 127.8p (2007: 104.5p). This reflects the increased profit and a reduction in the effective tax rate for the Group.
<b>Cash balance</b>	Cash is critical for providing the financial resources to develop the Group's businesses and to fund acquisitions.	The average cash balance for the year was £77m (2007: £75m). Year end cash balance was £120m (2007: £219m) providing the Group with financial resources to exploit opportunities as they present themselves.
<b>Forward order book</b>	The forward order book gives visibility on future activity and allows the Group to plan and adapt accordingly. It includes the future revenue from legally committed contracts and a reasonable estimate of future revenue under framework arrangements.	The forward order book at the year end was £3.7bn (2007: £4.3bn). This gives good visibility for the anticipated workload in the coming year.
<b>Accident incident rate ('AIR')</b>	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 AIR is the number of reported incidents expressed as a rate per 100,000 persons employed.	The AIR for 2008 is 719 (2007: 737). Further details are given on page 10 of this business review.

# 30.0p

Final dividend (up 7%)

### Strength through decentralisation

Decentralisation is at the heart of Morgan Sindall's approach. The Group seeks to minimise the activities of the parent company and allow the operating divisions to structure themselves to best suit the different sectors in which they operate. Crucially at a time of significant change in our market, this approach allows the divisions to be more responsive to the changing demands of their clients.

The role of the Board is to set the Group's overall strategy and direction and to ensure the right leadership is in place for each division. In addition it also ensures that the divisions are properly managed through the agreement of business plans and objectives and monitoring of performance against these plans. The Board also governs the internal control environment through the establishment of Group policies and standards for business operations.

### Market outlook for 2009

The UK construction market grew by an estimated 1% in 2008 (2007: 2.5%) and the forecast growth of the UK economy was 0.8% (2007: 3.1%). Within the overall UK construction market the infrastructure and public non-residential sectors experienced strong growth in 2008 which benefited the Group and helped to offset weaker demand in the private commercial and residential sectors.

Trading conditions are expected to be challenging in 2009 against a poor general economic backdrop with UK GDP forecasts for 2009 of a decline of around 3.0%. Construction sector forecasts suggest infrastructure and public non-residential markets are set for further growth but the overall market is expected to continue to be impacted by further decline in the private commercial sector. More detailed comments by division are included in the divisional reviews on pages 12 to 21.

With the public and regulated sectors forecast to continue to grow in 2009, the Group is currently well positioned with around three quarters of the Group's revenue coming from these sectors.

The Group forward order book as at 31 December 2008 stood at £3.7bn, which helped us to enter the year with both confidence and enthusiasm.

### Shareholders' equity

Shareholders' equity increased to £192.3m (2007: £165.7m). The number of shares in issue at 31 December 2008 was 43.0m (2007: 42.8m). The increase of 0.2m shares was due to the exercise of options under employee share option schemes.

### Cash flows as expected

The cash position of the Group remains strong at £120m (2007: £219m). Average cash during 2008 was £77m (2007: £75m) reflecting increased profitability offset by increased working capital requirements as discussed on page 8.

The net cash outflow from operating activities was £65.5m (2007: inflow of £158.1m), with operating profit being offset by an increased level of working capital employed in the business. The working capital movement is as a result of the increased level of inventories of £43m primarily arising from the slowdown in the pace of open market house sales at Affordable Housing and the cash outflow related to the movement in contract fair value provisions of £40m created in relation to the July 2007 acquisition. The other major categories of cashflow were as follows. There were no net payments to acquire subsidiaries (2007: £11.3m), capital expenditure was £8.4m (2007: £8.0m) and payments to increase interests in joint ventures were £12.4m (2007: £5.0m), reflecting ongoing investment in the business. After payments for tax, dividends and servicing of finance, the net decrease in cash and cash equivalents was £98.6m. It is anticipated that the cash resources will be available for the development of the Group's businesses either through funding acquisitions or investment in working capital as required.

### Group maintains bank facilities in addition to cash resources

In addition to its cash resources the Group has a £25m loan facility available until November 2009, a further £25m loan facility available until June 2010 and a £25m, 364-day loan facility which can be extended at the Group's option until June 2010. Banking facilities are subject to financial covenants, all of which have been met in the year.

The Group has established treasury policies which set out clear guidelines as to the use of counterparties and the maximum period of borrowings and deposits. Deposits are for periods of no longer than three months. The Group has very limited exposure to foreign exchange risk because its operations are based almost entirely in the UK and non-UK suppliers are used only occasionally.

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

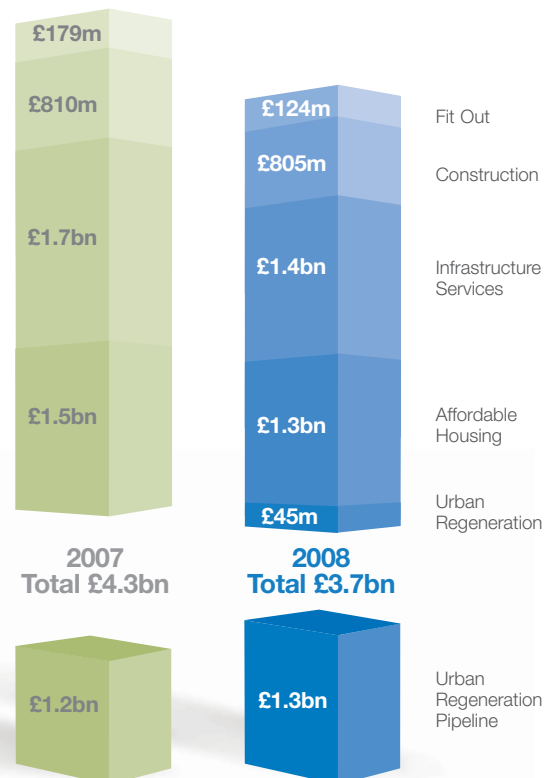
### Going concern

The chairman and chief executive's statement on pages 2 to 3 and the business review on pages 4 to 21 set out the Group's activities, its performance in 2008, its financial position at 31 December 2008 and the outlook for 2009. Details of its cash flows, liquidity position and borrowing facilities and of the key risks and uncertainties to the Group achieving its strategy and objectives and of how these risks are managed are also included in the business review on pages 4 to 21. In addition, note 28 to the consolidated financial statements describes the credit, liquidity and market risks facing the Group, the way the Group manages these risks as well as the Group's capital management policies.

As stated in those paragraphs referred to above, the Group has considerable financial resources with £120m net cash as at 31 December 2008 and banking facilities extending until at least June 2010. It also has a strong forward order book, a balanced portfolio of current and future work with commercial and public sector clients across the UK, and the directors believe the Group is well placed to manage its business risks successfully despite the uncertain economic outlook.

Having regard to the above and after making enquiries, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Forward order book



### Key risks

Morgan Sindall has identified and actively manages a number of key risks to achieving the Group's strategy and objectives. Its risk management process is underpinned by internal audit and assurance processes to test and improve controls. The principal risks facing the Group, and the way they are managed, are as follows:

#### Developing talent

Without talented people the Group will not be able to improve the quality of its delivery, grow or develop sustained financial performance. As the Group grows it is critical that talented individuals are attracted, developed and retained at every operating level. A key element of employee training and retention is the Morgan Sindall Development Programme ('MSDP'), which seeks to develop individual skills and management techniques across the Group.

# 127.8p

Adjusted EPS (up 22%)

## Operating safety

The Group's health and safety performance affects employees, subcontractors and the public and, in turn, can impact on its reputation and commercial performance. The Group has a comprehensive framework in place to manage health and safety risks. The cross divisional sharing of best practice continues to develop robust safety management systems and includes training, auditing and frequent site visits.

## Market risks

The Group needs to retain flexibility to swiftly respond to changing market conditions, especially in the current economic climate. This approach seeks to mitigate any adverse financial impact of market changes and to ensure we have the appropriate level of resources. The market sectors in which the Group operates are affected, to varying degrees, by general macro economic conditions and in particular by changes in Government spending priorities. Changes in the level of activity in each sector are closely monitored, as is the forward order book and pipeline of opportunities. A consistent and open dialogue with our clients helps us to understand their plans and priorities and to gather formal and informal market intelligence. The Group's balance of activities also gives it resilience, with its broad sector spread giving a degree of protection against a downturn in any one sector of the economy.

## Regulatory risks

The Group operates within a constantly changing regulatory environment. Non-compliance with regulations can lead to damage to the Group's reputation and market standing and consequently may lead to financial penalties and impact the Group's ability to secure new business. The main approach to managing this risk is to ensure that our systems and processes evolve and develop in line with regulatory changes and are swiftly communicated throughout the divisions. In addition this risk is managed through our advisors giving technical briefings 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 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. Robust procedures also exist to manage the ongoing risks associated with contracts with monthly reviews of each contract's performance covering both financial and operational issues.

## Acquisition risks

The Group regularly identifies and evaluates potential acquisitions. As an opportunity develops the Group identifies the risks related to an acquisition and determines whether the acquisition should be progressed. Where a decision is made to progress, 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. Risks associated with the post-acquisition integration of acquired businesses are mitigated by developing detailed integration plans and by closely managing the integration process. This ensures that the value of goodwill is protected and that anticipated synergies are fully realised.

## Counterparty and liquidity risk

Without sufficient liquidity, the Group's ability to meet its liabilities as they fall due would be compromised, which could ultimately lead to its failure to continue as a going concern. Key to the Group's continuing ability to meet its liabilities as they fall due is the careful monitoring and review of both current and potential clients and suppliers with which we do business and continual monitoring of current and forecast cash and working capital. Further disclosure on liquidity risks and liquidity risk management is contained in note 28 to the consolidated financial statements on pages 101 to 102.

## Sustainability review

During 2008, the Group undertook a review with regard to its activities in the areas of recruitment and training, health, safety and the environment, as well as the social and economic aspects of sustainability. In 2007 these business activities were reported under the heading of Corporate Social Responsibility. During the course of the 2008 review, it became apparent that the term Sustainability better describes the scope of the Group's current policies, actions and impacts, as well as its future aspirations. A more focused approach has now been adopted, with future policies, initiatives and education programmes aimed more specifically at addressing the issues of Sustainability rather than the concept of Corporate Social Responsibility.

This year the Group has focused in particular on four strategic priorities:

- supply chain management
- carbon management
- health and safety
- talented people.

The Group's actions can have a major positive impact on the welfare and prosperity of future generations and the Group takes its obligations to sustainability very seriously. The Company's commercial director is the executive director responsible for sustainability issues and is supported by a cross-divisional team. Policies and strategies, which often include the measurement and verification of KPIs, are either in place or are being developed at Group and divisional levels. Morgan Sindall is a committed member of FTSE4Good, as it has been since its inception in 2001. Numerous projects completed during the year (some of which are highlighted elsewhere in this report) demonstrate the abilities of the divisions to deliver to recognised environmental, social and economic standards.

### Supply chain management

Recognising the significant contribution that the supply chain can make to the Group's sustainable performance, Morgan Sindall began a series of sustainability workshops in the latter part of 2008. Designed to educate and train staff in sustainable supply chain management, the externally facilitated workshops, run in conjunction with London Remade, also served to assist in defining the Group's sustainable procurement objectives. An action plan has been drawn up and it is expected that the Group's sustainable procurement policy will be finalised and enacted in 2009. This is a key area where the Group can

exert its influence, through its purchasing policies, to ensure that minimum standards are met and is a policy that will aim to encourage suppliers to improve their own environmental performance. An excellent example of this approach is the procurement of timber.

The Group uses just four importers/distributors to supply timber material and its purchasing policy is to obtain material certified under the Forest Stewardship Council ('FSC') or Programme for Endorsement of Forest Certification ('PEFC') schemes. In 2008, 77% of directly purchased timber met these criteria. Where FSC or PEFC certification is unavailable, only products certified from another recognised body such as the Sustainable Forestry Initiative or the Canadian Standards Association are normally purchased. In a small number of cases, where no certification is in place, the Group insists on evidence from the supplier that the material has been procured legally.

Morgan Sindall recognises the major role the construction industry can play in materials recovery, re-use and recycling. Eliminating waste taken to landfill, by developing segregated waste streams, sorting and recovery, is an important aspect of the work undertaken across all the divisions. The type of project often determines the most appropriate treatment of the waste stream. Materials such as reclaimed timber from an urban redevelopment project will be recycled or recovered prior to subsequent reuse by the local community. Information on improvements in waste management form part of the data gathering that takes place after project completion so that lessons can be learned and applied in the future, thereby continually developing best practice. Reported waste volume for each project is used as a KPI within the Group's sustainability objectives.

Environmental performance <sup>1</sup>	2008	2007
Total waste diverted from landfill	<b>938,090 tonnes</b>	505,000 tonnes
Total waste produced	<b>1,400,262 tonnes</b>	808,000 tonnes
% diverted from landfill	<b>66.9%</b>	62.5%

<sup>1</sup>This data includes all materials classified as waste and that are removed from site irrespective of whether they are disposed to landfill or recycled/reused elsewhere. The Group's recycling figures relate to waste that have been identified as being reused or recycled.



**Carbon management**

Recognising the enormous contribution that construction and regeneration can make to reducing carbon emissions, Morgan Sindall has identified carbon management as a priority. In order to fully understand the impact of its activities, and the way in which carbon reductions can be achieved, the Group appointed IBM to undertake a comprehensive carbon review. The review findings will be available in early 2009 and will be acted upon during the remainder of the year ahead. They will help the Group to focus on key environmental improvements as well as prepare for the introduction of the Government’s Carbon Reduction Commitment. The main aims of this independent carbon management review are to:

- closer align environmental and business strategies within the Group
- gain a more meaningful and measurable view of environmental performance
- define unambiguous priorities for action coupled with practical solutions
- accurately establish the Group’s carbon footprint.

As a business, Morgan Sindall is well placed to influence improvements in energy use and subsequent reductions in carbon emissions. The varied nature of the Group’s activities span civil engineering, commercial new build, housing, the refurbishment of existing properties and the large scale regeneration and redevelopment of urban areas. By applying energy efficient building practices, the Group can contribute significantly to reducing the whole life energy cost of buildings. This life cycle is extended even further by Morgan Lovell and Morgan Professional Services who, through their design expertise, are able to specify and influence the type of materials and products used by developers and sub-contractors.

Further examples of the Group’s environmental performance are contained in the 2008 project focus on pages 22 to 33.

**Health and safety**

During 2008 a number of safety milestones were reached in numerous projects across the divisions. These include no reportable accidents since 2004 at one divisional company, over 1 million man hours worked with no reportable accidents by a divisional partnership team and a 20% increase in the number of employees across the Group completing the Construction Skills Certification Scheme. The Group’s health and safety forum supports a number of initiatives that have been undertaken during 2008, including sponsorship of the Trojan Horse Project. This is an industry-wide initiative

designed to improve the package labelling of construction products, using pictorial images, to assist the workforce in the immediate recognition of risks at the point of use.

Unfortunately, despite improvements in training numbers and a focus on safety education, the commitment to a safe working environment was overshadowed by the tragic death of a subcontractor whilst carrying out construction work on a Group site. Despite a robust and enduring commitment at all levels of management to site health and safety, this accident served as a stark reminder of the potential dangers in the industry. The Group remains committed to working on improving health and safety policies, education and management to ensure that all workplaces remain safe for all personnel and the public.

Morgan Sindall performance on the nominated Health and Safety KPIs is as follows:

	2008	2007	2006	Major Contractors’ Group (‘MCG’) 2008
Fatalities	1	1	0	7
Major incidents (AIR)	330	202	201	267
Other over 3 day incidents (AIR)	389	535	535	337
Total of all reportable incidents (AIR)	719	737	736	604

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

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

During 2008, Morgan Sindall contributed to the Health and Safety Executive’s (‘HSE’) review of health and safety strategy. This was initiated because of the HSE’s concerns that improvements in performance, throughout Great Britain,

have stalled since 2003. Work undertaken by the Group in reducing accidents and raising awareness of correct health and safety procedures is reflected in the reduction of the AIR for the year. This reverses the slight upward trend of previous years. Although site population has increased by 21% since 2007, the increase in work related accidents has risen by only 18%, with a significant reduction in three day incidents. The Group is satisfied that figures closely match the averages of the MCG Companies for 2008 and the overall policies and management systems already in place are both robust and appropriate. However, an increase in the number of major accidents, even given the overall downward trend in AIR, is unacceptable. More work is being undertaken to identify the causes of accidents and minimise risk throughout the workplace.

The Group is committed to the need to focus upon behavioural change in the way health and safety issues are handled on construction sites, with a positive emphasis upon applied active learning, the investigation and analysis of near miss events, and the ongoing engagement with the direct and indirectly employed workforce in the spread of best practice. The divisions are encouraged to adopt their own programmes tailored to their specific business needs to address these fundamental issues.

### Talented people

Enthusiastic, well trained and qualified staff are vital to the continuing success of Morgan Sindall. The Group actively promotes a policy of equal opportunity employment, which assists in attracting and retaining the best talent in the industry. The success of these policies is reflected in a reduction in leaver rates in 2008 due to job satisfaction or career development. Recruitment procedures, selection criteria and training opportunities are designed to ensure that all individuals are chosen, 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 work 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.

Effective communication with stakeholders on all aspects of sustainability is important to Morgan Sindall and its divisional businesses. The main channel used for employee communication is the Group's intranet. Corporate policies, information directories and other important information is available to staff using the intranet's extensive index and

search capabilities. Regular news updates on aspects of sustainability, as well as wider issues relating to the construction industry, are made available via the intranet. This service is supported by regular newsletters, produced by each division, which educate and inform staff on a variety of health, safety and environmental issues. Direct engagement with employees is managed through the use of facilitated focus groups. Employee surveys also provide the opportunity for feedback to be obtained and acted upon.

	2008	2007
Average number of employees	<b>8,585</b>	7,209
Average absence due to sickness	<b>4.5 days</b>	5.0 days
Proportion of women employed	<b>15%</b>	15%
Proportion of ethnic minorities employed	<b>6%</b>	3%
Average training per employee	<b>5.0 days</b>	6.0 days
Apprentices at different stages of development	<b>188</b>	188
Undergraduates on year out or being sponsored	<b>110</b>	55
Graduates recruited during the year	<b>37</b>	47

Technical and safety training for construction personnel is a priority for Morgan Sindall with an average of five days training given to each employee during 2008.

Finding and keeping talented people is a priority for the Group. A range of training programmes and initiatives have operated successfully during the year aimed at employees at all levels, from newly recruited graduates to senior managers. A major success has been the continued growth during 2008 of the Morgan Sindall Development Programme, which provides structured management development and helps to share best practice amongst the Group's management personnel. Now in its fifth year, over 400 employees have benefited from the programme since its inception. Activities within the divisions encourage school pupils and leavers to consider a career in the construction industry. Apprenticeship schemes are used across the Group to sustain its direct labour force and encourage new talent.

**The division is well placed due to its spread across a number of market sectors.**





Steve Elliot  
Managing Director, Fit Out

## 2008 KPIs

	2008	2007
Revenue	<b>£474m</b>	£492m
Operating profit	<b>£25.8m</b>	£25.9m
Margin	<b>5.4%</b>	5.3%
Forward order book	<b>£124m</b>	£179m

*Operating profit is profit from operations before amortisation*

Fit Out performed strongly in 2008 delivering operating profit of £25.8m (2007: £25.9m) with an increased margin of 5.4% (2007: 5.3%) equalling the division's peak margin. Revenues across the division fell by 4% to £474m (2007: £492m) in line with our expectations.

Fit Out's businesses are ideally placed to respond to market opportunities presented in tough economic conditions. As previously announced we continue to expect a fall in demand over the course of 2009. However, the division's broad sector spread and market leadership in the quality of its delivery is expected to enable it to adapt to the challenges of the market. It is also expected that a greater balance of activity will come from the fit out of existing commercial offices rather than new buildings. Overbury and Morgan Lovell are leaders in the fit out of occupied office space, and the regional

businesses are providing around a quarter of projects, both of which are markets that traditionally generate resilient workloads in a downturn.

The division has also seen its relative market share in the commercial office market continue to grow to over 20%, largely due to an increased presence in the high value projects sector and organic regional growth. The division completed its largest projects to date during the year, for Deloitte and the International Maritime Organization, both in excess of £40m each. In addition it retained its focus on the strategically important market of projects under £1m in value.

The business continues to secure major frameworks in the office, retail and education sectors, which now account for around a third of the division's revenue. In 2008 these included frameworks with the BBC, RBS, Imperial College and the Post Office.

The Fit Out division is primarily involved in the refurbishment and fit out of office accommodation. It offers clients a national service through a network of eight offices.

Fit Out operates through four businesses:

- Overbury operates in the traditional sector of the office refurbishment and fit out market, working with a client's consultant team
- Morgan Lovell is a design and build specialist for office interiors, providing clients with a one-stop service
- Vivid Interiors fits out and refurbishes hotel, retail, leisure and education facilities
- Backbone Furniture supplies and installs commercial office furniture.

The division's public sector workload, which accounts for around a quarter of projects, is expected to provide some stability to performance in 2009.

The forward order book at the start of the year stood at £124m (2007: £179m), although it has subsequently strengthened to stand at £185m at the end of January, consistent with the same period last year and now extends the forward order book into 2010. The fit out market faces challenging conditions in 2009 with a fall in revenue expected, as previously announced. However, the division is well placed due to its spread across a number of market sectors and resilience coming from its market leading position.



**Strong public sector demand  
will help to offset a weak  
commercial sector.**





Graham Shennan  
Managing Director, Construction

## 2008 KPIs

	2008	2007
Revenue	<b>£813m</b>	£621m
Operating profit	<b>£9.5m</b>	£4.9m
Margin	<b>1.2%</b>	0.8%
Forward order book	<b>£805m</b>	£810m

*Operating profit is profit from operations before amortisation*

Construction delivered strong growth in profitability and revenue in 2008. Revenue increased by 31% to £813m (2007: £621m) during 2008, driven primarily by the full year impact of the July 2007 acquisition, with a strengthened operating profit of £9.5m (2007: £4.9m) and a margin up to 1.2% (2007: 0.8%). The operating profit is stated after one-off costs of £1.0m (2007: £2.8m) relating to the acquisition, which will not recur in 2009. Adjusting the operating profit for these costs gives an operating margin for the period of 1.3% (2007: 1.2%).

The division is currently well placed, with over half of its work in the education sector and in total around three quarters of its work in the public sector. Strong public sector demand will help to offset a weak commercial sector. Spending on education projects is forecast to grow by 28% over the next two years. This includes the Government's multi-billion pound Building Schools for the Future ('BSF') programme under which the Wright Robinson College in Manchester was delivered by the division, and work has started on the £44m construction of Bideford College in Devon.

During 2008, in the healthcare sector, Morgan Ashurst was involved in the delivery of the £250m University College Hospital in London. This recent experience and continued Government investment places the business in a strong position to develop significant new NHS frameworks and key projects.

New opportunities for long-term growth and development were created in 2008 from the improved ability to deliver large scale complex projects and the growing recognition of Morgan Ashurst as a major national contractor. Significant wins during the year included a seven year, £200m construction framework with Cambridgeshire County Council and a four year, £100m school building programme for North Lanarkshire Council. MPS, the division's design, engineering and project management business, has also secured important new contracts in the year, most recently for improvements at Stratford International Station.

## The division

The Construction division comprises two businesses, Morgan Ashurst and Morgan Professional Services ('MPS').

Morgan Ashurst is a national construction business with more than 2,000 employees in the UK. Supported by a national network of local offices, the company works for public and commercial sector clients on projects valued from £50,000 to over £300m. Its construction activities range from small works, repair and maintenance services to large scale complex projects across the airport, commercial, defence, education, healthcare, industrial, leisure and retail sectors.

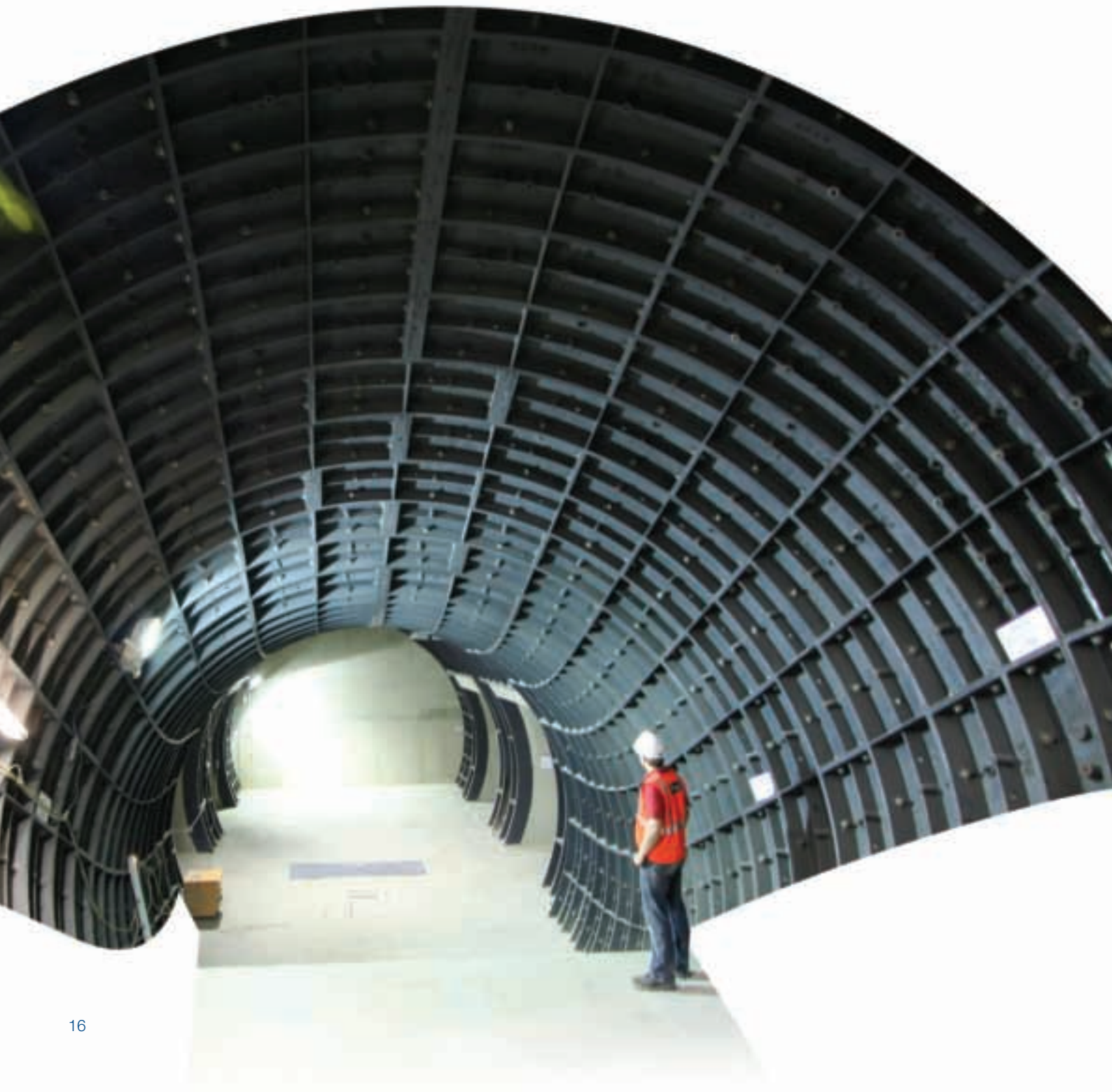
MPS is a leading multi-disciplined design and project management business. It provides management services to the manufacturing, environmental, nuclear, transport and public sectors from its offices in the UK and Europe.

Most of the division's business is public sector and relationship-based. This has been and continues to be an important strategy for the division.

The division has also been able to secure long-term construction frameworks and partnerships by differentiating the business through project performance and exceptional customer service. As a result new agreements with BAA, North Lanarkshire Council, Health Properties, Airbus and a number of local authority special works frameworks, which focus on small scale projects, have been secured. Framework and negotiated work now account for around 70% of the division's revenue.

The forward order book for the division stands at £805m (2007: £810m), providing a solid platform for expected performance in 2009. We anticipate that the market may become more challenging over the next two years. However, with its focus on public sector work, a strong framework business and an emphasis on customer service excellence, the business is well placed to meet the challenges ahead.

**The division continues to benefit from a strong market.**





Mark Cutler  
Managing Director, Infrastructure Services

## 2008 KPIs

	2008	2007
Revenue	<b>£799m</b>	£575m
Operating profit	<b>£14.4m</b>	£10.6m
Margin	<b>1.8%</b>	1.8%
Forward order book	<b>£1.4bn</b>	£1.7bn

*Operating profit is profit from operations before amortisation*

Revenue increased by 39% in 2008 to £799m (2007: £575m), largely due to the full year impact of the July 2007 acquisition. Operating profit increased by 36% to reach £14.4m (2007: £10.6m). Margin was maintained at 1.8% (2007: 1.8%). The operating profit is also stated after one-off IT costs relating to the acquisition of £1.4m (2007: £1.4m) which will not recur in 2009. Adjusting the operating profit for these costs gives a margin of 2.0% (2007: 2.1%).

The division continues to benefit from a strong market which underpinned a record year in 2008. The division expanded by more than a third through growth in the transport, water and energy sectors and through the full year impact of the July 2007 acquisition.

There were significant project successes in 2008, including the completion of a new London Underground Station at Shepherd's Bush, the opening of the DLR Woolwich Arsenal Extension valued at £180m and the £120m Kincardine Crossing in Scotland, a project which was technically complex and environmentally challenging. The division is also increasingly working with other divisions within Morgan Sindall, such as Morgan Ashurst on RAF Valley and Paddington Station.

Key long-term frameworks were secured during the year including the Vendor Capital Programme for London Underground. Growing experience in delivering energy projects, including the wind farms at Clachan Flats in Scotland and the biomass plants at Drax and Longannet, creates substantial opportunities for future growth. The division will seek to secure and renew frameworks and contracts in the energy and water sectors for the next regulated period.

## The division

Morgan Est is one of the UK's leading providers of integrated infrastructure services. The division has five business units which work together to provide integrated solutions across the transport, water and energy sectors, as follows:

- Infrastructure Projects, specialising in the design and delivery of complex projects in the road, water and energy sectors
- Utility Services, maintaining utility networks in the water, gas and electricity sectors
- Capital Projects, specialising in the design and delivery of complex projects in the air and rail sectors
- Tunnelling Services, the UK's leading tunnelling contractor
- Programme Management Services, offering project, programme and integration management consultancy services for customers through the entire life cycle of large capital investment programmes.

The forward order book stands at £1.4bn (2007: £1.7bn) and the division is currently bidding a number of major infrastructure projects. The division's diverse and numerous opportunities provide an exciting outlook for 2009 and beyond. In the short-term it sees further opportunities in the transport, water and energy sectors. In the medium-term it is positioning itself in anticipation of new opportunities in both the nuclear and traditional power generation sectors and the defence sector which offer significant expansion opportunities.



**Affordable Housing continues to secure and deliver refurbishment and new build social housing projects.**





Stewart Davenport  
Managing Director, Affordable Housing

## 2008 KPIs

	2008	2007
Revenue	<b>£377m</b>	£398m
Operating profit	<b>£21.0m</b>	£25.5m
Margin	<b>5.6%</b>	6.4%
Forward order book	<b>£1.3bn</b>	£1.5bn

*Operating profit is profit from operations before amortisation*

Affordable Housing delivered an operating profit of £21.0m (2007: £25.5m) on revenue that fell to £377m (2007: £398m) in line with our expectations, reflecting the effect of tightened credit conditions for home buyers. The division achieved a margin of 5.6% (2007: 6.4%), which was impacted by the fall in open market housing volumes.

Affordable Housing continued to secure and deliver refurbishment and new build social housing projects, which helped to largely offset the impact of the downturn in open market housing. The affordable housing sector remains a key Government priority and the recent announcement to accelerate spending in this area is encouraging. In addition the Government's Decent Homes Programme has been extended until 2012 in England, and longer still in Wales and Scotland, providing an optimistic outlook for this sector over the medium-term. In 2008, refurbishment projects under this programme contributed around half of the division's revenue.

Tough credit conditions contributed to a slowing of demand for open market affordable homes in 2008, which is expected to continue in 2009. In response to these conditions, Lovell has introduced a new shared equity scheme which is showing significant take up. In addition, the division's 'tenure blind' approach to housing development, which means that homes across a mixed tenure scheme are built to a similar standard, is providing the opportunity to switch homes destined originally for the open market to additional stock for Registered Social Landlords.

Lovell has completed three schemes in the year as a Homes and Communities Agency partner and the partnership will continue to generate a significant number of opportunities for the business as a direct recipient of Government grants for development. Additionally Compendium, our joint venture business with the Riverside Group, offers a full one-stop approach to design, sale and

management of large scale residential regeneration projects which has been successfully applied in the completion of the first two years of its five year Coalville project in Stoke-on-Trent.

The forward order book stands at £1.3bn (2007: £1.5bn). Affordable Housing continues to focus in the short-term on refurbishment and new build social housing, reducing production costs and selling units designated for open market sale to Registered Social Landlords. The division's success in these areas will help to offset the impact in 2009 of the ongoing downturn in open market house sales.

## The division

The Affordable Housing division develops, constructs and refurbishes social and open market affordable housing in England, Scotland and Wales.

The business operates in three core markets:

- refurbishment of existing local authority housing stock under the Government's Decent Homes Programme
- new build social housing, working in partnership with Registered Social Landlords and local authorities to complete new homes for social rent and shared ownership
- open market new build of affordable homes for sale on the open market.

Lovell has particular expertise in mixed tenure developments, which are schemes that contain a mix of homes for rent, homes for sale under shared ownership and shared equity and affordable homes for sale to the open market.



**The division's approach to partnering underpinned the achievements of Muse in 2008.**





## Business review Urban Regeneration



**Matt Crompton**  
Managing Director, Urban Regeneration



**Nigel Franklin**  
Managing Director, Urban Regeneration

### 2008 KPIs

	2008	2007*
Revenue	<b>£84m</b>	£26m
Operating profit	<b>£7.8m</b>	£4.2m
Margin	<b>9.3%</b>	16.2%
Share of development pipeline	<b>£1.3bn</b>	£1.2bn

\*2007 figures relate to five months' performance only.

*Operating profit is profit from operations before amortisation*

In 2008 the Urban Regeneration division delivered revenue of £84m (2007: £26m) and operating profit of £7.8m (2007: £4.2m), its first full year contribution following its acquisition in July 2007.

The division is responding to the challenges of the market by revisiting existing plans and rephasing developments to ensure it is best placed to take full advantage when the market improves. Although the recent softening of the commercial and residential property sectors means the short-term outlook for the division is subdued, the Group remains of the view that mixed use development is central to the regeneration of urban communities in areas of social and economic deprivation and will provide major opportunities in the long-term.

The division's approach to partnering underpinned the achievements of Muse in 2008. In particular it secured the £350m redevelopment of Swindon Town Centre in partnership with Swindon Borough Council, South West of England Regional Development Agency and the Homes and Communities Agency. During the year the division also created a number of new facilities for clients, including the Greater Manchester Police Authority, Intercontinental Hotels, Standard Life and the Department for Communities and Local Government. In all, over 700,000 sq ft of offices, industrial, leisure and residential facilities were completed during the year.

Several other large scale opportunities, where Muse is in a preferred developer position, were also advanced considerably during the year.

These are expected to conclude during 2009 and to provide phases of profitable development in future years. Commercial and residential lettings and pre sales in 2008, including a 45,000 sq ft pre sale of an office building to United Utilities plc in Warrington, will contribute towards Muse's income in future years.

Muse's business model provides insulation from adverse cost and value corrections, as it does not hold substantial land assets. Its share of the development pipeline of projects in which it has an interest has increased in value to £1.3bn (2007: £1.2bn) with its share of three projects at preferred bidder valued at £650m. The division is expecting subdued conditions in the short-term with an excellent platform for growth when the market returns to strength in the medium-term.

### The division

The Urban Regeneration division, Muse Developments ('Muse'), is a developer of large-scale mixed use urban regeneration projects. The business has an established track record and operates in the office, industrial, residential, leisure and ancillary retail sectors.

Typically Muse's business involves creating relationships with public and private sector land owners who do not have the skill set or capital base to extract optimum value from their land assets. Muse uses its development experience to secure planning consent, develop, let and sell property through a partnership agreement that optimises profit and land value for itself and its partner respectively.

Unlike a property company, Muse does not hold long-term property investments or land banks, which means it has a limited exposure to adverse land and property valuations.

Radcliffe Primary Care Centre



Deloitte offices

Sandwell Decent  
Homes Partnership



# There for tomorrow

Many of the projects completed over the past 12 months demonstrate how the Group's divisional businesses are significantly improving living and working conditions, both for today's society and for the generations that will follow us.

Radcliffe Primary Care Centre was built to provide its local community with a new £10.6m GP Practice and Health Services Centre. However, local involvement began long before the first patient arrived. From the outset, Morgan Ashurst recruited many of its staff, as well as suppliers and contractors, from the Bury and Radcliffe area. Using a local workforce reduced the project's overall carbon footprint while providing a positive input to the local economy.

In the Midlands, Lovell is helping the Sandwell Decent Homes Partnership to provide dwellings that solve the housing needs of today and are constructed to stand the test of time. Lovell is playing an important role in a £425m scheme to improve 30,000 homes in the region. Recognised as a best practice exemplar by Constructing Excellence, the imaginative refurbishment of existing high rise flats provides a larger living area, better thermal insulation and safer stairwells. The involvement of residents at all stages of the development process was an important consideration to the success of the project.

Impressive sustainability performance is also evident in a refurbishment of a different kind delivered by Fit Out. Challenging environmental standards were set by Deloitte for their New Street Square offices in London. These included the monitoring and measurement of materials entering and leaving the site. Monthly reports on waste management, energy and water use, and carbon emissions from transport were provided to the client. Care was taken to educate the supply chain on key issues, particularly the sustainable sourcing of timber and environmental best practice. As a result, Overbury achieved an excellent 99.5% use of certified sustainable timber and the supply chain benefited directly from the training and guidance, with two achieving ISO14001 certification for their environmental management systems.

- local workforce minimise carbon impact for Morgan Ashurst
- Lovell in £425m Sandwell decent homes scheme
- Deloitte selects Fit Out for sustainable refurbishment.





# Consistent achievement

A £55m housing regeneration programme is transforming Coalville, a former coal miners' estate in Stoke-on-Trent. Working alongside the Riverside Group, as an equal partner in the Compendium Group, Lovell is building 283 new homes for rent, shared ownership and sale.

Many existing dwellings will also be refurbished and new community facilities provided as part of the development. Working closely with key stakeholders including Stoke City Council, Renew North Staffordshire and the Coalville Residents' Association, Lovell has helped to deliver a high quality mix of affordable and owner occupier housing. The newly named Weston Heights proves that carefully assembled partnerships can provide significant long-term improvements to local housing while also creating sustainable communities.

Long-term partnerships are a key aspect of Muse's business success. Its expertise in regeneration is highly regarded and will soon be applied to a major development in south west England. The £350m scheme will see the extensive renewal of a 17 acre site in Swindon over the next decade. Muse will be working with public sector partners Swindon Borough Council, South West of England Regional Development Agency

and the Homes and Communities Agency to revitalise this Wiltshire town. Construction is due to commence in 2010, with a new Primary Care Trust facility and hotel included in the first phase of the project.

Consistent achievement was evident throughout the recently completed refurbishment of the International Maritime Organization's Albert Embankment building. Opened by Kofi Annan, the £45m scheme for the Department for Transport is the largest project completed to date by Fit Out. It included extensive remodelling, replacement and renewal of the building's infrastructure and services during the 74 week contract. Continuous monitoring of performance and customer satisfaction by Fit Out's project team resulted in the delivery of a world-class conference centre and headquarters for a delighted client.

- Lovell helps bring new life to Staffordshire community
- Muse wins Swindon regeneration scheme
- largest refurbishment to date by Fit Out.

Manchester's Northern Quarter



Shepherd's Bush underground station

Wyndham's Theatre

# Exceeding expectations

Through a combination of successful partnering and imaginative thinking, Muse has provided Manchester City Council with one of the best examples of successful urban regeneration in the country.

Having fallen into disuse in the 1970s, the Smithfield area of Manchester had become regarded locally as a 'no go' area. Over the past four years Ician, a joint venture between Muse and Crosby Homes, has delivered an award-winning mixed use development of modern buildings, while restoring much of the neighbourhood's original character and charm. Homeowners, tenants, retail and commercial businesses have returned to an area that Mancunians view with renewed pride. The latest phase of the nine year scheme opened in September and includes a new 230 bedroom Crowne Plaza hotel.

Urban regeneration of a different kind saw Morgan Est modernise Shepherd's Bush underground station in just eight months. This is widely regarded as the fastest ever completion of a station project of this size.

Working seven days a week, around the clock, Morgan Est constructed a new ticket hall capable of handling a 40% increase in passengers. Below ground, a separate £10m contract for the division involved the modernisation of passageways and platforms. To ensure delivery within the client's timescale, new working practices were developed that enabled construction to continue during the day, when access would normally be restricted.

Elsewhere in the capital, Vivid Interiors, part of the Fit Out division, was praised by Delfont Mackintosh for its innovative approach to the renovation of the architecturally acclaimed Wyndham's Theatre. During the 18 week project, which included the full refurbishment of the auditorium and washrooms, provision of new sound and light systems and the installation of two new gantry levels, various specification changes were accommodated. The result is a beautifully renovated, landmark building in the heart of London's theatre land.

- Muse helps rebuild Manchester's architectural charm and character
- rapid redevelopment of Shepherd's Bush Central Line station by Morgan Est
- Vivid Interiors helps to create new Wyndham's Theatre.



King's Cross underground station



St Paul's Square



Michael Smith building



# Innovation and improvement

Morgan Est is the UK's leading tunnelling design and delivery company. It is the only UK contractor with in-house design capabilities for underground structures and the ability to manufacture pre-cast tunnel linings.

Innovative technologies were utilised during the recent redevelopment of King's Cross underground station. The use of both sprayed concrete linings and a permanent spheroid graphite iron ring, an unusual aspect of the project, demonstrated Morgan Est's skill and experience. Complex tunnel geometries, which included the provision of escalators, overbridges, walkways and new mobility impaired passenger lifts, formed part of the design. All this had to be achieved within the limited confines of the existing tunnel infrastructure. Real-time monitoring of surface settlement and ground movement was carried out to ensure that no damage was caused to surrounding tunnels or buildings.

Part of the Group's continued success lies in the implementation of its core values, one of which is to challenge the status quo. This was evident when Morgan Ashurst's project team was able to reduce construction costs by £2m for the University of Manchester on the new Michael Smith Building. Designed as a centre for teaching and advanced research, the layout needed to

be flexible and future-proof. Not only was Morgan Ashurst able to deliver the building to its original high specification, it also incorporated novel maintenance features which will ensure that the building can be adapted as the demands for education in science evolve.

Muse has helped to challenge established thinking on inner city rental values, as part of its involvement in the £150m development of St Paul's Square in Liverpool. Regeneration projects are usually designed to match the rents that have historically been achievable in the area. However, as a partner in the English Cities Fund joint venture, Muse helped to deliver high quality commercial offices, apartments, retail space and a restaurant, all capable of returning greatly improved rental values. The result is a revitalised business district setting new standards of design and quality for the city.

- tunnelling expertise from Morgan Est improves London's transport
- forward-looking Morgan Ashurst aids 21st Century education
- Liverpool regeneration boosted by Muse.



Kincardine Crossing



Freeman's Quay  
leisure centre



Lingley Mere

# Market leadership

A major Scottish infrastructure project, the Kincardine Crossing on the upper Forth, was completed in autumn 2008. The construction of the 1.2km bridge and associated approach roads presented numerous technical challenges, so a business with Morgan Est's record for delivering high value, complex civil engineering solutions was an obvious choice for the contract.

Environmental considerations played a major part in this project, carried out in joint venture with Vinci. Salt marshes and mudflats on the south bank provide an important habitat for wildlife. To minimise disruption, the bridge was constructed in 45m spans and launched entirely from the north shore. Using incremental launch technology, Morgan Est has delivered the largest push-launched span bridge in the world. The new crossing will transform transport links to the region, encouraging growth in the Scottish economy, as well as relieving congestion in Kincardine village and the surrounding area.

Freeman's Quay leisure centre, a £13m flagship scheme for Durham Villages Regeneration Company, was completed in July 2008. Chosen by the client for its outstanding performance on a previous project, Morgan Ashurst delivered an eight lane swimming pool, fitness and sports education facility, built to exacting environmental standards.

Natural light and ventilation have been incorporated with solar shade glazing and the use of recycled water to aid pool heating. The energy efficient design and construction is predicted to achieve annual emissions of 620,000kg CO<sub>2</sub>, a 38% reduction compared to an identical centre built three years ago.

In the same month, Muse completed the new Northwest region fire control centre. Part of the £200m Lingley Mere joint venture with United Utilities plc, one of eight centres that form the country's Critical National Infrastructure developed to ensure that essential services are protected against terrorist attacks or other national security threats. The joint venture was publicly praised for its professionalism, being cited as the most compliant and technically competent of all regions in the UK. The project will provide further office space, commercial and leisure facilities totalling 875,000 sq ft within the 100 acre parkland site near Warrington.

- Morgan Est completes Kincardine Crossing
- energy saving construction by Morgan Ashurst in Durham
- Muse in £200m joint venture with United Utilities plc.



Construction and Built Environment Diploma

Morgan Sindall Development Programme

Graduate recruitment

# Talented people

Morgan Sindall recognises that talented people are key to the Group's success. Integral to its approach to developing its people is the recruitment of motivated individuals, ongoing training to existing staff and qualifications targeted at young people.

The Construction and Built Environment Diploma was introduced in 2008 and has been designed to help recruit young people with appropriate skills into the construction industry. Lovell has been closely involved in the development of the Diploma, which requires active participation by employers. As part of its well established Working with Schools programme, Lovell is offering support to 14 to 19 year olds who are studying for the Diploma. Illustrated talks on modern construction techniques and environmental issues are complemented with site visits and work experience. Lovell staff work closely with schools around the UK, helping pupils and staff to understand more about the construction industry.

Graduate recruitment at Morgan Ashurst begins early in a student's university life. Undergraduates offered 12 month placements within the Group's Construction division quickly become part of the team.

Each student is trained in safety, health and environment, pre-contract and planning issues, before being given practical experience in the construction and commercial aspects of the business. Throughout the training, support is provided by Morgan Ashurst's specialist graduate and trainee development advisors. The scheme is a great success and will be extended to four further universities in 2009.

Transferring knowledge and expertise from one division to another is a great strength of the Group. The Morgan Sindall Development Programme provides managers from all divisions with the opportunity to learn together and share best practice. A series of two day, residential courses are held throughout the year covering topics including individual effectiveness, team leadership and improving business performance. By encouraging continuous learning and development, the Group is able to capitalise on the skills and experience of individuals from across the Group.

- Lovell commits to the Construction and Built Environment Diploma
- Morgan Ashurst extends graduate training scheme
- Morgan Sindall Development Programme builds on best practice.



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



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5



6

**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. He is also interim chairman of Newfound N.V.

**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. She has also held various positions with Kingfisher plc, KPMG plc and Freemans plc.

**Jon Walden**  
**Independent non-executive**

Appointed a director in May 2001 and assumed the role of senior independent director in October 2008. Jon is currently managing director of Lex and also a non-executive director of Randgold Resources Limited. Previously, he held various roles within RAC plc, including main board director, and also at Rank Xerox, having qualified as a chartered accountant at Touche Ross (now Deloitte LLP).

## Board of directors



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### **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. He is also a non-executive director of Young Samuel Chambers ('YSC') Limited.

### **Geraldine Gallacher** **Independent non-executive**

Appointed a director in August 2007. Geraldine is currently 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.

### **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.

### **Adrian Martin** **Independent non-executive**

Appointed a director in December 2008. Adrian holds a number of non-executive directorships, including M&C Saatchi plc and Safestore Holdings plc. He is also a consultant to Reynolds Porter Chamberlain LLP, where he was previously chief executive. Prior to that he worked at BDO Stoy Hayward, the last 8 years as managing partner. He was a non-executive director of The Carphone Warehouse plc until July 2008.

### **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.

### **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 2008 and the position of the Group at the end of the year (a 'business review').

A detailed review of the business of the Group and a description of the principal risks and uncertainties facing it, including an analysis of the development and performance of the Group during the year and the position of the Group at the year end, including analysis using key performance indicators and any other information required to fulfil the requirements of the business review can be found either in this report or in the chairman and chief executive's statement on pages 2 to 3 and the business review on pages 4 to 21.

All the information contained in the pages referred to above 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. The principal subsidiary companies operating within this divisional structure are listed in note 14 of the Company financial statements on page 119.

### **Results and dividends**

The Group's profit before tax for the year amounted to £62.3m (2007: £57.6m). An interim dividend of 12.0p (2007: 10.0p) per share amounting to £5.1m (2007: £4.2m) was paid on 12 September 2008. The directors are recommending a final dividend for the year of 30.0p (2007: 28.0p) per share amounting to £12.7m (2007: £12.0m) payable on 8 May 2009 to shareholders on the register at close of business on 17 April 2009.

### **Share capital**

During the year 202,007 ordinary shares of 5p each ('shares') were allotted and issued on the exercise of options under employee share option schemes. No other shares were issued during the year. Details of the Company's share capital and capital structure, including the rights attaching to the shares, are set out in note 22 of the consolidated financial statements on pages 88 to 89. Note 22 also gives details of shares held by the Morgan Sindall Employee Benefit Trust, voting rights of which are exercisable at the discretion of the trustees.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association of the Company (the 'Articles') and prevailing legislation. No person has any special rights of control over the Company's share capital and the directors are not aware of any agreements between holders of shares which may result in restrictions in the transfer of shares or on voting rights.

Directors may be appointed by the Company by ordinary resolution or by the Board. The Company may by special resolution remove any director before the expiration of his period of office. The Articles provide that the business of the Company will be managed by the Board, which may exercise all the powers of the Company, whether relating to the management of the business of the Company or not, subject to the Companies Acts, the Company's memorandum of association, the Articles, and any directions given by the Company by special resolution. The Articles may be amended by shareholders by special resolution.

At the annual general meeting on 22 April 2008, a resolution was passed giving the directors authority to make market purchases of its shares up to 4,280,184 shares at a maximum price based on the market price of a share at the relevant time, as set out in the resolution. No purchases of shares were made during the year pursuant to this authority. The authority expires on 22 April 2009 and a resolution to renew the authority will be proposed at the forthcoming annual general meeting, as explained further in the explanatory notes to the notice of annual general meeting on pages 124 to 125.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment occurring because of a takeover bid. The Group's banking facilities described in the business review on pages 6 to 7 and its facilities for surety bonding provide for early repayment of drawings upon a change of control of the Company.

### Research and development

The Group undertakes some research and development activity in creating innovative construction techniques and design integral to the delivery of its projects. The direct spending incurred is not separately identifiable as the Group does not have separate research and development facilities or spending plans since the investment is usually contained within project work performed for customers.

### 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 Adrian Martin, who was appointed with effect from 1 December 2008.

In accordance with the Articles, Paul Smith will be retiring by rotation at the forthcoming annual general meeting, having last been re-elected in 2006 and, being eligible, will offer himself for re-election. Adrian Martin, having been appointed by the directors during the year, will also retire and stand for election at the annual general meeting. Bernard Asher will be retiring at the annual general meeting and will not be seeking re-election.

Biographical details, including details of the roles, responsibilities and significant external commitments of the directors standing for re-election at the annual general meeting are set out on pages 34 to 35.

### Directors' interests

The interests of the directors, all of which are beneficial, in the shares of the Company are given below:

	<b>2008</b>	2007
	<b>No. of shares</b>	No. of shares
John Morgan	<b>4,497,508</b>	4,448,612
Paul Smith	<b>171,622</b>	21,672
David Mulligan	<b>16,954</b>	3,250
Paul Whitmore	<b>51,257</b>	12,705
Bernard Asher	<b>5,000</b>	5,000
Gill Barr	<b>1,013</b>	1,013
Geraldine Gallacher	<b>7,772</b>	7,772
Adrian Martin	–	n/a
Jon Walden	<b>2,000</b>	2,000

There have been no changes in the interests of the directors between 31 December 2008 and 23 February 2009.

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 40 to 47.

### Directors' indemnities

The Articles 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 had during the year and continues to have 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 23 February 2009, the Company had been notified of the following interests in voting rights attaching to the Company's shares in accordance with the Disclosure and Transparency Rules:

Name of holder	No. of shares	Percentage of total
Aviva plc	6,492,642	15.10%
Standard Life Investments Ltd	5,808,233	13.51%
John James Clifford Lovell	2,415,273	5.62%
JPMorgan Chase & Co	2,123,287	4.94%
Legal & General Group plc	1,545,671	3.59%
Barclays Global Investors	1,303,861	3.03%

**Employment**

The average number of employees in the Group during the year is given in note 3 to the consolidated financial statements on page 71.

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 business review on page 11. Details of the Company's share option schemes are set out in note 22 of the consolidated financial statements on pages 88 to 89.

**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 2008 the Group's number of creditor days outstanding was equivalent to 24 days' purchases (2007: 28 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 £79,105 (2007: £70,444), 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 2008 project focus on pages 22 to 33. No contributions were made to any political parties during the current or preceding year.

**Fixed assets**

There is no material difference between the book value and current market value of the Group's interest in land and buildings.

**Directors' responsibility statement**

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company'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 IFRS. 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed.

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

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

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

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

### Independent auditors

On 1 December 2008, Deloitte & Touche LLP changed its name to Deloitte LLP. Deloitte LLP has expressed its willingness to continue in office as independent auditors and a resolution to re-appoint it will be proposed at the forthcoming annual general meeting.

### Annual general meeting

The annual general meeting of the Company will be held at the offices of RBS Hoare Govett, 250 Bishopsgate, London EC2M 4AA on 30 April 2009 at 12.00 noon. The formal notice convening the annual general meeting together with explanatory notes on the items of special business to be transacted at the meeting can be found on pages 120 to 125 of this document and is available on the Company's website at [www.morgansindall.co.uk](http://www.morgansindall.co.uk). Shareholders will also find enclosed with this document a form of proxy for use in connection with the meeting.

Approved by the Board and signed on its behalf by:

### Mary Nettleship

Company Secretary  
24 February 2009

## 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 30 April 2009.

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 2008 were Gill Barr (chair), Bernard Asher, Jon Walden and Geraldine Gallacher. Adrian Martin will join the committee when Bernard Asher retires at the forthcoming annual general meeting. 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 for the committee are available on the Company's website and on request from the company secretary.

During the year the committee engaged Hewitt New Bridge Street ('HNBS') to assist in a review of the executive directors' remuneration, the key results of which are summarised below. The committee also consulted the chief executive and the chairman, but in each case not in relation to their own remuneration. HNBS provided advice to the Company on accounting for share awards and on calculation of the total shareholder return performance condition for grants under the 1995 executive share option scheme but provided no other material services to the Company or the Group.

### Policy on executive directors' remuneration

As part of its review during the year, the committee considered the general principles underlying its approach to developing remuneration packages for the executive directors, originally adopted in 2004, and determined that the committee's approach remained consistent with these principles. The principles are as follows:

- to attract, retain and motivate the best possible person for each position
- that the remuneration packages should 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.

HNBS's review for the committee reported on the extent to which the current remuneration arrangements were consistent with these principles as well as with market practice and best practice and advised the committee on potential changes to the arrangements appropriate to current economic conditions. The outcome of this exercise is reflected in the descriptions of the various elements of the remuneration package set out below.

In terms of the structure of the package, HNBS reported to the committee that the current remuneration package broadly satisfied the committee's principles. It provided levels of fixed remuneration in line with or just below market benchmarks and an appropriate combination of fixed and performance-related remuneration. The performance-related element comprised a balanced mix of long-term and short-term rewards to ensure that executives focus on sustained performance rather than just short-term performance. The committee decided, therefore, to retain the existing structure of the remuneration arrangements.

## 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.

Salaries shown in the directors' emoluments table on page 44 were set by the committee in December 2007 and applied from 1 January 2008. In determining these salaries, the committee took into account the significantly increased size and complexity of the Group, in particular resulting from the acquisition of Amec's design, construction, infrastructure and urban regeneration businesses. The committee also took into account the relatively low pension contributions and other benefits making up the overall fixed element of the remuneration package.

At its meeting in December 2008, the committee determined the salaries for executive directors that apply from 1 January 2009. In its deliberations, the committee took into account a number of factors, including levels of salary increases for 2009 agreed for other senior group employees in the Group as well as the importance of maintaining competitive levels of fixed pay that fairly reflect their skills and experience in order to retain key individuals. The committee also considered the market data provided by the HNBS review, which indicated that whilst the fixed pay of the chief executive was competitive with the market, that of both the finance director and commercial director was significantly below market benchmarks.

Accordingly, the committee agreed the following base salary levels for 2009:

	2009	2008	% increase
John Morgan	£425,000	£425,000	Nil
Paul Smith	£500,000	£500,000	Nil
David Mulligan	£295,000	£270,000	9.3%
Paul Whitmore	£270,000	£250,000	8.0%

## 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 (the 'Plan') and, in the case of the other executive directors to their individual personal pension plans.

The Company has also introduced a salary-exchange process that allows all employees who are members of the Plan flexibility in setting the proportion in which salary and bonus is distributed between cash payments and additional pension contributions. Where additional pension contributions are made through the salary-exchange process, the Company enhances the contributions by 6.4% (representing half of the saved employer's National Insurance contribution).

## Other benefits

The executive directors receive certain other benefits, principally a car allowance, private medical insurance, permanent health insurance and life assurance.

## Annual bonus

The maximum potential annual cash bonus for executive directors was 100% of base salary for the 2008 financial year. The performance criteria were based on performance relative to the Group profit before tax and amortisation ('PBTA') budget, with out-performance of budget required in order for the maximum bonus to be payable.

Following its review of remuneration, the committee decided to retain the maximum potential annual bonus at 100% of base salary for the 2009 financial year. It considered the introduction of alternative or additional performance conditions but preferred to retain a condition based on a challenging PBTA target range set relative to Group budget as this had the benefit of transparency and simplicity and would encourage the executive directors to focus on the overall financial picture of the Group.

In setting the target range for 2009, the committee has attempted to balance the need to ensure that targets are sufficiently challenging but also realistic and relevant given the economic environment in which the Company is operating. Accordingly, whilst the maximum bonus for 2009 will be payable for achieving a PBTA outturn lower than that required to trigger the maximum bonus in 2008, the bonus vesting structure has been tightened so that the maximum



bonus for 2009 requires the achievement of greater outperformance of budget than in 2008, a smaller percentage of maximum bonus than in 2008 will be payable for achieving the PBTA budget and the percentage of the PBTA budget required before any bonus is payable has been set at a higher level than in 2008.

#### **Long-term incentives**

The Group's current 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.

A summary of the 2005 Plan is set out below.

#### **Award levels and structure**

In normal circumstances the maximum annual award, which is subject to the achievement of testing performance targets, is performance shares worth 75% of base salary (100% of salary in exceptional circumstances). Executives may be 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.

Following the HNBS review, the committee considered the structure of the 2005 Plan and how it had been operating since first introduced in 2005. It concluded that the normal maximum award level of performance shares at 75% of base salary remained appropriate and that the ability to choose between an award of performance shares or a grant of share options catered for individual attitudes to risk and was therefore valued by the executives. The 4:1 ratio of share options to performance shares was also considered and, in view of the additional share price risk attached to the value of the options and the tougher performance conditions which had been imposed on all previous awards of options, the committee determined that this ratio remained appropriate.

#### **Performance conditions**

The committee continues to believe that long-term incentives should be structured so as to incentivise growth in the Group's earnings by use of a performance condition based on earnings per share before amortisation of intangible assets ('adjusted EPS'), measured over a single three year period (with no opportunity to re-test performance), as this provides a clear linkage between performance and reward for senior executives and should be reflected over time in enhanced shareholder value.

For previous awards, the adjusted EPS performance condition has been structured as a growth target in excess of the Retail Prices Index ('RPI') with full vesting of awards for adjusted EPS growth of RPI + 10% p.a. reducing on a sliding scale to 25% vesting for growth of RPI + 4% p.a. (for performance shares) or RPI + 5% p.a. (for share options).

Given the record adjusted EPS achieved in 2008 and the highly challenging medium-term economic outlook, the committee does not believe that the continued use of these particular growth targets would be appropriate for awards in 2009. Accordingly, the committee has agreed upon revised absolute adjusted EPS targets for the financial year ending 31 December 2011 (set out below) which will apply for awards to be made in 2009. The committee is satisfied that these targets are materially at least as challenging in the circumstances as the previous growth targets were at the time when the 2005 Plan was introduced.

Adjusted EPS performance for the year ending 31 December 2011:

Performance shares	Share options	Vesting percentage
Less than 103p	Less than 115p	0%
133p or more	133p or more	100%
Between 103p and 133p	Between 115p and 133p	Pro rata on a straight-line basis

In order to ensure that the condition is appropriately challenging, the committee has reflected the reduced rate of adjusted EPS growth required to reach the threshold vesting point by a reduction in the vesting percentage for achieving this point from 25% to zero. In addition, the adjusted EPS performance required for the threshold vesting point for share options has been maintained at a more challenging level than for performance shares.

The committee will continue to set targets for future awards appropriate to the economic outlook prevailing at the time, ensuring that such targets remain challenging in the circumstances, whilst remaining realistic enough to motivate and incentivise management.

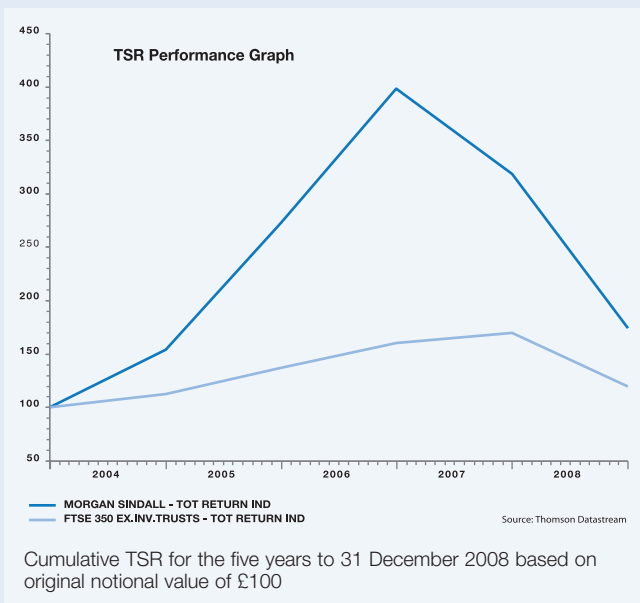
## Other share plans

The Company currently operates two other share plans for its employees:

- the Morgan Sindall Sharesave Plan in which executive directors are permitted to participate on the same terms as other employees
- the Morgan Sindall Employee Share Option Plan 2007, under which executive directors do not receive awards.

## Performance graph

The graph below shows a comparison of Total Shareholder Return ('TSR') for the Company's shares over the last five financial years against 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 those posts. Currently John Morgan acts as interim chairman of Newfound N.V. for which he receives a fee of £15,000 per annum. Paul Smith is 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
Adrian Martin	28 November 2008
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 Acts. Their remuneration is determined by the Board within the limits set by the Articles and is based on surveys together with external advice as appropriate. Fees for non-executive directors remain constant for 2009, comprising 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:

	<b>2008</b> <b>£'000s</b>	2007 £'000s
Emoluments	<b>2,223</b>	2,504
Amounts vesting under long-term incentive schemes	<b>1,460</b>	312
Gains made on the exercise of share options	<b>780</b>	–
Money purchase pension contributions	<b>158</b>	142

**Directors' emoluments**

Name of director	Fees/basic salary £'000s	Benefits £'000s	Annual cash bonuses <sup>1</sup> £'000s	<b>Total</b> <b>2008</b> <b>£'000s</b>	Total 2007 £'000s
<b>Executive</b>					
John Morgan	425	18	157	<b>600</b>	695
Paul Smith <sup>2</sup>	500	18	185	<b>703</b>	805
David Mulligan <sup>2</sup>	270	14	100	<b>384</b>	452
Paul Whitmore	250	16	92	<b>358</b>	426
	<b>1,445</b>	<b>66</b>	<b>534</b>	<b>2,045</b>	2,378
<b>Non-executive</b>					
Bernard Asher	48	–	–	<b>48</b>	40
Gill Barr	45	–	–	<b>45</b>	38
Geraldine Gallacher	40	–	–	<b>40</b>	13
Adrian Martin <sup>3</sup>	3	–	–	<b>3</b>	–
Jon Walden	42	–	–	<b>42</b>	35
	<b>178</b>	<b>–</b>	<b>–</b>	<b>178</b>	126
Totals	<b>1,623</b>	<b>66</b>	<b>534</b>	<b>2,223</b>	2,504

<sup>1</sup> Group PBTA in 2008 of £71.4m was a record performance for the Company and was 15% higher than 2007. However, the committee had set a particularly challenging target to trigger maximum payment under the 2008 annual bonus and the executive directors, therefore, are only entitled to 37% of the maximum cash bonus.

<sup>2</sup> The Company operates a salary-exchange process for members of the Morgan Sindall Retirement Benefit Plan, which allows employees flexibility in setting the proportion in which salary and bonus is distributed between pay and additional pension. The figures shown for both 2007 and 2008 represent the salary and bonus entitlements before any salary-exchange has taken place.

<sup>3</sup> Adrian Martin was appointed with effect from 1 December 2008.

## Directors' remuneration report

### Pensions

The Company contributes 10% of salary to The Morgan Sindall Retirement Benefits Plan (the 'Plan') in the case of Paul Smith and David Mulligan and to personal pension plans in the case of the other executive directors.

As explained in the pension arrangements in the unaudited section of this report and under Directors' emoluments above, the Company operates a salary-exchange process

for members of the Plan. Both Paul Smith and David Mulligan have participated in this process and the contributions set out below include the additional 6.4% enhancement to any salary or bonus exchanged (representing half of the saved employers' National Insurance contribution), but exclude any other contributions made through the salary-exchange mechanism.

The contributions paid by the Company to these plans were as follows:

	<b>2008</b> <b>£'000s</b>	2007 £'000s
John Morgan	<b>43</b>	38
Paul Smith	<b>61</b>	55
David Mulligan	<b>29</b>	26
Paul Whitmore	<b>25</b>	23

### The 2005 Plan

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

#### Performance shares awarded and vested during 2008

	No. of awards outstanding as at 1 Jan 2008	No. of shares awarded April 2008	No. of dividend equivalent shares awarded May 2008	Total no. of shares vested May 2008 <sup>1</sup>	Monetary value of vested shares <sup>2</sup> £'000s	<b>No. of awards outstanding as at 31 Dec 2008</b>
Paul Smith	42,896	18,046	1,525	(18,618)	190	<b>43,849</b>
David Mulligan	20,361	9,745	785	(9,590)	98	<b>21,301</b>
Paul Whitmore	48,013	18,046	1,848	(22,566)	230	<b>45,341</b>

<sup>1</sup> The rules of the 2005 Plan provide that if the committee so determine, executives are entitled to receive the value of dividends paid on performance shares during the three year performance period. In respect of the performance shares which vested in May 2008 this was satisfied by the transfer of additional shares. These additional shares are included in the Total no. of shares vested May 2008 column.

<sup>2</sup> Based on the Company's share price on the date of vesting of £10.20.

Awards that vested during the year were granted on 20 May 2005 when the Company's share price was £7.30.



**Details of performance shares outstanding as at 31 December 2008**

	Date of award	No. of shares awarded	Date awards vest
Paul Smith	5 April 2006	11,914	5 April 2009
	6 March 2007	13,889	6 March 2010
	9 April 2008	18,046	9 April 2011
David Mulligan	5 April 2006	4,766	5 April 2009
	6 March 2007	6,790	6 March 2010
	9 April 2008	9,745	9 April 2011
Paul Whitmore	5 April 2006	13,106	5 April 2009
	6 March 2007	14,189	6 March 2010
	9 April 2008	18,046	9 April 2011

**Details of share options granted during the year ended and outstanding as at 31 December 2008**

	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
	9 April 2008	122,716	£10.39	9 April 2011
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
	9 April 2008	72,814	£10.39	9 April 2011
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
	9 April 2008	38,980	£10.39	9 April 2011

*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, on 6 March 2007 was £12.32 and on 9 April 2008 was £10.34
- all the above awards of performance shares and share options are subject to an adjusted EPS performance condition measured over a three year period with full vesting of awards for average adjusted 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 adjusted EPS growth for the three financial years ended 31 December 2007 and 31 December 2008 has exceeded RPI + 10%. The options granted on 20 May 2005 are therefore fully exercisable and the performance shares awarded on 5 April 2006 will therefore vest in full and the options granted on that date will become exercisable on the 5 April 2009
- the market price of a share on 31 December 2008 was £5.42 and the range during the year was £4.115 to £11.60.

## 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. Shares were allocated to the executives after the three year performance period in accordance with the performance condition and, after a further two year period, vested fully and were transferred to the executives.

### LTIP Shares vested

	No. of awards outstanding as at 1 Jan 2008	No. of awards vested <sup>1</sup> 4 Aug 2008	Monetary value of vested shares <sup>2</sup> £'000s	No. of awards outstanding as at 31 Dec 2008
John Morgan	40,850	40,850	233	Nil
Paul Whitmore	35,896	35,896	204	Nil

<sup>1</sup> Awards that vested in the year were granted on 30 June 2003 when the Company's share price was £2.825.

<sup>2</sup> Based on the Company's share price on the date of vesting of £5.695.

### Deferred share bonus awards

On 10 March 2008, the executive directors exercised nil-cost options over shares set out below. These were granted to the executive directors on 10 March 2005 and represented 25%

of the annual bonus earned in respect of the year ended 31 December 2004. The market value of a share on the date of grant was £7.175 and on the date of exercise was £9.87.

### Deferred share bonus awards

	No. of nil-cost options outstanding as at 1 Jan 2008	No. of nil-cost options exercised March 2008	Monetary value of nil-cost options exercised £'000s	No. of nil-cost options outstanding as at 31 Dec 2008
John Morgan	8,046	8,046	79	Nil
Paul Smith	10,241	10,241	101	Nil
David Mulligan	4,114	4,114	41	Nil
Paul Whitmore	6,876	6,876	68	Nil

On 5 April 2008 Paul Smith received 21,091 shares relating to a one-off bonus of 20,000 shares awarded on 5 April 2006 in respect of his and the Company's performance in 2005. The award was deferred for two years and the shares held in trust by the Morgan Sindall Employee Benefit Trust (the 'EBT'). Under the terms of the award, at the end of the two year period Paul Smith was entitled to receive the 20,000 shares together with the value of dividends paid thereon during the two year period, the latter being satisfied by the transfer of 1,091 additional shares from the EBT. The market price of a share on the date of grant was £12.38 and on the date of receipt of the shares was £10.26. The monetary value of these vested shares on the date of receipt was £216,394.

### Share options

On 10 March 2008, Paul Smith exercised an option over 100,000 shares granted under the 1995 executive share option scheme (the '1995 scheme') on 10 March 2003 as part of his initial

employment package in 2003, for which the related performance condition had been satisfied as outlined in last year's remuneration report. The exercise price of the option was £2.07 per share and the market value at the date of exercise was £9.87.

Following the exercise of this option, none of the executive directors 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 26 of the consolidated financial statements on pages 93 to 97. No further options may be granted under the 1995 scheme.

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

### Gill Barr

Chair of the Remuneration Committee  
24 February 2009

### **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 in compliance throughout the year ended 31 December 2008, except that as explained below neither the chair of the audit committee nor the chair of the remuneration committee were able to attend the annual general meeting.

### **Directors**

The Board currently comprises an executive chairman, three further executive directors and five non-executive directors, one of whom, Adrian Martin, was appointed with effect from 1 December 2008. Bernard Asher has indicated his intention not to seek re-election when he retires at the forthcoming annual general meeting. All of the non-executive directors are considered by the Board to be independent and the Board's structure, therefore, meets the requirements of the Code.

Bernard Asher was the senior independent director until 6 October 2008, when Jon Walden assumed responsibility for the role.

The Board has a separate chairman and chief executive in line with Code provision A.2. John Morgan as executive chairman takes responsibility for the overall strategy of the Group and for leading the Board and ensuring that it functions effectively, 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 describes 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, John Morgan stepped down from his non-executive appointment on the board of Genetix Group plc.

The Articles of the Company require each director to submit himself or herself for election by shareholders at the first annual general meeting after his or her appointment and for

re-election at every third annual general meeting thereafter. Adrian Martin, having been appointed during the year, will be submitting himself for election at the forthcoming annual general meeting. In addition Paul Smith was last re-elected in 2006 and will be submitting himself for re-election at the forthcoming annual general meeting. Biographical details of the directors submitting themselves for election at the annual general meeting are set out on pages 34 to 35. As described below, Adrian Martin was appointed by the Board after a rigorous selection process and the Board considers that it will benefit from the increased accounting and financial expertise that he brings as well as from his experience over a number of years in non-executive roles with other listed companies.

### **Board effectiveness**

Ten 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 scheduled 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 2008 at scheduled Board meetings and meetings of the remuneration, audit and nominations committees are set out on page 49.

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

Three of the scheduled board meetings in 2008 were held at offices of the Group's divisional operations and were combined with presentations by divisional management. These meetings provided the non-executive directors with the opportunity to meet the senior managers in the divisions and to increase their knowledge and understanding of the Group's operations and thus contribute more effectively to discussions of strategic and operational issues.

	Board	Remuneration committee	Audit committee	Nominations committee
<b>Total no. of meetings</b>	<b>10</b>	<b>3</b>	<b>3</b>	<b>1</b>
John Morgan	10	–	–	1
Paul Smith	10	–	–	–
David Mulligan	10	–	–	–
Paul Whitmore	10	–	–	–
Bernard Asher	8	3	3	1
Gill Barr	8	2	3	1
Geraldine Gallacher	10	3	–	–
Adrian Martin <sup>1</sup>	–	–	–	–
Jon Walden	10	3	3	1

<sup>1</sup> No board meetings or audit committee meetings were held in December 2008 following Adrian Martin's appointment.

### Development and Board evaluation

Newly appointed directors receive a full induction, including a detailed information pack, visits to the Group's operations and meetings with senior divisional management. Training on the role and responsibilities of directors is offered on appointment and subsequently as necessary. In particular, the directors have received guidance on the changes relevant to directors in the new Companies Act 2006. 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, during the year, focusing primarily on the effectiveness of the Board and its scheduled Board and committee meetings. This took the form of an internally developed assessment form, requiring each director to provide a rating against a series of statements and any additional comments. Evaluation of individual directors took the form of feedback from the other directors, which was followed by one to one meetings between the chairman and each director and, in the case of the chairman's evaluation, between himself and the senior independent director. The evaluations of the directors concentrated on their individual effectiveness and their continued contribution and commitment to the role. The responses to the assessment form were circulated and discussed at a subsequent Board meeting and a number of actions were agreed.

### Relations with shareholders

The Company welcomes regular dialogue with all its shareholders.

The executive directors undertake a programme of regular communication with institutional shareholders and with analysts covering the construction sector. In particular, presentations are made to institutional investors and

analysts following the announcements of the preliminary and interim results. Written feedback from these meetings and presentations is distributed to all members of the Board. The senior independent director meets from time to time with major shareholders and the other non-executive directors are available to meet with them to listen to their views.

The Company encourages all shareholders to use the annual general meeting as an opportunity for effective communication with the Company. All of the directors seek to attend the annual general meeting. Due to unavoidable conflicting commitments, however, neither the chair of the audit committee nor the chair of the remuneration committee was able to be present at the 2008 annual general meeting. Other members of the Board were briefed to answer any questions in these areas. Details of proxy votes submitted for each resolution at general meetings, including proxy directions to withhold votes, are published on the Company's website.

### Board committees

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

#### Remuneration committee

The members of the remuneration committee during 2008 were Gill Barr (chair), Bernard Asher, Jon Walden and Geraldine Gallacher. Adrian Martin will join the committee upon Bernard Asher's retirement from the Board at the annual general meeting. The remuneration committee's terms of reference are available for review on request and on the Company's website under the investor relations section. Three meetings were held in the year covering all elements of the directors' remuneration.

A report to shareholders on directors' remuneration is shown on pages 40 to 47.



### **Nominations committee**

The members of the nominations committee during 2008 were John Morgan (chair), Bernard Asher, Jon Walden, Gill Barr, Geraldine Gallacher and, following his appointment, Adrian Martin. 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 formally during the year to review the structure, size and composition of the Board and to recommend to the Board the appointment of Adrian Martin as an additional non-executive director. It also met informally on several occasions to review the non executive director selection process. This process, which continued for most of 2008, involved agreeing the specific attributes and capabilities required for the role, instructing external search consultants, arranging interviews by individual members of the committee (and in some cases by the executive directors) with candidates proposed both by the consultants and other advisers and discussing the results of the interviews.

### **Audit committee**

The members of the audit committee during 2008 were Bernard Asher, Jon Walden and Gill Barr. Adrian Martin also joined the committee on his appointment on 1 December 2008, although no meetings were held during the remainder of the year. Bernard Asher chaired the committee until 6 October 2008, when Jon Walden assumed the role. All committee members are independent non-executive directors. Biographical details of each member of the committee, including financial experience where relevant, are set out on pages 34 to 35. The Board is satisfied that the committee has the appropriate level of financial experience to fulfil its terms of reference. The terms of reference of the committee are available for review on request and on the Company's website.

The committee had three scheduled meetings during the year. The first took place prior to the announcement of the Company's results for 2007 and approval of the annual report, the second prior to the announcement of its interim results and the third before commencement of the audit for 2008. 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 2009. 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, approving their remuneration and monitoring their independence and objectivity. At the meeting of the committee in February, the external auditors, Deloitte LLP, presented to the committee their policies and safeguards to ensure their independence within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. Those policies and safeguards, together with the Company's own policy on engaging the external auditors for non-audit work, enabled the committee to confirm that it was satisfied with Deloitte LLP's continued independence and objectivity.

The Company's policy on the engagement of the external auditors for non-audit related services provides that where the fees for such services would exceed either an absolute limit or a specified proportion of the audit fee, they should be referred to the committee for approval. Any such services below the threshold have to be approved by the finance director. No non-audit services to the Company provided by Deloitte LLP in 2008 required the approval of the committee. The fees for non-audit services during the year are set out in note 2 to the consolidated financial statements on page 70. These represented approximately 15% of the audit fee and comprised taxation services to joint ventures. The committee has reviewed the nature of the work and level of fees for these services and concluded that this has not affected the objectivity or the independence of the external auditors.

### **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:

#### **Group structure**

The Group's operating structure comprises Group Activities and five operating divisions, each with its own management board which is given authority and responsibility for managing its division within a framework of overarching Group policies, reporting lines and detailed delegated authorities, which ensure that decisions and approvals are made at the appropriate level. Whilst responsibility for managing each division is delegated to the individual management team as far as practicable, responsibility for certain of the Group's key functions, including treasury, pensions and insurance, is retained at Group level.

#### **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 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. As part of this process, the financial standing of both clients and key sub-contractors is assessed.

#### **Contract controls**

Robust procedures exist to manage the ongoing risks associated with contracts with monthly reviews at an appropriate level of each contract's performance covering both financial and operational issues.

#### **Working capital management**

The Group continually monitors current and forecast cash and working capital balances through a regime of daily and monthly reporting.

#### **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.

#### **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 updated and reviewed by the Board twice yearly. The principal risks identified as facing the Group are highlighted in the business review on pages 7 to 8.

#### **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, overseeing the divisional heads of internal audit 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 were recorded in audit reports and presented to the audit committee. The status of agreed management actions to address identified operational weaknesses is actively tracked until implementation.

The audit and assurance team has been extended during the year across the key operating divisions. The team will focus its attention in 2009 on the higher risk business areas and major projects, whilst ensuring a balanced level of review across all operating divisions.

The internal audit process is supplemented by a rolling programme of peer group reviews within the divisions, 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 divisions. These reviews are overseen by the divisional heads of internal audit and tracking of agreed management actions is included within the overall internal audit process.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2008 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 the overall effectiveness of the process.

## **Independent auditors' report for the year ended 31 December 2008**

We have audited the Group financial statements of Morgan Sindall plc for the year ended 31 December 2008 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 29. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of Morgan Sindall plc for the year ended 31 December 2008.

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 ('IFRSs') 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 principal activities 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 directors' 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.

## Independent auditors' report for the year ended 31 December 2008

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report to be audited.

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 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
- 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 2008 and of its profit for the year then ended.

### Deloitte LLP

Chartered Accountants and Registered Auditors  
London, United Kingdom  
24 February 2009



## Consolidated income statement for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
<b>Continuing operations</b>			
Revenue	1	<b>2,548.1</b>	2,114.6
Cost of sales		<b>(2,297.8)</b>	(1,892.9)
Gross profit		<b>250.3</b>	221.7
Other administrative expenses		<b>(185.8)</b>	(168.4)
Amortisation of intangible assets	1, 2, 10	<b>(9.1)</b>	(4.5)
Total administrative expenses		<b>(194.9)</b>	(172.9)
Share of net profit of equity accounted joint ventures	1, 11	<b>2.6</b>	4.7
Profit from operations	1	<b>58.0</b>	53.5
Finance income	5	<b>9.4</b>	8.5
Finance expenses	5	<b>(5.1)</b>	(4.4)
Net finance income	1	<b>4.3</b>	4.1
Profit before income tax expense	1	<b>62.3</b>	57.6
Income tax expense	6	<b>(17.5)</b>	(18.2)
<b>Profit for the year attributable to equity holders of the parent company</b>	2	<b>44.8</b>	39.4
<b>Earnings per share</b>			
From continuing operations			
Basic	8	<b>106.3p</b>	93.8p
Diluted	8	<b>105.1p</b>	91.7p

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

# Consolidated financial statements

## Consolidated balance sheet at 31 December 2008

	Notes	2008 £m	Restated 2007 £m
<b>Non current assets</b>			
Property, plant and equipment	9	32.7	23.8
Goodwill	10	183.3	183.3
Other intangible assets	10	23.4	32.5
Investments in equity accounted joint ventures	1, 11	53.0	38.1
Investments		0.1	0.1
Deferred tax assets	18	2.7	5.0
		<b>295.2</b>	282.8
<b>Current assets</b>			
Inventories	12	171.3	128.8
Amounts due from construction contract customers	14	189.2	209.1
Trade and other receivables	13	209.0	238.3
Cash and cash equivalents	28	120.3	218.9
		<b>689.8</b>	795.1
<b>Total assets</b>	1	<b>985.0</b>	1,077.9
<b>Current liabilities</b>			
Trade and other payables	15	(675.2)	(798.1)
Amounts received in advance on construction contracts	14	(78.3)	(67.4)
Current tax liabilities		(8.5)	(10.6)
Finance lease liabilities	16	(1.9)	(1.4)
		<b>(763.9)</b>	(877.5)
<b>Net current liabilities</b>		<b>(74.1)</b>	(82.4)
<b>Non current liabilities</b>			
Trade and other payables	15	(0.1)	(8.9)
Retirement benefit obligation	17	(3.0)	(3.3)
Finance lease liabilities	16	(7.4)	(3.2)
Provisions	19	(18.3)	(19.3)
		<b>(28.8)</b>	(34.7)
<b>Total liabilities</b>	1	<b>(792.7)</b>	(912.2)
<b>Net assets</b>		<b>192.3</b>	165.7
<b>Equity</b>			
Share capital	22, 23	2.2	2.1
Share premium account	23	26.6	26.3
Capital redemption reserve	23	0.6	0.6
Own shares	23	(6.4)	(5.5)
Hedging reserve	23	(2.3)	(2.2)
Retained earnings	23	171.6	144.4
<b>Total equity</b>		<b>192.3</b>	165.7

The financial statements were approved by the Board of directors and authorised for issue on 24 February 2009 and signed on its behalf by:

**Paul Smith**  
**David Mulligan**

### Consolidated statement of recognised income and expense for the year ended 31 December 2008

	<b>2008</b> <b>£m</b>	2007 £m
Actuarial losses arising on defined benefit plan	<b>(0.2)</b>	(0.9)
Deferred tax on retirement benefit obligation recognised directly in equity	–	0.3
Movement on cash flow hedges in equity accounted joint ventures	<b>(0.1)</b>	(1.4)
<b>Net expense recognised directly in equity</b>	<b>(0.3)</b>	(2.0)
Profit for the year	<b>44.8</b>	39.4
<b>Total recognised income and expense for the year attributable to equity holders of the parent company</b>	<b>44.5</b>	37.4

# Consolidated financial statements

## Consolidated statement of cash flows for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
<b>Net cash (outflow)/inflow from operating activities</b>	25	<b>(65.5)</b>	158.1
<b>Cash flows from investing activities</b>			
Interest received		<b>9.2</b>	8.4
Proceeds on disposal of property, plant and equipment		<b>0.8</b>	0.6
Purchases of property, plant and equipment		<b>(8.4)</b>	(8.0)
Payments to acquire interests in joint ventures		<b>(12.4)</b>	(5.0)
Payment for the acquisition of a subsidiary		<b>-</b>	(25.5)
Net cash acquired on acquisition of a subsidiary		<b>-</b>	14.2
<b>Net cash outflow from investing activities</b>		<b>(10.8)</b>	(15.3)
<b>Cash flows from financing activities</b>			
Net payments to acquire own shares		<b>(0.9)</b>	(2.1)
Dividends paid		<b>(16.9)</b>	(12.6)
Repayments of obligations under finance leases		<b>(4.9)</b>	(4.7)
Proceeds on issue of share capital		<b>0.4</b>	0.1
<b>Net cash outflow from financing activities</b>		<b>(22.3)</b>	(19.3)
Net (decrease)/increase in cash and cash equivalents		<b>(98.6)</b>	123.5
Cash and cash equivalents at beginning of year		<b>218.9</b>	95.4
<b>Cash and cash equivalents at end of year</b>		<b>120.3</b>	218.9
Bank balances and cash		<b>120.3</b>	218.9



## Significant accounting policies for the year ended 31 December 2008

### Reporting entity

Morgan Sindall plc (the 'Company'), is a company domiciled in the United Kingdom. The address of the registered office is given on page 127. The nature of the Group's operations and its principal activities are set out in note 1 and in the business review on pages 4 to 21. The report and accounts includes the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the 'Group') and the Group's interest in joint ventures and separate financial statements for the Company.

### Basis of preparation

#### (a) Statement of compliance

The consolidated financial statements have been prepared on a going concern basis as discussed in the business review on page 7 and 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 approval of the financial statements the following pronouncements were in issue but not yet effective (and in some cases had not been adopted by the EU) and have not been applied in these financial statements:

- IFRS 3 Revised 'Business Combinations'
- IFRS 8 'Operating Segments'
- International Accounting Standard ('IAS') 1 Revised 'Presentation of Financial Statements'
- IAS 23 Revised 'Borrowing Costs'
- IAS 27 Revised 'Consolidated and Separate Financial Statements'
- IAS 39 Revised 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items'
- International Financial Reporting Interpretations Committee ('IFRIC') 15 'Agreements for the Construction of Real Estate'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
- IFRIC 17 'Distribution of Non-cash Assets to Owners'
- IFRIC 18 'Transfers of Assets from Customers'.

These pronouncements are not anticipated to have any material impact on the Group's consolidated income statement or balance sheet except for additional disclosures in relation to IFRS 8.

#### (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) Restatement of comparative balances

As was stated in note 23 on page 76 of the 2007 annual report and accounts, the fair value adjustments arising on the acquisition of 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 were provisional and subject to finalisation in accordance with IFRS 3 'Business Combinations'.

The fair value exercise has been completed and the final acquisition balance sheet and related fair value adjustments are disclosed in note 24. In accordance with IFRS 3 'Business Combinations' the affected financial statement balances have been restated. None of the restatements have had an impact on gross profit, profit from operations or net assets. There was no impact on recognised income or expense as previously stated.

## Significant accounting policies for the year ended 31 December 2008

Certain comparatives have been reclassified to conform with the current year's presentation. In the 2007 comparative balance sheet, amounts of £19.3m previously shown as trade and other payables are now classified as provisions.

### (e) Use of estimates and judgments

The preparation of financial statements under IFRS requires management to make judgments, 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 they are revised.

The estimates and judgments that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

#### (i) Accounting for construction and service contracts

Recognition of revenue and margin involves making estimates of the costs and value of work performed to date and to be performed in bringing contracts to completion, including satisfaction of maintenance responsibilities. These estimates are made by reference to recovery of pre-contract costs, surveys of progress against the construction programme, changes in work scope, the contractual terms under which the work is being performed, costs incurred, and external certification of the work performed. The Group has appropriate control procedures to ensure all estimates are determined on a consistent basis and subject to appropriate review and authorisation.

The same estimating principles were used in determining the fair value of certain construction contract related provisions relating to the July 2007 acquisition from Amec plc.

#### (ii) Recognition and measurement of intangible assets

The Group recognises 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 future potential benefits to be derived and the estimated useful lives over which the future economic benefits are expected to flow to the Group. To assist in making these judgments, the directors engaged an independent expert to assist in the determination of the fair values and the estimated useful lives of these assets. Full details of the intangible assets are set out in note 10.

#### (iii) Impairment of goodwill and other intangible assets

Goodwill and other intangible assets are 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 requires a comparison of the carrying amount of goodwill and other intangible assets against the recoverable amount, which is the value-in-use of the cash-generating unit to which the goodwill and other intangible assets are 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, and the assumptions used are set out in full in note 10.

#### (iv) Impairment of work in progress

In assessing whether work in progress is impaired, estimates are made of future sales revenue, timing and build costs. The Group has controls in place to ensure that estimates of sales revenue are consistent, and external valuations are used where appropriate.

## Significant accounting policies for the year ended 31 December 2008

### (e) Use of estimates and judgments (continued)

- (v) Accounting for the Group's defined benefit plan  
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, expected return on the plan's assets and future pension increases have been made. Estimates and judgments regarding future mortality are derived using 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. Assumptions used and full details of the Group's liability are set out in note 17.
- (vi) Insurance provisions  
In valuing the provision for the Group's retained insurance risks, estimates are made of the rate of occurrence and severity of events for which the Group will bear liability and external valuations are used where appropriate.
- (vii) PFI/PPP derivative financial instruments  
Certain Group joint ventures use swaps to hedge interest rate and RPI risk to which PFI/PPP concessions are exposed. These are initially recognised, and subsequently re-measured at each year end, at fair value derived from current market rates. Details of derivative financial instruments are set out in note 28.
- (viii) Financial receivables  
In assessing the fair value of certain financial receivables, including trade receivables and those held by joint ventures, estimates are made of future cash flows and the appropriate discount rate to be used.
- (ix) Taxation  
Judgments are required in establishing the Group's liability to pay taxes where tax positions are uncertain. Details of deferred tax are set out in note 18.
- (x) Share-based payments  
Recognition and measurement of share-based payments requires estimation of the fair value of awards at the date of grant and, for cash-settled awards, re-measurement at each reporting date. Judgment is also exercised when estimating the number of awards that will ultimately vest. These judgments have a significant impact on the amounts recognised in the income statement and the balance sheet. To assist in determining each award's fair value, the directors engage a qualified and independent valuation expert. Estimation of the number of awards that will ultimately vest is based on estimates at the reporting date of the extent to which performance conditions are anticipated to be satisfied, anticipated future lapses by leavers and the current intrinsic value of those awards. Details on share-based payments are set out in note 26.

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements.

## Significant accounting policies for the year ended 31 December 2008

### Basis of consolidation

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.

#### (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 economic 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 them with those of the Group.

#### (b) Joint ventures

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 a corporation, partnership or other entity in which each venturer has an interest. The results, assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting.

Construction contracts carried out in joint venture without the establishment of a legal entity are jointly controlled operations. The Group's share of the results and net assets of these jointly controlled operations are included under each relevant heading in the income statement and balance sheet.

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. When there is a change recognised directly in the equity of the joint venture, the Group recognises its share of any change and discloses this, where applicable, in the statement of recognised income and expense.

Where the Group's share of losses exceeds 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.

## Significant accounting policies for the year ended 31 December 2008

### (c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expense 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.

### Revenue and margin recognition

Revenue and margin are recognised as follows:

#### (a) Construction contracts

Revenue comprises the fair value of construction carried out in the year based on an internal assessment of work carried out. This assessment is carried out by reference to the construction programme, the construction contract, costs incurred, and external certification of the work performed. Once the outcome of a construction contract can be estimated reliably, margin is recognised in the income statement on a stage of contract completion basis by reference to costs incurred to date and total forecast costs on the contract as a whole. Losses expected in bringing a contract to completion are recognised immediately in the income statement as soon as they are forecast.

Where houses for open market sale are included in a construction contract as part of a mixed tenure development, revenue on open market sales is recognised on sale completion and margin is recognised using the same principle as for the construction contract element of the development.

#### (b) Service contracts

Revenue comprises the fair value of work performed in the year based on an internal assessment of work carried out. This assessment is carried out by reference to the service contract, costs incurred, surveys of work performed and external certification of work performed.

#### (c) Sale of development properties

Revenue from the sale of development properties 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 properties 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.

#### (d) Pre-contract costs

Pre-contract costs incurred prior to the appointment as preferred bidder for a contract are expensed.

### 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 rate method in the period in which they are incurred.



## Significant accounting policies for the year ended 31 December 2008

### 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 initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit, or 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.

### 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 the cost or valuation of assets, other than land, over their estimated useful lives using the straight-line method on the following bases:

- plant, machinery and equipment            between 10% and 33% per annum
- freehold property                                2% per annum
- leasehold property                                over the period of the lease

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.

### Intangible assets

#### (a) Goodwill

##### (i) Initial recognition

Goodwill arises on the acquisition of subsidiaries, associates, joint ventures and other business assets and liabilities. Goodwill represents the excess of the cost of acquisition over the 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.

## Significant accounting policies for the year ended 31 December 2008

### (a) Goodwill (continued)

#### (i) Initial recognition (continued)

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.

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 at a rate to match the expected future economic benefits.

#### (ii) Other contracts and related relationships

On acquisition, value is attributed to non-contractual relationships and other contracts with long-standing or valued 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 at a rate to match the expected future economic benefits.

#### (iii) Software

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

#### (iv) Non-compete agreements

Value is attributable to contractual non-compete agreements acquired through acquisition to the extent that 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 on a straight-line basis.

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 2008

### Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of work in progress comprises raw materials, direct labour, other direct costs and related overheads. It excludes borrowing costs. Net realisable value is the estimated selling price less applicable costs.

### 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 change in value.

### 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 financial assets are 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.

### Trade payables

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

### 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.

## Significant accounting policies for the year ended 31 December 2008

### (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 plan

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 staff costs in the income statement as and when they fall 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 plan

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 of the net liability is performed by a qualified actuary on an annual basis using the projected unit credit method. The cost of the plan 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 plan liabilities, less the fair value of the plan assets.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

### 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 the 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 the 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 2008

### 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 to the extent of the Group's equity accounted investment.

### Derivative financial instruments and hedge accounting

Derivative financial instruments are used in joint ventures to hedge long-term floating interest rate and Retail Prices Index ('RPI') risks. Under IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'), interest rate and RPI 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 and gains and losses on the ineffective portion are recognised in the income statement, both to the extent of the Group's equity accounted investment.

Note 28 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 23.

### Dividends

Dividends to the Company's shareholders are recognised as a liability in the Group financial statements in the period in which the dividends are approved by the Company's shareholders.



## Notes to the consolidated financial statements for the year ended 31 December 2008

### 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:

2008	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Group Activities £m	Total £m
Revenue	473.7	813.1	799.2	377.2	83.6	1.3	2,548.1
Operating profit/(loss) before amortisation	25.8	9.5	14.4	21.0	6.5	(12.7)	64.5
Share of results of associates and joint ventures after tax	–	–	–	–	1.3	1.3	2.6
Profit/(loss) from operations before amortisation	25.8	9.5	14.4	21.0	7.8	(11.4)	67.1
Amortisation of intangible assets	–	(2.1)	(0.8)	–	(6.2)	–	(9.1)
Profit/(loss) from operations	25.8	7.4	13.6	21.0	1.6	(11.4)	58.0
Net finance income							4.3
<b>Profit before tax</b>							<b>62.3</b>
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/(loss) 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/(loss) 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/(loss) 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

# Consolidated financial statements

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 1 Business segments (continued)

Balance sheet analysis of business segments:

2008	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Group Activities £m	Total £m
Equity accounted joint ventures	-	-	-	0.1	41.5	11.4	53.0
Goodwill	-	68.8	82.4	15.4	16.7	-	183.3
Other intangible assets	-	1.5	0.6	-	21.3	-	23.4
Other assets	115.7	224.3	188.7	161.6	24.3	10.7	725.3
Total assets	115.7	294.6	271.7	177.1	103.8	22.1	985.0
Total liabilities	(103.5)	(282.8)	(209.5)	(134.6)	(35.6)	(26.7)	(792.7)
Other information:							
Property, plant & equipment additions	1.5	3.0	12.1	0.3	0.1	0.6	17.6
Depreciation	1.3	1.3	4.7	0.3	0.2	0.3	8.1
Amortisation	-	2.1	0.8	-	6.2	-	9.1
2007 (restated)							
	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Group Activities £m	Total £m
Equity accounted joint ventures	-	-	-	-	28.4	9.7	38.1
Goodwill	-	68.7	82.5	15.4	16.7	-	183.3
Other intangible assets	-	3.6	1.4	-	27.5	-	32.5
Other assets	125.2	246.5	142.3	150.7	28.3	131.0	824.0
Total assets	125.2	318.8	226.2	166.1	100.9	140.7	1,077.9
Total liabilities	(118.2)	(336.6)	(179.1)	(130.1)	(58.0)	(90.2)	(912.2)
Other information:							
Property, plant & equipment 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
Amortisation	-	1.0	0.3	-	3.2	-	4.5

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 2 Profit for the year

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

	<b>2008</b> <b>£m</b>	2007 £m
Depreciation of property, plant and equipment (note 9)	<b>8.1</b>	6.3
(Gain)/loss on disposal of property, plant and equipment	<b>(0.2)</b>	1.2
Staff costs (note 4)	<b>403.5</b>	319.9
Amortisation of intangible assets (note 10)	<b>9.1</b>	4.5
Impairment of trade receivables (note 28)	<b>–</b>	3.6
Auditors' remuneration for audit and other services (see below)	<b>1.1</b>	1.5

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

	<b>2008</b> <b>£m</b>	2007 £m
Statutory audit <sup>1</sup>	<b>0.7</b>	0.8
Auditing of accounts of subsidiaries, associates and joint ventures pursuant to legislation (including that of countries and territories outside the United Kingdom)	<b>0.2</b>	0.3
Total audit fees	<b>0.9</b>	1.1
Services to joint ventures relating to taxation	<b>0.2</b>	0.1
Other services <sup>2</sup>	<b>–</b>	0.3
Total non-audit fees	<b>0.2</b>	0.4
Total auditors' remuneration	<b>1.1</b>	1.5

<sup>1</sup> Statutory audit includes a fee of £0.1m (2007: £0.1m) in respect of the parent company audit.

<sup>2</sup> Other services in 2007 relates to fees in respect of work on the Class I circular to shareholders for the acquisition from Amec plc.

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 3 Employees

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

	2008 No.	2007 No.
Fit Out	655	657
Construction	2,300	1,788
Infrastructure Services	4,070	3,191
Affordable Housing	1,467	1,510
Urban Regeneration	51	25
Group Activities	42	38
	<b>8,585</b>	7,209

### 4 Staff costs

	2008 £m	2007 £m
Wages and salaries	356.3	284.1
Social security costs	38.4	29.6
Other pension costs	8.8	6.2
	<b>403.5</b>	319.9

### 5 Finance income and expense

	2008 £m	2007 £m
Interest income on bank deposits	6.8	6.3
Other interest income	1.1	1.5
Interest receivable from joint ventures	1.5	0.7
Finance income	9.4	8.5
Interest payable on bank overdrafts	(4.4)	(3.9)
Interest payable on finance leases	(0.4)	(0.3)
Interest payable to joint ventures	(0.2)	(0.2)
Other interest payable	(0.1)	–
Finance expenses	(5.1)	(4.4)
<b>Net finance income</b>	<b>4.3</b>	4.1

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 6 Income tax expense

	2008 £m	2007 £m
Current tax expense:		
UK corporation tax	18.1	19.7
Adjustment in respect of prior years	(1.3)	0.3
	<b>16.8</b>	20.0
Deferred tax expense:		
Current year	0.1	(0.1)
Adjustment in respect of prior years	0.6	(1.7)
	<b>0.7</b>	(1.8)
<b>Income tax expense for the year</b>	<b>17.5</b>	18.2

Corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable profit for the year. The corporation tax rate has changed due to rates reducing from 30% to 28%, effective from 1 April 2008.

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

	2008 £m	2007 £m
Profit before tax	62.3	57.6
Income tax expense at UK corporation tax rate	17.7	17.3
Tax effect of:		
Share of net profit of equity accounted joint ventures	(0.7)	(1.4)
Expenses that are not deductible in determining taxable profits	1.2	3.7
Movements not reflected in the income statement	-	(0.3)
Adjustments in respect of prior years	(0.7)	(1.4)
Effects of rate change	-	0.3
<b>Income tax expense for the year</b>	<b>17.5</b>	18.2
Effective tax rate for the year	<b>28.1%</b>	31.6%
Effective tax rate for the year ignoring prior year adjustments	<b>29.2%</b>	34.0%



## Notes to the consolidated financial statements for the year ended 31 December 2008

### 7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2008 £m	2007 £m
Final dividend for the year ended 31 December 2007 of 28.0p (2006: 20.0p) per share	11.9	8.4
Interim dividend for the year ended 31 December 2008 of 12.0p (2007: 10.0p) per share	5.1	4.2
	<b>17.0</b>	12.6
Proposed final dividend for the year ended 31 December 2008 of 30.0p (2007: 28.0p) per share	12.7	12.0

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:

	2008 £m	2007 £m
<b>Earnings</b>		
Earnings before taxation	62.3	57.6
Deduct taxation expense per the income statement	(17.5)	(18.2)
Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to equity holders of the parent company	44.8	39.4
Add back current year's amortisation expense pre tax (see notes 2 and 10)	9.1	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	53.9	43.9

	2008 No. '000s	2007 No. '000s
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	42,108	41,989
Effect of dilutive potential ordinary shares:		
Share options	268	720
Conditional shares not vested	196	239
Weighted average number of ordinary shares for the purposes of diluted earnings per share	42,572	42,948

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 8 Earnings per share (continued)

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 £7.36 (2007: £14.13).

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

	<b>2008</b>	2007
Basic earnings per share	<b>106.3p</b>	93.8p
Diluted earnings per share	<b>105.1p</b>	91.7p
Basic and diluted earnings per share adjusted for amortisation expense:		
Basic earnings per share excluding amortisation expense	<b>127.8p</b>	104.5p
Diluted earnings per share excluding amortisation expense	<b>126.4p</b>	102.2p

A total of 1,171,003 share options that could potentially dilute earnings per share in the future were excluded from the above calculations because they were anti-dilutive at 31 December 2008 (2007: 64,000).

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 9 Property, plant and equipment

	Owned plant, machinery & equipment £m	Leased plant, machinery & equipment £m	Freehold property £m	Leasehold property £m	Restated Total £m
<b>Cost or valuation</b>					
Balance at 1 January 2007	32.4	7.0	0.1	4.2	43.7
Additions for the year	8.0	3.0	–	2.3	13.3
Additions through acquisitions	1.6	–	0.4	–	2.0
Disposals during the year	(6.6)	(0.1)	–	(1.2)	(7.9)
Balance at 31 December 2007 (restated)	35.4	9.9	0.5	5.3	51.1
<b>Balance at 1 January 2008 (restated)</b>	<b>35.4</b>	<b>9.9</b>	<b>0.5</b>	<b>5.3</b>	<b>51.1</b>
Additions for the year	6.1	6.3	2.3	2.9	17.6
Transfers	2.4	(2.4)	–	–	–
Disposals during the year	(5.2)	(0.3)	–	(0.4)	(5.9)
<b>Balance at 31 December 2008</b>	<b>38.7</b>	<b>13.5</b>	<b>2.8</b>	<b>7.8</b>	<b>62.8</b>
<b>Accumulated depreciation</b>					
Balance at 1 January 2007	(21.9)	(2.5)	–	(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	(21.0)	(3.7)	–	(2.6)	(27.3)
<b>Balance at 1 January 2008</b>	<b>(21.0)</b>	<b>(3.7)</b>	<b>–</b>	<b>(2.6)</b>	<b>(27.3)</b>
Depreciation charge for the year	(5.4)	(1.6)	–	(1.1)	(8.1)
Transfers	(1.2)	1.2	–	–	–
Disposals during the year	4.8	0.2	–	0.3	5.3
<b>Balance at 31 December 2008</b>	<b>(22.8)</b>	<b>(3.9)</b>	<b>–</b>	<b>(3.4)</b>	<b>(30.1)</b>
<b>Net book value</b>					
<b>Balance at 31 December 2008</b>	<b>15.9</b>	<b>9.6</b>	<b>2.8</b>	<b>4.4</b>	<b>32.7</b>
Balance at 31 December 2007	14.4	6.2	0.5	2.7	23.8

Within the carrying value of property, plant and equipment there are no assets under construction (2007: £0.5m).

Contractual commitments for the acquisition of property, plant and equipment are £2.4m (2007: £3.5m).

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 10 Goodwill and other intangible assets

	Secured customer contracts £m	Other contracts and related relationships £m	Software £m	Non-compete agreement £m	Total other intangible assets £m	Goodwill £m
<b>Cost or valuation</b>						
At 1 January 2007	–	–	–	–	–	81.7
Additions through acquisitions (restated) (note 24)	4.2	26.9	0.9	5.0	37.0	110.6
<b>At 1 January 2008 (restated)</b>	<b>4.2</b>	<b>26.9</b>	<b>0.9</b>	<b>5.0</b>	<b>37.0</b>	<b>192.3</b>
<b>At 31 December 2008</b>	<b>4.2</b>	<b>26.9</b>	<b>0.9</b>	<b>5.0</b>	<b>37.0</b>	<b>192.3</b>
<b>Accumulated amortisation</b>						
At 1 January 2007	–	–	–	–	–	(9.0)
Charge for the year	(0.8)	(2.8)	(0.2)	(0.7)	(4.5)	–
<b>At 1 January 2008</b>	<b>(0.8)</b>	<b>(2.8)</b>	<b>(0.2)</b>	<b>(0.7)</b>	<b>(4.5)</b>	<b>(9.0)</b>
Charge for the year	(2.1)	(4.8)	(0.5)	(1.7)	(9.1)	–
<b>At 31 December 2008</b>	<b>(2.9)</b>	<b>(7.6)</b>	<b>(0.7)</b>	<b>(2.4)</b>	<b>(13.6)</b>	<b>(9.0)</b>
<b>Carrying amount at 31 December 2008</b>						
<b>Carrying amount at 31 December 2008</b>	<b>1.3</b>	<b>19.3</b>	<b>0.2</b>	<b>2.6</b>	<b>23.4</b>	<b>183.3</b>
Carrying amount at 31 December 2007 (restated)	3.4	24.1	0.7	4.3	32.5	183.3

Secured customer contracts and other contracts and related relationships arise from valuing the relationship with a number of clients where there is a secured pipeline of work or historic experience of a relationship and the real prospective opportunity of repeat work. Secured customer contracts will be fully amortised by December 2010 and other contracts and related relationships by 2023.

Software will be fully amortised by December 2010.

The non-compete agreement is of a three year duration and will expire in July 2010.

Segmentation of goodwill and other intangible assets is disclosed in note 1.

Note 24 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 testing goodwill and other intangible assets for impairment the carrying value of goodwill and other intangible assets in each cash-generating unit has been compared against value in use. Value in use has been determined by using forecast pre-tax cash flows from approved budgets for the next three years and extrapolating future growth and applying risk-adjusted discount rates that are specific to the cash-generating unit in question.

Cash flows beyond three years have been extrapolated using an estimated growth rate of 2.25%, which is equal to the estimated long-term growth in construction sector GDP. The risk-adjusted discount rates used are 12% for Construction and Infrastructure Services, 13% for Affordable Housing and 15% for Urban Regeneration.

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 10 Goodwill and other intangible assets (continued)

The key assumptions in forecasting pre-tax cash flows relate to future budgeted revenue, margin likely to be achieved, and likely rates of long-term growth by market sector. Budgeted revenue and margin are based on views on past performance, secured workload and workload likely to be achievable in the short to medium-term given trends in the relevant market sector as well as macroeconomic factors. In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified.

### 11 Investments in equity accounted joint ventures

The Group has the following interests in significant joint ventures:

#### 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 and 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.

#### Bluelight Holdings Limited 50% share

Bluelight Holdings Limited is a joint venture with Barclays Capital set up to hold the investment in a joint venture with Garden Croft for the Dorset Emergency Services PFI scheme.

#### Morgan-Vinci Limited 50% share

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

#### Renaissance Miles Platting Limited 33 $\frac{1}{3}$ % 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.

#### 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.

#### Ashton Moss Developments Limited 50% share

Ashton Moss Developments Limited has developed a mixed use site in Manchester.

#### Bromley Park Limited 50% share

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

#### Chatham Place (Building 1) Limited 50% share

Chatham Place (Building 1) Limited is developing residential apartments and commercial units at Chatham Place, Reading.

#### 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.

#### Eurocentral Partnership Limited 50% share

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



## Notes to the consolidated financial statements for the year ended 31 December 2008

### 11 Investments in equity accounted joint ventures (continued)

#### 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.

#### Lewisham Gateway Developments Limited 50% share

Lewisham Gateway Developments Limited is redeveloping a mixed use site comprising retail, office, hotel, residential, education, health and leisure space.

#### Lingley Mere Business Park Development Company Limited 50% share

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

#### North Shore Development Partnership Limited 50% share

North Shore Development Partnership Limited is creating a high quality extension to Stockton-on-Tees' town centre in partnership with Tees Valley Regeneration, Stockton Council and English Partnerships.

#### Ician Developments Limited 50% share

Ician Developments Limited has developed a large mixed use regeneration scheme in the Smithfield area of Manchester.

Investments in equity accounted joint ventures are as follows:

	2008 £m	2007 £m
At 1 January	38.1	5.3
Additions on acquisition	–	24.5
Equity accounted share of net profits for the year	2.6	4.7
Increase in investment	12.4	5.0
Movement on cash flow hedges	(0.1)	(1.4)
<b>At 31 December</b>	<b>53.0</b>	<b>38.1</b>

The increase in investments in joint ventures during the year was mainly due to a loan investment in Warp 4 Limited Partnership.

Financial information related to equity accounted joint ventures:

	2008 £m	2007 £m
Current assets (100%)	310.0	266.3
Non current assets (100%)	289.2	247.1
Current liabilities (100%)	(86.3)	(98.0)
Non current liabilities (100%)	(354.5)	(283.8)
<b>Net assets reported by equity accounted joint ventures (100%)</b>	<b>158.4</b>	<b>131.6</b>
Revenues (100%)	184.8	117.5
Expenses (100%)	(177.9)	(100.6)
<b>Net profit (100%)</b>	<b>6.9</b>	<b>16.9</b>

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 11 Investments in equity accounted joint ventures (continued)

Results of equity accounted joint ventures:

	2008 £m	2007 £m
Group share of profits before tax	3.6	7.4
Group share of income tax expense	(1.0)	(2.7)
<b>Group share of profits after tax</b>	<b>2.6</b>	4.7

Within non current assets are financial receivables of £123.1m (2007: £124.1m) which are carried at fair value. The fair values have been determined on the basis of discounting underlying future cash flows using a range of risk-adjusted discount rates between 7.0% to 7.3%, considered by the directors to reflect the risks attaching to the future cash flows.

### 12 Inventories

	2008 £m	2007 £m
Raw materials	3.9	3.6
Work in progress	167.4	125.2
	<b>171.3</b>	128.8

Work in progress comprises land and housing, commercial and mixed developments in the course of construction.

### 13 Trade and other receivables

	2008 £m	2007 £m
Trade receivables (note 28)	196.9	206.9
Provision for impairment losses (note 28)	(2.7)	(4.9)
	<b>194.2</b>	202.0
Amounts owed by joint ventures (note 27)	4.2	4.5
Deferred tax asset (note 18)	1.0	0.3
Other receivables	3.6	16.4
Prepayments and accrued income	6.0	15.1
	<b>209.0</b>	238.3

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

The average credit period on revenues is 24 days (2007: 23 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts.

Included in the Group's trade receivable balance are debtors with a carrying amount of £51.2m (2007: £57.3m) 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 considers that the amounts are still recoverable. The average age of these receivables is 96 days (2007: 134 days).

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 13 Trade and other receivables (continued)

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 28, Financial Instruments.

In determining the recoverability of trade receivables, 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. No collateral is held by the Group as security.

Within the provision for impairment losses there are no specific trade receivables (2007: £nil) from debtors which have been placed into liquidation or administration.

At the reporting date there were no trade and other receivables which have had renegotiated terms that would otherwise have been past due.

### 14 Construction contracts

Contracts in progress at the balance sheet date:

	<b>2008</b> <b>£m</b>	2007 £m
Amounts due from construction contract customers	<b>189.2</b>	209.1
Amounts due to construction contract customers	<b>(78.3)</b>	(67.4)
<b>Carrying amount at end of year</b>	<b>110.9</b>	141.7
Contract costs incurred plus recognised profits less recognised losses to date	<b>5,158.5</b>	9,979.0
Less: progress billings	<b>(5,047.6)</b>	(9,837.3)
<b>Net work in progress</b>	<b>110.9</b>	141.7

Contract costs incurred plus recognised profits less recognised losses to date and progress billings include contract activity which the Group has not recognised in the income statement as it occurred prior to 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 revenue recognised on construction contracts.

At 31 December 2008 retentions held by customers for contract work amounted to £59.6m (2007: £66.2m).

None of the Group's amounts due from construction contract customers' balances are past due at the reporting date (2007: £nil). The Group does not hold any collateral over these balances.

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 15 Trade and other payables

	<b>2008</b> <b>£m</b>	Restated 2007 £m
Trade payables	<b>173.4</b>	204.9
Other payables	<b>20.3</b>	17.1
Amounts payable to joint ventures (note 27)	<b>9.8</b>	13.3
Other tax and social security	<b>25.6</b>	32.5
Accruals and deferred income	<b>446.1</b>	530.3
	<b>675.2</b>	798.1

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 24 days (2007: 28 days). No interest was incurred on outstanding balances. The Group has financial risk management policies in place to ensure that all payables are paid when due except in cases of genuine dispute.

In addition, non current liabilities include trade and other payables of £0.1m (2007: £8.9m) that fall due between 2 and 5 years.

### 16 Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
	<b>2008</b> <b>£m</b>	2007 £m	<b>2008</b> <b>£m</b>	2007 £m
Amounts payable under finance leases:				
Within one year	<b>2.4</b>	1.6	<b>1.9</b>	1.4
In the second to fifth years inclusive	<b>5.6</b>	2.7	<b>4.6</b>	2.3
After five years	<b>3.1</b>	1.0	<b>2.8</b>	0.9
	<b>11.1</b>	5.3	<b>9.3</b>	4.6
Less: future finance charges	<b>(1.8)</b>	(0.7)	<b>n/a</b>	n/a
Present value of lease obligations	<b>9.3</b>	4.6	<b>9.3</b>	4.6
Current lease liability			<b>1.9</b>	1.4
Non current lease liability			<b>7.4</b>	3.2
			<b>9.3</b>	4.6

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is 5 years (2007: 3 years). For the year ended 31 December 2008, the average effective borrowing rate was 6% (2007: 7%). 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.

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 17 Retirement benefit schemes

#### Defined contribution plan

The Morgan Sindall Retirement Benefits Plan (the 'Plan') was established on 31 May 1995 and currently 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 £8.5m (2007: £6.1m) represents contributions payable to the defined contribution section of the Plan by the Group. As at 31 December 2008, contributions of £0.7m (2007: £0.6m) were due in respect of December 2008's contribution not paid over to the Plan. The Company, with the consent of the Trustees, can decide how to use monies held in a defined contribution general account.

#### Defined benefit plan

The Plan includes a defined benefit section comprising 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 2008. The present value of the defined benefit liabilities, the related current service cost and past service cost was measured using the projected unit method.

Key assumptions used:

	<b>2008</b> %	2007 %
Discount rate	<b>6.1</b>	6.0
Expected return on the Plan assets	<b>4.8</b>	5.3
Expected rate of salary increases	<b>4.0</b>	4.5
Future pension increases	<b>3.5</b>	3.5
Inflation increases	<b>3.0</b>	3.5

#### Life expectancy

There is uncertainty around life expectancy of the UK population. Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in the UK. 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 2008 and 31 December 2007, the PXA92 series of tables from the Continuous Mortality Investigation was adopted appropriate to members' actual years of birth and with a medium cohort projection for future improvements in life expectancy.

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

	<b>2008</b>	2007
Male	<b>87.0</b>	86.9
Female	<b>89.8</b>	89.8

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

	<b>2008</b>	2007
Male	<b>88.1</b>	88.0
Female	<b>90.9</b>	90.8



## Notes to the consolidated financial statements for the year ended 31 December 2008

### 17 Retirement benefit schemes (continued)

An increase of one year to the average life expectancy at 65 would increase the present value of the Plan liabilities by around 3.0%. If such an assumption had been adopted as at 31 December 2008, the present value of the Plan liabilities would have increased to £8.2m (2007: increase of 2.5% with the present value of the Plan liabilities increasing from £8.0m to £8.2m).

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

	2008 £m	2007 £m
Present value of the Plan liabilities	(8.0)	(8.0)
Fair value of the Plan assets	5.0	4.7
Deficit in the Plan	(3.0)	(3.3)
Liability recognised in the balance sheet	(3.0)	(3.3)

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

	2008 £m	2007 £m
Interest cost	(0.5)	(0.4)
Expected return on the Plan assets	0.3	0.3
Net periodic cost	(0.2)	(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 a loss of £0.1m (2007: gain of £0.3m).

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

	2008 £m	2007 £m
Liabilities at 1 January	(8.0)	(7.3)
Interest cost	(0.5)	(0.4)
Actuarial gains/(losses)	0.2	(0.4)
Benefits paid	0.3	0.1
Liabilities at 31 December	(8.0)	(8.0)

The liabilities in respect of pensions in payment account for around 16% of the total (2007: 17%). The average term to retirement is six years for active members (i.e. members who are still employed by the Group and whose past service benefits are linked to their final salary but are no longer accruing final salary benefits) (2007: seven years) and three years (2007: five years) for deferred members.

**Notes to the consolidated financial statements for the year ended 31 December 2008****17 Retirement benefit schemes (continued)**

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

	<b>2008</b> <b>£m</b>	2007 £m
At 1 January	<b>4.7</b>	4.8
Expected return on the Plan assets	<b>0.3</b>	0.3
Actuarial losses	<b>(0.4)</b>	(0.5)
Contributions from sponsoring company	<b>0.7</b>	0.2
Benefits paid	<b>(0.3)</b>	(0.1)
At 31 December	<b>5.0</b>	4.7

Included within the actuarial losses arising on the Plan's assets is an amount of £nil (2007: £0.5m) in respect of contributions included in the balance at 1 January, 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
<b>Discount rate</b>		
Effect on interest cost	–	–
Effect on the defined benefit obligation	(1.1)	1.3
<b>Inflation rate</b>		
Effect on interest cost	–	–
Effect on the defined benefit obligation	0.3	(0.2)
<b>Expected rate of return on assets</b>		
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 2009. The sensitivities to the defined benefit obligation relate to the liability as at 31 December 2008.

	<b>2008</b> <b>£m</b>	2007 £m
Actuarial losses recognised in the statement of recognised income and expense	<b>0.2</b>	0.9
Cumulative actuarial losses recognised in the statement of recognised income and expense	<b>3.2</b>	3.0

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 17 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	
	2008 £m	2007 £m	2008 %	2007 %
Equity instruments	n/a	0.5	n/a	7.4
Fixed interest gilts	2.8	2.4	3.8	4.4
Corporate bonds	2.2	1.8	6.1	6.0
	5.0	4.7		

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:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of the Plan liabilities	(8.0)	(8.0)	(7.3)	(7.7)	(6.1)
Fair value of the Plan assets	5.0	4.7	4.8	4.4	3.9
Deficit in the Plan	(3.0)	(3.3)	(2.5)	(3.3)	(2.2)
Experience adjustments on the Plan liabilities:					
Amount	0.2	(0.4)	0.7	(1.5)	(1.3)
Percentage of the Plan liabilities	(1.9%)	4.4%	(9.2%)	18.7%	21.5%
Experience adjustments on the Plan assets:					
Amount	(0.3)	(0.5)	–	0.2	(0.2)
Percentage of the Plan assets	(6.6%)	(11.0%)	0.4%	3.8%	(4.5%)

The amount of contributions expected to be paid to the Plan during 2009 is £0.7m (2008: £0.7m).

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 18 Deferred tax

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

	Non current asset depreciation £m	Short-term timing differences £m	Retirement benefit obligations £m	Share- based payments £m	Total £m
At 1 January 2007	0.9	0.3	0.8	1.9	3.9
Credit/(charge) to income	0.5	1.6	(0.1)	0.1	2.1
Credit/(charge) 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)
At 31 December 2007	1.3	1.8	0.9	1.3	5.3
<b>At 1 January 2008</b>	<b>1.3</b>	<b>1.8</b>	<b>0.9</b>	<b>1.3</b>	<b>5.3</b>
Credit/(charge) to income	0.2	(0.8)	(0.1)	–	(0.7)
Charge to equity	–	–	–	(0.9)	(0.9)
<b>At 31 December 2008</b>	<b>1.5</b>	<b>1.0</b>	<b>0.8</b>	<b>0.4</b>	<b>3.7</b>

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:

	2008 £m	2007 £m
Deferred tax within trade and other receivables	1.0	0.3
Deferred tax within non current assets	2.7	5.0

At 31 December 2008, the Group had unused tax losses of £0.6m (2007: £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 against which these losses may be utilised. Losses may be carried forward indefinitely.

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 19 Provisions

	Employee provisions £m	Insurance provisions £m	Other £m	Restated total £m
At 1 January 2008	1.1	10.2	8.0	19.3
Utilised	(0.1)	(1.6)	(0.7)	(2.4)
Additions	0.8	0.2	0.4	1.4
<b>At 31 December 2008</b>	<b>1.8</b>	<b>8.8</b>	<b>7.7</b>	<b>18.3</b>

The majority of the provisions are expected to be utilised within five years.

Employee provisions comprise obligations to former employees other than retirement or post-retirement obligations. Insurance provisions include £1.3m held in the Group's captive insurance company and comprise the Group's self insurance of certain risks. Other provisions include onerous lease commitments and legal claims.

### 20 Operating lease commitments

	2008 £m	2007 £m
Minimum lease payments under operating leases recognised as an expense for the year	<b>20.7</b>	28.9

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

	2008			2007		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Leases which expire:						
Within one year	<b>8.2</b>	<b>1.7</b>	<b>9.9</b>	6.8	2.1	8.9
Within two to five years	<b>21.9</b>	<b>5.1</b>	<b>27.0</b>	20.5	5.2	25.7
After five years	<b>7.8</b>	<b>5.7</b>	<b>13.5</b>	10.3	2.0	12.3
<b>Total operating lease commitments</b>	<b>37.9</b>	<b>12.5</b>	<b>50.4</b>	37.6	9.3	46.9

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 (2007: 5 years) and rentals are fixed for an average of 3 years (2007: 4 years).

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 21 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.

On 17 April 2008 the Office of Fair Trading ('OFT') issued a Statement of Objections to the Company together with a number of construction companies in England, in connection with its investigation into alleged infringements of UK Competition law in the sector. The Company has co-operated with the OFT's investigation under the OFT's leniency policy and, as a result, has been provisionally granted a reduction in any penalty which the OFT might ultimately impose. The outcome of the investigation is not yet known, however, and the directors remain unable to estimate the size of any potential liability and as a result no provision has been made in these consolidated financial statements.

### 22 Share capital

	2008		2007	
	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	42,802	2,140	42,520	2,126
Exercise of share options	202	10	282	14
<b>At the end of the year</b>	<b>43,004</b>	<b>2,150</b>	42,802	2,140

The Company has one class of ordinary share of 5p each ('shares') which carries no rights to fixed income. All 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.

No member shall however be entitled to vote at any general meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

#### Shares

The shares of the Company issued during the year are shown below. Details of employee share option schemes referred to are given below and in note 26.

No shares were issued in respect of options exercised under the Company's 1988 Scheme (2007: 12,625 shares for a total consideration of £21,589).

202,007 shares were issued in respect of options exercised under the Company's 1995 Scheme for a total consideration of £249,200 (2007: 269,133 shares for a total consideration of £159,207). Some options exercised under the 1995 Scheme were settled on a net basis.

No shares were issued in respect of the ESOP 2007, the SAYE scheme or the 2005 Plan (2007: nil).



## Notes to the consolidated financial statements for the year ended 31 December 2008

### 22 Share capital (continued)

#### Share options

The Company has five share option schemes:

- The Morgan Sindall plc 1995 Executive Share Option Scheme (the '1995 Scheme'), which received shareholders' approval on 24 May 1995. The period for the granting of options under the 1995 Scheme expired in May 2005. Options under the 1995 Scheme are exercisable between five and seven years from the date of grant of the options
- The Morgan Sindall Employee Share Option Plan 2007 (the 'ESOP 2007') received approval from the Board on 7 June 2007. The ESOP 2007 did not require shareholder approval because all options granted and to be granted under it will be settled with market purchased shares. Options granted under the ESOP 2007 are exercisable between three and ten years from the date of grant. The period for granting options under the ESOP 2007 expires on 6 June 2017
- The Morgan Sindall Executive Remuneration Plan 2005 (the '2005 Plan'), details of which are disclosed in the directors' remuneration report on page 42
- The Morgan Sindall Savings Related Share Option ('SAYE') scheme. The SAYE scheme was approved by shareholders on 22 April 2008 and by Her Majesty's Revenue & Customs ('HMRC') on 9 May 2008. A total of 1,674,119 options were granted on 1 July 2008 under the SAYE scheme (2007: nil). The options are exercisable after 3 years (for 6 months) from the date of grant. The period for granting options under the SAYE scheme expires on 21 April 2018. Further details of the SAYE scheme are given in note 26
- The Morgan Sindall plc Share Option Scheme (the '1988 Scheme') was introduced on 21 January 1988. All remaining options under the 1988 Scheme lapsed or were exercised in 2007.

Details of the options outstanding under the 1995 Scheme, the ESOP 2007, the SAYE scheme and the 2005 Plan and the respective exercise prices are shown in note 26.

#### Own shares

Own shares at cost represent 840,864 (2007: 752,169) shares in the Company held in the Morgan Sindall Employee Benefit Trust (the 'Trust') in connection with the ESOP 2007 and certain share incentive schemes as detailed in the directors' remuneration report on pages 40 to 47. The trustees of the Trust purchase the Company's 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 840,864 (2007: 615,766) shares were unallocated at the year end and dividends on these shares have been waived. 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 2008 of £5.42 (2007: £10.39), the market value of the shares was £4,557,483 (2007: £7,815,036).

## Notes to the consolidated financial statements for the year ended 31 December 2008

## 23 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 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
Deferred tax (liability) on share-based payments	–	–	–	–	–	(0.7)	(0.7)
Own shares acquired in the period	–	–	–	(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
<b>Balance at 1 January 2008</b>	2.1	26.3	0.6	(5.5)	(2.2)	144.4	165.7
Total recognised income and expense	–	–	–	–	(0.1)	44.6	44.5
Share-based payments	–	–	–	–	–	2.3	2.3
Issue of shares at a premium	–	0.3	–	–	–	–	0.3
Exercise of share options (note 22)	0.1	–	–	1.9	–	(1.9)	0.1
Deferred tax (liability) on share-based payments	–	–	–	–	–	(0.8)	(0.8)
Own shares acquired in the period	–	–	–	(2.8)	–	–	(2.8)
Dividends paid:							
Final dividend – 2007	–	–	–	–	–	(11.9)	(11.9)
Interim dividend – 2008	–	–	–	–	–	(5.1)	(5.1)
<b>Balance at 31 December 2008</b>	<b>2.2</b>	<b>26.6</b>	<b>0.6</b>	<b>(6.4)</b>	<b>(2.3)</b>	<b>171.6</b>	<b>192.3</b>

**Share premium account**

The share premium account represents the difference between the fair value of consideration received and the nominal value of the shares issued.

**Capital redemption reserve**

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

**Reserve for own shares held**

The shares are held as 'treasury shares' and represent the cost of shares to Morgan Sindall plc purchased in the market and held by the Trust to satisfy options under the Group's share incentive schemes (note 26).

The number of shares held by the Trust at 31 December 2008 was 840,864 (2007: 752,169).

**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 2008

### 24 Acquisitions

On 27 July 2007 the Group acquired 100% of the share capital of 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 liabilities 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	(85.1)
<b>Goodwill (note 10)</b>	<b>110.6</b>

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

On page 76 of the 2007 annual report and accounts, the provisional fair value of the net assets and goodwill acquired were reported. The Group has since completed the fair value exercise as announced in the interim management statement on 4 August 2008. This led to further adjustments to 2007 comparatives of £60.5m. The final fair values are as follows:

	Acquiree's carrying amount £m	Provisional fair value adjustments made 31 December 2007 £m	Final fair value adjustments £m	Final fair value £m
Cash and cash equivalents	14.2	–	–	14.2
Intangible fixed assets:				
Secured customer contracts	–	3.1	1.1	4.2
Other contracts and related relationships	–	30.7	(3.8)	26.9
Software	–	0.9	–	0.9
Non-compete agreement	–	5.0	–	5.0
Tangible fixed assets	2.0	0.2	(0.2)	2.0
Investments in joint ventures and associates	28.7	(4.2)	–	24.5
Working capital	(68.2)	(35.0)	(57.6)	(160.8)
Provisions	–	(2.0)	–	(2.0)
<b>Net liabilities acquired</b>	<b>(23.3)</b>	<b>(1.3)</b>	<b>(60.5)</b>	<b>(85.1)</b>
Purchase consideration settled in cash				23.7
Directly attributable acquisition costs				1.8
Cash and cash equivalents acquired				(14.2)
<b>Cash outflow on acquisition</b>				<b>11.3</b>

Fair value adjustments arose from a reassessment of the outcome of a small number of construction contracts acquired from Amec in July 2007. Adjustments to customer contracts and relationships arose from a re-assessment of the discounted value of the cash flows expected to be generated from secure work with, or work expected to be obtained from, a number of clients.

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 25 Cash flows from operating activities

	2008 £m	Restated 2007 £m
<b>Cash flows from operating activities</b>		
Profit from operations for the year	58.0	53.5
Adjusted for:		
Amortisation of fixed life intangible assets	9.1	4.5
Share of net profit of equity accounted joint ventures	(2.6)	(4.7)
Depreciation of property, plant and equipment	8.1	6.3
Expense in respect of share options	2.3	1.7
Defined benefit plan payment	(0.7)	(0.2)
Defined benefit plan charge	0.2	0.1
(Gain)/loss on disposal of property, plant and equipment	(0.2)	1.2
(Decrease)/increase in provisions	(1.0)	1.4
<b>Operating cash flows before movements in working capital</b>	<b>73.2</b>	63.8
Increase in inventories	(41.2)	(10.4)
Decrease/(increase) in receivables	48.8	(33.3)
(Decrease)/increase in payables	(122.9)	157.8
<b>Cash (utilised)/generated from operations</b>	<b>(42.1)</b>	177.9
Income taxes paid	(18.9)	(15.8)
Interest paid	(4.5)	(4.0)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(65.5)</b>	158.1

Additions to property, plant and equipment during the year amounting to £6.3m (2007: £3.0m) and additions to leasehold property amounting to £nil (2007: £2.3m) were financed by new finance leases. Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 26 Share-based payments

#### Equity-settled share options

The Company's 2005 Plan and the ESOP 2007 provide for a grant price equal to the average of the middle market price of the Company's shares at close of business on the five dealing days preceding the date of grant. The Company's 1995 Scheme provides 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 1995 Scheme and the ESOP 2007 option vesting periods are given in note 22 and the vesting periods for options granted under the 2005 Plan are given in the directors' remuneration report on pages 40 to 47.

Under the SAYE scheme, employees are granted an option to purchase shares at up to 20% less than the market price at grant in three years time, depending on their entering into a contract to make monthly contributions into a savings account over the relevant period. These funds are used to fund the option exercise price. The scheme is open to all employees with six months continuous service at the invitation date. No performance criteria are applied to the exercise of SAYE options.

The weighted average share price at the date of exercise for share options exercised during the year was £9.87 (2007: £13.61). The options outstanding at 31 December 2008 had a weighted average exercise price of £6.04 (2007: £6.39), and a weighted average remaining contractual life of 2.1 years (2007: 1.4 years). In 2008 options under the ESOP 2007 were granted on 15 April, 27 May, 28 October and 26 November and the estimated fair value of the options granted on those dates was £0.3m (2007: £0.6m). Options and share awards under the 2005 Plan were granted on 9 April 2008 and 16 June 2008. The estimated fair value of the options granted on those dates was £1.0m (2007: £1.0m) and the estimated fair value of the share awards granted on those dates was £0.8m (2007: £0.7m). The estimated fair value of options granted under the SAYE scheme on 1 July 2008 was £1.2m (2007: £nil).

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

	ESOP 2007 options Apr 08	ESOP 2007 options May 08	SAYE 2008 options July 08	ESOP 2007 options Oct 08	ESOP 2007 options Nov 08
<b>2007 ESOP and 2008 SAYE options</b>					
Number of options/shares granted	55,000	55,000	1,674,119	42,500	25,000
Weighted average fair value at date of grant (per option/share)	£2.51	£2.27	£0.72	£0.52	£0.69
Weighted average share price at date of grant	£10.04	£9.49	£5.86	£4.12	£4.62
Weighted average exercise price	£10.03	£9.92	£7.02	£4.36	£4.75
Expected term (from date of grant)	(b) 6 years	6 years	3.25 years	6 years	6 years
Expected volatility	(c) 32.0%	32.0%	33.0%	37.0%	38.0%
Expected dividend yield	(d) 3.8%	4.0%	6.5%	9.7%	8.7%
Risk-free rate	4.1%	4.9%	5.2%	4.0%	3.4%

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 26 Share-based payments (continued)

#### Equity-settled share options (continued)

		2005 Plan options Apr 08	2005 Plan shares Apr 08(e)	2005 Plan options Jun 08	2005 Plan shares Jun 08(e)
<b>2005 Plan shares and options</b>					
Number of options/shares granted	(a)	342,066	72,726	25,048	6,262
Weighted average fair value at date of grant (per option/share)		£2.66	£10.34	£1.93	£7.75
Weighted average share price at date of grant		£10.34	£10.34	£7.75	£7.75
Weighted average exercise price		£10.39	Nil	£7.42	Nil
Expected term (from date of grant)	(b)	6 years	3 years	6 years	3 years
Expected volatility	(c)	33.0%	31.0%	33.0%	33.0%
Expected dividend yield	(d)	3.7%	0.0%	4.9%	0.0%
Risk-free rate		4.2%	4.0%	5.4%	5.5%

(a) In April and June 2008, 342,066 and 25,048 share options were granted to executives of the Group under the 2005 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 with the exception of awards granted to executives of the Group, which are subject to performance conditions.

(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.

The Group recognised total remuneration expenses of £2.3m and £1.7m related to equity-settled share-based payment transactions in 2008 and 2007 respectively.



## Notes to the consolidated financial statements for the year ended 31 December 2008

### 26 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.

Grant Date	Exercise price £	Balance at beginning of the year No.	Options granted No.	Options lapsed No.	Options forfeited No.	Options exercised No.	Balance of options in issue at end of the year No.	Balance of options exercisable at end of the year No.	Proceeds received (net of settlements) £
<b>2008</b>									
<i>1995 Scheme</i>									
29 Oct 02 <sup>1</sup>	2.70	380,000	–	31,993	–	102,007	246,000	246,000	42,200
10 Mar 03 <sup>2</sup>	2.07	100,000	–	–	–	100,000	–	–	207,000
25 Feb 04 <sup>3</sup>	4.20	100,000	–	–	–	–	100,000	–	–
14 Sep 04 <sup>4</sup>	4.38	60,000	–	–	–	–	60,000	–	–
<i>ESOP 2007</i>									
13 Aug 07 <sup>5</sup>	16.76	23,000	–	–	–	–	23,000	–	–
24 Sep 07 <sup>6</sup>	15.81	41,000	–	–	–	–	41,000	–	–
20 Dec 07 <sup>7</sup>	10.51	100,000	–	–	–	–	100,000	–	–
15 Apr 08 <sup>8</sup>	10.03	–	55,000	–	–	–	55,000	–	–
27 May 08 <sup>9</sup>	9.92	–	55,000	–	–	–	55,000	–	–
28 Oct 08 <sup>10</sup>	4.36	–	42,500	–	–	–	42,500	–	–
26 Nov 08 <sup>11</sup>	4.75	–	25,000	–	–	–	25,000	–	–
<i>2005 Plan</i>									
20 May 05 <sup>12</sup>	7.24	318,024	–	–	–	–	318,024	318,024	–
5 Apr 06 <sup>13</sup>	12.59	258,532	–	–	–	–	258,532	–	–
6 Mar 07 <sup>14</sup>	12.15	271,357	–	–	–	–	271,357	–	–
9 Apr 08 <sup>15</sup>	10.39	–	342,066	–	–	–	342,066	–	–
16 Jun 08 <sup>16</sup>	7.42	–	25,048	–	–	–	25,048	–	–
<i>2008 SAYE</i>									
1 July 08 <sup>17</sup>	7.02	–	1,674,119	–	124,288	–	1,549,831	11,339	–
<b>Total</b>		<b>1,651,913</b>	<b>2,218,733</b>	<b>31,993</b>	<b>124,288</b>	<b>202,007</b>	<b>3,512,358</b>	<b>575,363</b>	<b>249,200</b>

The weighted average share price of Morgan Sindall plc shares was £7.36 (2007: £14.13) during the year.

#### Notes:

##### 1995 Scheme

<sup>1</sup> Exercisable between 29 October 2007 and 28 October 2009

<sup>2</sup> Exercisable between 10 March 2008 and 9 March 2010

<sup>3</sup> Exercisable between 25 February 2009 and 24 February 2011

<sup>4</sup> Exercisable between 14 September 2009 and 13 September 2011

##### ESOP 2007

<sup>5</sup> Exercisable between 13 August 2010 and 12 August 2017

<sup>6</sup> Exercisable between 24 September 2010 and 12 September 2017

<sup>7</sup> Exercisable between 20 December 2010 and 19 December 2017

<sup>8</sup> Exercisable between 15 April 2011 and 14 April 2018

<sup>9</sup> Exercisable between 27 May 2011 and 26 May 2018

<sup>10</sup> Exercisable between 28 October 2011 and 27 October 2018

<sup>11</sup> Exercisable between 26 November 2011 and 25 November 2018

##### 2005 Plan

<sup>12</sup> Exercisable between 20 May 2008 and 19 May 2015

<sup>13</sup> Exercisable between 5 April 2009 and 4 April 2016

<sup>14</sup> Exercisable between 6 March 2010 and 5 March 2017

<sup>15</sup> Exercisable between 9 April 2011 and 8 April 2018

<sup>16</sup> Exercisable between 16 June 2011 and 15 June 2018

##### 2008 SAYE

<sup>17</sup> Exercisable between 1 September 2011 and 28 February 2012

## Notes to the consolidated financial statements for the year ended 31 December 2008

## 26 Share-based payments (continued)

## Equity-settled share options (continued)

2007

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

## Notes:

## 1988 Scheme

<sup>1</sup> Exercisable between 24 September 2000 and 23 September 2007

## 1995 scheme

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

## ESOP 2007

<sup>8</sup> Exercisable between 13 August 2010 and 12 August 2017<sup>9</sup> Exercisable between 24 September 2010 and 23 September 2017<sup>10</sup> Exercisable between 20 December 2010 and 19 December 2017

## 2005 Plan

<sup>11</sup> Exercisable between 20 May 2008 and 20 May 2015<sup>12</sup> Exercisable between 5 April 2009 and 5 April 2016<sup>13</sup> Exercisable between 6 March 2010 and 6 March 2017

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 26 Share-based payments (continued)

#### Cash-settled share-based payments

The Group grants 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 (2007: nil). Phantoms are exercisable between three and eight years from the date of grant of the phantom. The total intrinsic value at 31 December 2008 was £0.2m (2007: £1.0m). The Group had recorded liabilities of £0.2m at 31 December 2008 in respect of phantoms (2007: £0.8m).

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

Date of grant	Exercise price £	Balance at beginning of the year No.	Phantom options lapsed No.	Phantom options exercised No.	Balance at end of the year No.	Fair value per award £
17 August 2005	6.65	78,000	10,000	–	68,000	0.79
11 October 2005	8.49	51,000	–	–	51,000	0.52
5 December 2005	8.31	90,000	30,000	–	60,000	0.54
5 April 2006	12.59	60,000	10,000	–	50,000	0.25
5 April 2006 <sup>1</sup>	12.59	50,000	–	–	50,000	0.25
18 May 2006	11.09	30,000	–	–	30,000	0.33
10 August 2006	10.86	10,000	–	–	10,000	0.35
	9.67 <sup>2</sup>	369,000	50,000	–	319,000	0.48 <sup>2</sup>

<sup>1</sup>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.

<sup>2</sup>Weighted average.

The market price of a share on 31 December 2008 was £5.42 (2007: £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 2008	31 December 2007
Expected term (from date of grant)	(a)	<b>4.6-5.6 years</b>	5 years
Share price at valuation date		<b>£5.42</b>	£10.39
Expected volatility of return	(b)	<b>38%-41%</b>	28%-30%
Expected dividend yield	(c)	<b>7.4%</b>	2.9%
Risk-free rate		<b>2.5%</b>	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 a credit to profit of £0.6m during the year in respect of phantoms (2007: £0.1m expense).

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 27 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 to provide construction and property development services with related parties, all of which were joint ventures, 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	
	2008 £m	2007 £m	2008 £m	2007 £m
Claymore Roads (Holdings) Limited	0.1	–	0.1	0.2
Community Solutions for Primary Care (Holdings) Limited	41.0	7.9	2.2	0.8
Morgan-Vinci Limited	–	–	0.1	0.1
Bluelight Holdings Limited	20.3	9.5	1.3	2.4
Ashton Moss Developments Limited	–	–	(0.2)	(0.1)
Bromley Park Limited	–	8.2	(6.1)	(5.9)
Chatham Place (Building 1) Limited	0.3	–	0.1	0.1
ECf (General Partner) Limited	1.5	–	–	0.1
Eurocentral Partnership Limited	1.4	11.3	0.2	–
Lewisham Gateway Developments Limited	–	–	0.1	–
Lingley Mere Business Park Development Company Limited	2.3	2.6	(3.5)	(7.3)
Lingley Mere Business Park Development Company Limited	–	–	–	0.8
North Shore Development Partnership Limited	–	–	0.1	–
The Compendium Group Limited	2.2	2.2	–	–
	<b>69.1</b>	41.7	<b>(5.6)</b>	(8.8)

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 27 Related party transactions (continued)

	Amounts owed by/(to) related parties	
	2008 £m	2007 £m
Amounts owed by related parties	4.2	4.5
Amounts owed to related parties	(9.8)	(13.3)
	(5.6)	(8.8)

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.

### 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 44 to 47.

	2008 £m	2007 £m
Short-term employee benefits	2.2	2.5
Other long-term benefits	1.5	0.3
Share option exercises	0.8	–
Post-employment benefits	0.1	0.1
	4.6	2.9

### Directors' transactions

There were no transactions between the Group and the directors during the year or in the subsequent period to 23 February 2009 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 23 February 2009.

### 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 23 February 2009.

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 28 Financial instruments

#### 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. The carrying amount of these assets approximates to 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 7 to 8 and the corporate governance statement on pages 50 and 51.

#### 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 twice yearly review by the Board. The policies include written principles for 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 due from construction contract customers 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 general macroeconomic conditions. The Group primarily operates in one geographical segment, being the United Kingdom. The Group does not have any significant concentration risk in respect of amounts due from construction contract customers or trade receivables balances at the reporting date with 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 2008 were £59.6m (2007: £66.2m).

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 amounts due from construction contract customers or trade receivables.



## Notes to the consolidated financial statements for the year ended 31 December 2008

### 28 Financial instruments (continued)

#### (a) Credit risk (continued)

The Group manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact with customers to ensure that potential issues that could lead to the non-payment of retentions are identified and addressed promptly. The Group assesses amounts due from construction contract customers 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 receivables 2008 £m	Provision for impairment losses 2008 £m	Gross trade receivables 2007 £m	Provision for impairment losses 2007 £m
Not past due	143.6	0.6	144.7	–
Past due 1 to 30 days	24.7	0.1	34.3	–
Past due 31 to 120 days	12.2	–	6.2	–
Past due 121 to 365 days	14.5	0.3	12.3	1.8
Greater than one year	1.9	1.7	9.4	3.1
	<b>196.9</b>	<b>2.7</b>	206.9	4.9

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

	2008 £m	2007 £m
Balance at beginning of the year	4.9	1.5
Amounts written off during the year	(1.9)	(0.1)
Amounts recovered during the year	(0.3)	(0.1)
Increase in provision recognised in the income statement	–	3.6
Balance at 31 December	<b>2.7</b>	4.9

#### (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.

The Group actively manages its liquidity profile while ensuring that the return achieved on cash and investments is maximised. The Group had not drawn down any current debt facilities as at the reporting date (2007: £nil).

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 28 Financial instruments (continued)

#### (b) Liquidity risk (continued)

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.

The Group reports cash balances daily, and invests surplus cash to maximise income whilst preserving credit quality. The Group prepares weekly short-term and monthly long-term cash forecasts, which are used to assess the Group's expected cash performance, and compare with the facilities available to the Group and the Group's covenants.

In addition to its cash balances, the Group has a £25m loan facility available until November 2009, a £25m loan facility available until June 2010, and a further £25m loan facility available until June 2009 which can be extended to June 2010 at the Group's option.

Key risks to liquidity and cash balances are a downturn in contracting volumes, a decrease in the value of open market sales, deterioration in credit terms obtainable in the market from suppliers and subcontractors, a downturn in the profitability of work, delayed receipt of cash from customers and the risk that major clients or suppliers suffer financial distress leading to non-payment of debts or costly and time consuming reallocation and rescheduling of work. Certain measures and KPIs are continually monitored throughout the Group and used to quickly identify issues as they arise, enabling the Group to address them promptly. Key amongst these are continual monitoring of the forward order book, including the status of orders and likely timescales for realisation so that contracting volumes are well understood, monitoring of overhead levels to ensure they remain appropriate to contracting volumes, weekly monitoring of open market house sales volumes and prices, continual monitoring of working capital exceptions (overdue debts and conversion of work performed into certificates and invoices), continual review of levels of current and forecast profitability on contracts, review of client and supplier credit references, approval of credit terms with clients and suppliers to ensure they are appropriate.

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

	<b>2008</b>	2007
	<b>£m</b>	£m
Not past due	<b>109.9</b>	137.0
Past due 1 to 30 days	<b>32.8</b>	34.9
Past due 31 to 120 days	<b>17.9</b>	23.8
Past due 121 to 365 days	<b>12.8</b>	9.2
Greater than one year	<b>0.1</b>	4.2
	<b>173.5</b>	209.1

## Notes to the consolidated financial statements for the year ended 31 December 2008

### 28 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 Prices Index swap contracts with nominal values of £75.6m (2007: £29.4m) have fixed interest payments at an average rate of 5.11% (2007: 4.98%) for periods up until 2035.

The Group's share of the fair value of swaps entered into at 31 December 2008 by joint ventures is estimated at a £2.3m liability (2007: £2.2m 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 23).

##### *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.

#### 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 22 and 23. 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 business review on page 4.

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.

#### 29 Subsequent events

There were no subsequent events that affected the financial statements of the Group.

## **Independent auditors' report for the year ended 31 December 2008**

We have audited the parent company financial statements of Morgan Sindall plc for the year ended 31 December 2008 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 14. 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 2008 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 principal activities 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.

## Independent auditors' report for the year ended 31 December 2008

### 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 2008
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985
- the information given in the report of the directors is consistent with the parent company financial statements.

### Deloitte LLP

Chartered Accountants and Registered Auditors  
London, United Kingdom  
24 February 2009

## Company balance sheet at 31 December 2008

	Notes	2008 £m	Restated 2007 £m
<b>Fixed assets</b>			
Tangible assets	4	1.2	1.0
Investments	5	281.7	176.0
		<b>282.9</b>	177.0
<b>Current assets</b>			
Trade debtors		0.1	–
Amounts owed by subsidiary undertakings		82.3	41.5
Other debtors		0.3	1.4
Prepayments and accrued income		0.5	0.7
Corporation tax recoverable		0.9	1.7
Deferred tax asset	6	1.2	1.8
Cash at bank and in hand		76.5	122.4
		<b>161.8</b>	169.5
<b>Creditors: amounts falling due within one year</b>			
Bank overdraft		(107.8)	(81.5)
Trade creditors		(2.7)	(11.8)
Amounts owed to subsidiary undertakings		(153.5)	(93.3)
Other tax and social security		(0.7)	(0.5)
Other creditors		(0.7)	(0.9)
Accruals and deferred income		(3.7)	(14.0)
		<b>(269.1)</b>	(202.0)
<b>Net current liabilities</b>		<b>(107.3)</b>	(32.5)
<b>Total assets less current liabilities</b>		<b>175.6</b>	144.5
<b>Provisions for liabilities</b>	10	<b>(9.2)</b>	(10.2)
<b>Net assets excluding retirement benefit obligation</b>		<b>166.4</b>	134.3
<b>Retirement benefit obligation</b>	7	<b>(2.2)</b>	(2.4)
<b>Net assets including retirement benefit obligation</b>		<b>164.2</b>	131.9
<b>Shareholders' funds</b>			
Share capital	8	2.2	2.1
Share premium account		26.6	26.3
Capital redemption reserve		0.6	0.6
Own shares		(6.4)	(5.5)
Special reserve		13.6	13.6
Retained earnings		127.6	94.8
<b>Total shareholders' funds</b>		<b>164.2</b>	131.9

The financial statements were approved by the Board of directors and authorised for issue on 24 February 2009 and were signed on its behalf by:

**Paul Smith**  
**David Mulligan**



## Company financial statements

### Company combined statement of movements in reserves and shareholders' funds for the year ended 31 December 2008

	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Special reserve £m	Retained earnings £m	Total shareholders' funds £m
Balance at 1 January 2008	2.1	26.3	(5.5)	0.6	13.6	94.8	131.9
Profit for the year	–	–	–	–	–	50.5	50.5
Recognition of share-based payments	–	–	–	–	–	2.3	2.3
2008 interim dividend declared and paid	–	–	–	–	–	(5.1)	(5.1)
2007 final dividend declared and paid	–	–	–	–	–	(11.9)	(11.9)
Own shares acquired in the period	–	–	(2.8)	–	–	–	(2.8)
Own shares vested	–	–	1.9	–	–	(1.9)	–
Options exercised	0.1	0.3	–	–	–	–	0.4
Deferred tax arising on recognition of share-based payments	–	–	–	–	–	(0.9)	(0.9)
Actuarial loss on defined benefit liability	–	–	–	–	–	(0.2)	(0.2)
<b>Balance at 31 December 2008</b>	<b>2.2</b>	<b>26.6</b>	<b>(6.4)</b>	<b>0.6</b>	<b>13.6</b>	<b>127.6</b>	<b>164.2</b>

## **Significant accounting policies for the year ended 31 December 2008**

### **Basis of accounting**

These financial statements have been prepared on a going concern basis as discussed in the business review on page 7, under the historic cost convention except as modified by the revaluation of pension assets and liabilities and share-based payments and are in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards. The financial statements are presented in pounds sterling, which is the Company's functional currency, and unless otherwise stated have been rounded to the nearest £0.1m.

Under Financial Reporting Standard ('FRS') 1 'Cash Flow Statements', the Company is exempt from the requirement to prepare a cash flow statement on the basis that its consolidated financial statements, which include the Company and present a consolidated statement of cash flows, are publicly available.

Under FRS 8 'Related Party Disclosures', the Company is exempt from the requirement to disclose related party transactions with entities within the Group where the Company's interest is greater than 90%.

The Company's accounting policies have been applied on a consistent basis throughout the year. Certain comparatives have been reclassified to conform with the current year's presentation. In the 2007 comparative balance sheet, amounts of £40.9m previously shown as cash at bank and in hand are now classified as £122.4m and £81.5m as cash at bank and in hand and bank overdraft respectively and amounts of £10.2m previously shown as accruals and deferred income are now classified as provisions.

### **Significant estimates and judgments**

The preparation of financial statements requires management to make judgments, 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.

The estimates and judgments concerning the future at 31 December 2008 and that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

#### **(a) Taxation**

Judgments are required in establishing the Company's liability to pay taxes where tax positions are uncertain. Details of deferred tax assets and liabilities are set out in note 6.

#### **(b) Accounting for the Company's defined benefit plan**

The directors engage an independent and qualified actuary to calculate the Company'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, 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. Assumptions used and full details of the Company's liability are set out in full in note 7.

#### **(c) Share-based payments**

Recognition and measurement of share-based payments requires estimation of the fair value of awards at the date of grant and for cash-settled awards, re-measurement at each reporting date. Judgment is also exercised when estimating the number of awards that will ultimately vest. Both of these judgments have a significant impact on the amounts recognised in the profit or loss and in the balance sheet. To assist in determining each award's fair value, the directors engage a qualified and independent valuation expert. Estimation of the number of awards that will ultimately vest is based on historic vesting trends for similar awards, taking into consideration specific features of the awards and the current intrinsic value of those awards.

## Significant accounting policies for the year ended 31 December 2008

### Fixed asset investments

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 and equipment	Between 10% and 33% per annum

### Taxation

The tax expense represents the current tax and deferred tax charges. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity.

#### (a) Current tax

Current tax is the Company'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 profit and loss account 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.

#### (b) 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 there will be future taxable profits against which to recover carried forward future tax losses and from which the reversal of underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

### Retirement benefit schemes

The Company has two retirement benefit plans.

#### (a) Defined contribution plan

A defined contribution plan is a post-retirement benefit plan under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The Company recognises payments to defined contribution pension plans as an employee expense in the profit and loss account as and when they are due.

#### (b) Defined benefit plan

A defined benefit plan is a post-retirement plan other than a defined contribution plan. The Company'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.

## Significant accounting policies for the year ended 31 December 2008

### **(b) Defined benefit plan (continued)**

The calculation is performed by a qualified actuary on an annual basis using the projected unit credit method. The cost of the plan is charged to the profit and loss account based on actuarial assumptions at the beginning of the financial year. Where the calculation results in a benefit to the Company, 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 profit and loss account 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 profit and loss account immediately.

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 plan liabilities, less the fair value of the plan assets and any related deferred tax asset.

### **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

### **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 grants equity-settled and cash-settled share-based awards 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 or income in the profit and loss account. Fair value is measured by use of a modified Black-Scholes model.

None of these awards when granted were subject to a share price related performance condition.

Related National Insurance Contributions are accrued on the basis of the intrinsic value of outstanding share-based payments and are re-measured at each reporting date.

## Significant accounting policies for the year ended 31 December 2008

### Leased assets

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

### Finance income and expense

Finance income comprises bank and other interest. Interest income is recognised in the profit and loss account using the effective interest rate method. Finance expense comprises interest on bank overdrafts.

Borrowing costs are recognised in the profit and loss account on an effective interest method in the period in which they are incurred.

### Financial guarantees

The Company provides certain guarantees in respect of the indebtedness of its subsidiary undertakings and in respect of bonds and claims under contracting and other arrangements which include joint arrangements and joint ventures entered into in the ordinary course of business.

The Company considers such agreements to be indemnity arrangements and as such, accounts for them as contingent liabilities unless it becomes probable that the Company will be required to make a payment under the guarantee.

### 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 2008

### 1 Employees

The average number of people employed by the Company including directors during the year was 21 (2007: 20).

### 2 Staff costs

	2008 £m	2007 £m
Wages and salaries	4.9	4.5
Social security costs <sup>1</sup>	0.2	(0.3)
Pension costs	0.5	0.3
	<b>5.6</b>	4.5

<sup>1</sup> Included within this amount is a credit of £0.6m (2007: £1.3m) relating to the release of the National Insurance accrual recognised on share-based payments. The accrual is re-measured at each reporting period on the basis of the intrinsic value of share-based payments.

### 3 Profit/(loss) of the parent company

The Company has taken advantage of section 230 of the Companies Act 1985 and consequently the profit and loss account of the parent company is not presented as part of these accounts. The profit of the parent company for the financial year amounted to £50.5m (2007: a loss of £5.5m).

### 4 Tangible assets

	Owned plant, machinery & equipment £m	Freehold property £m	Total £m
<b>Cost or valuation</b>			
At 1 January 2008	2.2	0.1	2.3
Additions	0.7	–	0.7
Disposals	(0.1)	–	(0.1)
<b>At 31 December 2008</b>	<b>2.8</b>	<b>0.1</b>	<b>2.9</b>
<b>Depreciation</b>			
At 1 January 2008	(1.3)	–	(1.3)
Charge in the year	(0.4)	–	(0.4)
<b>At 31 December 2008</b>	<b>(1.7)</b>	<b>–</b>	<b>(1.7)</b>
<b>Net book value at 31 December 2008</b>	<b>1.1</b>	<b>0.1</b>	<b>1.2</b>
Net book value at 31 December 2007	0.9	0.1	1.0



## Notes to the Company financial statements for the year ended 31 December 2008

### 5 Investments

	Subsidiary undertakings		Total £m
	Shares £m	Loans £m	
<b>Cost</b>			
At 1 January 2008	176.9	4.4	181.3
Additions	105.7	–	105.7
Transfers to shares	3.4	(3.4)	–
<b>At 31 December 2008</b>	<b>286.0</b>	<b>1.0</b>	<b>287.0</b>
<b>Provisions</b>			
At 1 January 2008	(0.9)	(4.4)	(5.3)
Transfers to shares	(3.4)	3.4	–
<b>At 31 December 2008</b>	<b>(4.3)</b>	<b>(1.0)</b>	<b>(5.3)</b>
<b>Net book value at 31 December 2008</b>	<b>281.7</b>	<b>–</b>	<b>281.7</b>
Net book value at 31 December 2007	176.0	–	176.0

On 19 December 2008, the Company increased its investment in its wholly owned subsidiary, Muse Developments Limited, by £20.0m through the purchase of 20m fully paid ordinary shares of £1.00 each.

On 23 October 2008, the Company increased its investment in its wholly owned subsidiary, SMHA Limited, by £3.4m through the purchase of 3.4m fully paid ordinary shares of £1.00 each, the consideration for which was satisfied by the conversion of an existing intercompany loan receivable.

On 19 December 2008, the Company increased its investment in its wholly owned subsidiary, Morgan Ashurst plc, by £85.0m through the purchase of 85m fully paid ordinary shares of £1.00 each.

On 5 March 2008 the Company increased its investment in its wholly owned subsidiary Newman Insurance Company Limited ('Newman') by £0.5m to make the 1.0m £1.00 ordinary shares previously partly paid at 50p per share fully paid up. In addition, on 3 September 2008, the Company increased its investment in Newman by £0.2m through the purchase of 1.0m £1.00 ordinary shares partly paid at 15p per share.

### 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 2008	0.5	0.9	1.3	2.7
Credit/(debit) to the profit and loss account	0.3	(0.1)	–	0.2
Credit to equity	–	–	(0.9)	(0.9)
<b>At 31 December 2008</b>	<b>0.8</b>	<b>0.8</b>	<b>0.4</b>	<b>2.0</b>

## Notes to the Company financial statements for the year ended 31 December 2008

### 6 Deferred tax (continued)

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:	<b>2008</b> <b>£m</b>	2007 £m
Current assets	<b>1.2</b>	1.8
Retirement benefit obligations	<b>0.8</b>	0.9
	<b>2.0</b>	2.7

At the balance sheet date, the Company has unused tax losses of £0.6m (2007: £0.6m) available for offset against future profit. No deferred tax asset has been recognised in respect of £0.2m (2007: £0.2m) of such losses due to the unpredictability of future profit streams.

### 7 Retirement benefit schemes

#### Defined contribution plan

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 £0.3m (2007: £0.5m) 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 2008, contributions of £0.1m (2007: £0.1m) were due in respect of December 2008's contribution which had not been paid over to the Plan. The Company, with the consent of the Trustees, can decide how to use monies held in a defined contribution general account. During the year, the Company made contributions of £0.7m (2007: £0.2m) in respect of the Plan.

#### Defined benefits plan

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 (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 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 by the Company.

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 2008. The present value of the defined benefit liabilities, the related current service cost and past service cost were measured using the projected unit method.

## Notes to the Company financial statements for the year ended 31 December 2008

### 7 Retirement benefit schemes (continued)

Key assumptions used:

	Notes	2008 %	2007 %	2006 %
Discount rate		<b>6.1</b>	6.0	5.3
Expected rate of salary increases		<b>4.0</b>	4.5	4.1
Inflation per annum		<b>3.0</b>	3.5	3.1
Future pension increases				
– members who left before 1 June 1995	a	<b>3.5</b>	3.5	3.5
Future pension increases				
– members who left after 31 May 1995		<b>3.0</b>	3.0	3.0
Future pension increases				
– non-guaranteed deferred pensions		<b>3.5</b>	3.5	3.1

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

	Notes	2008 £m	2007 £m	2006 £m
Present value of the Plan liabilities	b	<b>(8.0)</b>	(8.0)	(7.3)
Fair value of the Plan assets	b	<b>5.0</b>	4.7	4.8
Deficit in the Plan		<b>(3.0)</b>	(3.3)	(2.5)
Related deferred taxation at 28% (2007: 28% and 2006: 30%)		<b>0.8</b>	0.9	0.8
Liability recognised in the balance sheet		<b>(2.2)</b>	(2.4)	(1.7)

The total pension costs of the Company in respect of:

	Notes	2008 £m	2007 £m	2006 £m
Defined benefit section of the Plan	c	<b>0.2</b>	0.2	0.2
Defined contribution section of the Plan	c	<b>0.3</b>	0.3	0.3

There are no amounts to be included within the operating profit for current or past service costs in 2008, 2007 or 2006.

Notes:

- 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.
- 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.
- In view of the funding position of the defined benefit section of the Plan there is a requirement for an employer's contribution in 2009 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 remain unchanged at agreed standard rates.

## Notes to the Company financial statements for the year ended 31 December 2008

### 7 Retirement benefit schemes (continued)

Amounts recognised in administrative expenses in respect of the Plan:

	Notes	2008 £m	2007 £m	2006 £m
Interest cost		(0.5)	(0.4)	(0.4)
Expected return on the Plan assets		0.3	0.3	0.3
Net periodic cost		(0.2)	(0.1)	(0.1)

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

	2008 £m	2007 £m	2006 £m
Deficit at 1 January	(3.3)	(2.5)	(3.3)
Interest cost	(0.5)	(0.4)	(0.4)
Actuarial (losses)/gains	(0.2)	(0.9)	0.7
Expected return on the Plan assets	0.3	0.3	0.3
Contributions from sponsoring company	0.7	0.2	0.2
Deficit at 31 December	(3.0)	(3.3)	(2.5)

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

	Fair value of assets			Expected return		
	2008 £m	2007 £m	2006 £m	2008 %	2007 %	2006 %
Equity instruments	–	0.5	2.0	n/a	7.4	7.7
Fixed interest gilts	2.8	2.4	1.1	3.8	4.4	4.7
Corporate bonds	2.2	1.8	1.4	6.1	6.0	5.3
Other assets	–	–	0.3	2.0	5.5	5.0
	5.0	4.7	4.8			

## Notes to the Company financial statements for the year ended 31 December 2008

### 7 Retirement benefit schemes (continued)

History of experience adjustments is as follows:

	<b>% asset or 2008 liability £m value</b>	2007 £m	% asset or liability value	2006 £m	% asset or liability value	2005 £m	% asset or liability value	2004 £m	% asset or liability value
Difference between the expected and actual return on the Plan assets	<b>(0.3)</b> <b>(6.6)</b>	(0.5)	(11.0)	-	0.4	0.2	3.8	(0.2)	(4.5)
Experience gain/(loss) arising on the Plan liabilities	<b>0.2</b> <b>1.9</b>	(0.4)	(4.4)	0.7	9.2	(1.5)	(18.6)	(1.3)	(21.4)
Total actuarial (loss)/gain	<b>(0.2)</b>	(0.9)		0.7		(1.3)		(1.5)	

### 8 Share capital

	<b>2008</b>		2007	
	<b>No. '000s</b>	<b>£'000s</b>	No. '000s	£'000s
Authorised:				
Ordinary shares of 5p each	<b>60,000</b>	<b>3,000</b>	60,000	3,000
Issued and fully paid:				
At the beginning of the year	<b>42,802</b>	<b>2,140</b>	42,520	2,126
Exercise of share options	<b>202</b>	<b>10</b>	282	14
At the end of the year	<b>43,004</b>	<b>2,150</b>	42,802	2,140

The Company has one class of ordinary share of 5p each ('shares') which carries no rights to fixed income. All 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.

No member shall however be entitled to vote at any general meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

#### Shares

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

No shares were issued in respect of options exercised under the Company's 1988 Scheme (2007: 12,625 shares for a total consideration of £21,589).

202,007 shares were issued in respect of options exercised under the Company's 1995 Scheme for a total consideration of £249,200 (2007: 269,133 shares for a total consideration of £159,207). Some options exercised under the 1995 Scheme were settled on a net basis.

No shares were issued in respect of the ESOP 2007, the SAYE or the 2005 Plan (2007: nil).

## Notes to the Company financial statements for the year ended 31 December 2008

### 8 Share capital (continued)

#### Share options

Details of the Company's share options scheme are set out in note 22 of the consolidated financial statements.

Details of the options outstanding under the 1995 Scheme, the ESOP 2007, the SAYE scheme and the 2005 Plan and the respective exercise prices are shown in note 26 of the consolidated financial statements.

The weighted average share price at the date of exercise for share options exercised during the year was £9.87 (2007: £13.61). The options outstanding at 31 December 2008 had a weighted average exercise price of £6.04 (2007: £6.39) and a weighted average remaining contractual life of 2.1 years (2007: 1.4 years). The total equity-settled share-based payments expense recognised by the Company during the year was £2.3m (2007: £1.7m) and the expense recognised for cash-settled share-based payments was a credit of £0.3m (2007: charge of £0.2m).

#### Own shares

Own shares at cost represent 840,864 (2007: 752,169) shares in the Company held in the Morgan Sindall Employee Benefit Trust ('the Trust') in connection with the ESOP 2007 and certain share incentive schemes as detailed in the directors' remuneration report on pages 40 to 47. The trustees of the Trust purchase the Company's 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 840,864 (2007: 615,766) shares were unallocated at the year end and dividends on these shares have been waived. 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 2008 of £5.42 (2007: £10.39), the market value of the shares was £4,557,483 (2007: £7,815,036).

### 9 Dividends

For details of dividends paid during the year and proposed but not approved by shareholders at the balance sheet date, refer to note 7 of the consolidated financial statements.

### 10 Provisions

	Employee provisions £m	Insurance provisions £m	Total £m
At 1 January 2008	1.1	9.1	10.2
Utilised	(0.1)	(1.6)	(1.7)
Additions	0.7	–	0.7
<b>At 31 December 2008</b>	<b>1.7</b>	<b>7.5</b>	<b>9.2</b>

The Company has provisions for self-insurance in respect of claims incurred but not yet received and employee provisions which comprise obligations to former employees that are not related to retirement or post-retirement obligations. The majority of the provisions are expected to be utilised within five years.

### 11 Operating lease commitments

The Company has an operating lease commitment in respect of land and buildings for between 2 and 5 years for £0.2m (2007: £0.2m). Lease payments recognised as an expense in the year amounted to £0.2m (2007: £0.1m).

### 12 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.

On 17 April 2008 the Office of Fair Trading ('OFT') issued a Statement of Objections to the Company together with a number of construction companies in England, in connection with its investigation into alleged infringements of UK Competition law in the sector. The Company has co-operated with the OFT's investigation under the OFT's leniency policy and, as a result, has been provisionally granted a reduction in any penalty which the OFT might ultimately impose. The outcome of the investigation is not yet known, however, and the directors remain unable to estimate the size of any potential liability and as a result no provision has been made in these consolidated financial statements.



## Notes to the Company financial statements for the year ended 31 December 2008

### 13 Subsequent events

There were no subsequent events that affected the financial statements of the Company.

### 14 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
Backbone Furniture Limited	Furniture specialists
Lovell Partnerships Limited	Affordable housing
Magnor Plant Hire Limited	Construction plant hire
Morgan Ashurst plc	Construction
* Morgan Est plc	Infrastructure services
Morgan Lovell plc	Office transformation services
Morgan Professional Services Limited	Design services
Morgan Sindall Investments Limited	Project investments
Muse Developments Limited	Urban regeneration
Newman Insurance Company Limited	Insurance
Overbury plc	Fitting out and refurbishment specialists
Underground Professional Services Limited	Infrastructure services
Vivid Interiors Limited	Retail and leisure fit out specialist
Joint Ventures	
* Ashton Moss Developments Limited (50%)	Inner city regeneration
* Bluelight Holdings Limited (50%)	Investment in the development of emergency services facilities
* Bromley Park Limited (50%)	Residential development
* Chatham Place (Building 1) Limited (50%)	Residential and commercial property development
* Claymore Roads (Holdings) Limited (50%)	Infrastructure services
* Community Solutions for Primary Care (Holdings) Limited (50%)	Investment in the development of primary care facilities
* English Cities Fund (12.5%)	Inner City regeneration
* Eurocentral Partnership Limited (50%)	Commercial premises and rail freight terminal development
* Ician Developments Limited (50%)	Mixed use regeneration
* ISIS Waterside Regeneration (25%)	Waterside regeneration
* Lewisham Gateway Developments Limited (50%)	Mixed use regeneration
* Lingley Mere Business Park Development Company Limited (50%)	New commercial office space development
* Morgan-Vinci Limited (50%)	Infrastructure services
* North Shore Development Partnership Limited (50%)	Mixed use regeneration
* Renaissance Miles Platting Limited (33 $\frac{1}{3}$ %)	Mixed tenure development
* The Compendium Group Limited (50%)	Investment in affordable housing

All subsidiary undertakings are wholly owned unless shown otherwise and with the exception of companies marked \* all shareholdings are in the name of Morgan Sindall plc. The proportion of ownership interest is the same as the proportion of voting power held except for English Cities Fund and ISIS Waterside Regeneration, details of which are shown in the consolidated financial statements note 11. With the exception of 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 coterminous with the renewal date for the insurance arrangements in which it participates.

**This section is important and requires your immediate attention. If you are in any doubt about any aspect of the proposals referred to in this section or the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant or other professional adviser.**

**If you have sold or otherwise transferred all of your shares in Morgan Sindall plc, please pass this document together with the accompanying proxy form to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.**

## Notice of annual general meeting

This year's annual general meeting will be held at the offices of RBS Hoare Govett, 250 Bishopsgate, London EC2M 4AA on 30 April 2009 at 12.00 noon. You will be asked to consider and pass the resolutions below. Resolutions 10 to 12 (inclusive) will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

### Ordinary business

#### Ordinary resolutions

1. That the financial statements and the reports of the directors and the independent auditors for the year ended 31 December 2008 be received and accepted.
2. That a final dividend of 30.0p per ordinary share be declared for the year ended 31 December 2008.
3. That Paul Smith be re-elected as a director.
4. That Adrian Martin be elected as a director.
5. That the directors' remuneration report for the year ended 31 December 2008 be approved.
6. That Deloitte LLP be re-appointed as independent auditors.
7. That the directors be authorised to fix the independent auditors' remuneration.

### Special business

#### Ordinary resolutions

8. That the authorised share capital of the Company be and is hereby increased from £3,000,000 to £3,750,000 by the creation of 15,000,000 new ordinary shares of 5p each ranking pari passu with the existing shares of the Company.
9. (A) THAT the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985 (the '1985 Act')) up to an aggregate nominal amount of £716,731 provided that this authority shall expire at the conclusion of the Company's next annual general meeting, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired,  
  
and further,  
  
(B) THAT the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (as defined in Section 94(2) of the 1985 Act) in connection with a rights issue where the equity securities respectively attributable to the interests of all shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them up to an aggregate nominal amount of £1,433,462 (after deducting from such limit any relevant securities allotted under paragraph (A) above) provided that this authority shall expire at the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

## Notice of annual general meeting

### Special resolutions

10. THAT subject to the passing of the previous resolution the directors be and are hereby empowered pursuant to Section 95 of the 1985 Act to allot equity securities (as defined in section 94(2) of the 1985 Act) for cash pursuant to the authority conferred by the previous resolution as if section 89(1) of the 1985 Act did not apply to such allotment provided that such power shall be limited to:

(A) the allotment of equity securities which are offered to all holders of equity securities of the Company (at a date specified by the directors) (but, in the case of the authority granted under paragraph (B) of the previous resolution, by way of a rights issues only) where the equity securities respectively attributable to the interests of such holders are as nearly as practicable in proportion to the respective number of securities held by them, but subject to such exclusions and other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical problems under any laws, or requirements of any regulatory body or stock exchange in any territory or otherwise; and

(B) the allotment (otherwise than pursuant to sub-paragraph (A) above) of equity securities up to an aggregate nominal value of £107,510

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

11. That, pursuant to section 166 of the 1985 Act, the Company be and is hereby generally authorised to make one or more market purchases (within the meaning of section 163(3) of the 1985 Act) of up to 4,300,385 of its own ordinary shares, representing an aggregate nominal value of £215,019 on the basis that:

(A) the minimum price which may be paid for each ordinary share shall be the nominal value of that share;

(B) the maximum price which may be paid for each ordinary share shall be the higher of (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company, as derived from the London Stock Exchange's Daily Official List, for the five business days immediately preceding the day on which the purchase is carried out, and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out; and

(C) this authority will expire 12 months after the date on which this resolution is passed or, if earlier, at the conclusion of the next annual general meeting of the Company (except in relation to the purchase of ordinary shares the contract for which is concluded before such date and which is to be executed wholly or partly after such date).

12. That a general meeting, other than an annual general meeting, of the Company may be called on not less than 14 clear days notice.

24 February 2009  
By order of the Board  
**Mary Nettleship**  
Company Secretary

Registered Office:  
Kent House  
14-17 Market Place  
London W1W 8AJ  
  
Registered in England  
and Wales, No. 521970

#### Notes

1. A member of the Company is entitled to appoint a proxy (who need not be a member of the Company) to exercise all or any of his or her rights to attend and to speak and vote on his or her behalf at the meeting. A proxy form which may be used to make such appointment and give proxy instructions accompanies this document. A shareholder may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which he or she is authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by you may result in the appointment being invalid. If you do not have a proxy form and believe that you should have one, please contact Capita Registrars on 0871 664 0300 (calls cost 10p per minute plus network extras). If calling from overseas please call +44 20 8639 3399.
2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 12.00 noon on 28 April 2009.
3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 10 below) will not prevent a shareholder attending the annual general meeting and voting in person if he or she wishes to do so.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
6. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 28 April 2009 or, if this meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting shall be entitled to attend and vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00 p.m. on 28 April 2009 or, if this meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at this annual general meeting.
7. As at 23 February 2009 (being the last business day prior to the date of this Notice) the Company's issued share capital consists of 43,003,855 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 23 February 2009 are 43,003,855.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with the specifications set out by Euroclear UK and Ireland Limited ('Euroclear'), and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 12.00 noon on 28 April 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
12. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
13. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
14. Copies of the service contracts and letters of appointment of the directors of the Company are available for inspection at the registered office of the Company during usual business hours (excluding weekends and English public holidays) and will be available at the annual general meeting from 15 minutes prior and during the meeting.
15. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting to follow the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives. Please see [www.icsa.org.uk](http://www.icsa.org.uk) for further details of this procedure or contact the Company's Registrar on 0871 664 0300 (calls cost 10p per minute plus network extras). If calling from overseas please call +44 20 8639 3399.
16. Any electronic address provided either in this Notice of annual general meeting or any related documents (including the proxy form) may only be used for the limited purposes specified herein and not to communicate with the Company by electronic means or for any other more general purpose.
17. Explanatory notes on the items of special business to be proposed at the annual general meeting can be found on pages 124 to 125 following this Notice.

## **Explanatory notes to the special business to be proposed at the annual general meeting**

### **Increase in authorised share capital (Resolution 8)**

An ordinary resolution will be proposed to increase the Company's authorised share capital from £3,000,000 to £3,750,000 by the creation of 15,000,000 shares (an increase of 25%). If passed, this will give the directors the ability to allot shares in accordance with the authorities given in resolution 9 referred to below, but subject always to the restrictions contained in resolutions 9 and 10 and consistent with the Association of British Insurers' guidelines.

### **Authority to allot shares (Resolution 9)**

An ordinary resolution will be proposed to renew the directors' authority to allot share capital in the Company in accordance with section 80 of the Companies Act 1985. Paragraph (A) of this resolution would give directors the authority to allot shares up to an aggregate nominal amount equal to £716,731 (representing 14,334,618 shares). This amount represents approximately one third of the total issued share capital of the Company as at 23 February 2009, the latest practicable date prior to the date of this Notice.

In line with recent guidance issued by the Association of British Insurers, paragraph (B) of this resolution would give the directors the authority to allot shares, in connection with a rights issue, up to an aggregate nominal amount equal to £1,433,462 (representing 28,669,236 shares), as reduced by the nominal amount of any shares issued under paragraph (A) of this resolution. This amount (before any reduction) represents approximately two thirds of the total issued share capital of the Company as at 23 February 2009, the latest practicable date prior to the date of this Notice.

The authorities sought under paragraphs (A) and (B) of this resolution will expire at the conclusion of the annual general meeting of the Company to be held in 2010.

The directors currently have no intention of issuing further shares or granting rights over shares other than in connection with the Company's employees share option and share incentive schemes.

### **Disapplication of pre-emption rights (Resolution 10)**

This resolution will be proposed as a special resolution, which requires a 75% majority of the votes to be cast in favour. It would give the directors the authority to allot shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings.

As in previous years, this authority would be limited to allotments or sales in connection with pre-emptive offers or otherwise up to an aggregate nominal amount of £107,510 (representing 2,150,192 shares). This aggregate nominal amount represents approximately 5% of the total issued share capital of the Company as at 23 February 2009, the latest practicable date prior to the date of this Notice. In respect of this aggregate nominal amount, the directors confirm their intention to follow the provisions of the Pre-emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders.

The authority will expire at the conclusion of the annual general meeting of the Company to be held in 2010.

### **Share repurchase authority (Resolution 11)**

A special resolution will be proposed to authorise the Company to buy back its shares in the market, either for cancellation or to be held in treasury. Whilst the directors have no current intention of using this authority, it would give them the flexibility to make purchases of shares if they considered such purchases to be in the best interests of the Company and shareholders and expected such purchases to result in an increase in earnings per share.



## Notice of annual general meeting

Under the terms of the resolution, the Company will be generally authorised to make market purchases of up to 4,300,385 shares with an aggregate nominal value of £215,019, representing approximately 10% of the current issued share capital of the Company. The maximum price payable per share would be based on the market price of a share as set out in more detail in the special resolution itself.

As at 23 February 2009, the number of outstanding options to subscribe for shares granted by the Company was 1,955,831 shares. This figure represents 5% of the total issued share capital of the Company at that date and would represent 6% of the total issued share capital if full authority to purchase shares (both the existing authority and that sought at the 2009 AGM) was used.

The authority will expire on the date falling 12 months after the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2010.

### **Notice of general meetings (Resolution 12)**

This resolution is required to reflect the proposed implementation in August 2009 of the Shareholders Rights Directive. The regulation implementing this Directive will increase the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than AGMs) on 14 clear days' notice and would like to preserve this ability. In order to be able to do so after August 2009, shareholders must have approved the calling of meetings on 14 days' notice. Resolution 12 seeks such approval. The approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed.

### **Recommendation**

The directors consider that each resolution to be proposed at the meeting is in the best interests of the Company and its shareholders as a whole and recommend that you vote in favour of all resolutions.

**Financial calendar 2009**

Annual general meeting	30 April 09
Final dividend:	
Ex-dividend date	15 April 09
Record date	17 April 09
Payment date	8 May 09
Interim results announcement	August 09

**Registrar**

All administrative enquiries relating to shareholdings, such as lost certificates, changes of address, change of ownership or dividend payments and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state the shareholder's registered address and, if available, the full shareholder reference number. Please write to:

Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA, Telephone 0871 664 0300 (calls cost 10p per minute plus network extras). If calling from overseas please call +44 20 8639 3399. Alternatively you can email them at [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com).

Registering on the Registrar's website enables you to view your shareholding in Morgan Sindall plc including an indicative share price and valuation, a transaction audit trail and dividend payment history. If you wish to view your shareholding, please log on to [www.capitaregistrars.com](http://www.capitaregistrars.com) and click on the link 'shareholder services' then follow the instructions.

**Dividend mandates**

Shareholders who do not currently have their dividends paid directly to a bank or building society account and wish to do so should complete a mandate instruction available from the Company's Registrars on request or at [www.capitaregistrars.com/shareholders/information](http://www.capitaregistrars.com/shareholders/information).

**Multiple accounts**

Shareholders who receive more than one copy of communications from the Company may have more than one account in their name on the Company's register of members. Any shareholder wishing to amalgamate such holdings should write to the Company's Registrars giving details of the accounts concerned and instructions on how they should be amalgamated.

**Telephone share dealing service**

A telephone dealing service has been arranged with Stocktrade which provides a simple way for buying or selling Morgan Sindall plc shares. Basic commission is 0.5% up to £10,000, reducing to 0.2% thereafter (subject to a minimum commission of £15). Sales are carried out on a 10 day settlement basis with purchases on a 5 day basis. When purchasing shares payment must be made by debit card at the time of dealing. For further information please call 0845 601 0995 and quote reference Low Co140.

**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 <http://www.moneydeclared.fsa.gov.uk>. If you wish to limit the amount of unsolicited mail you receive, contact The Mailing Preference Service, FREEPOST 29 (LON20771), London W1E 0ZT or visit the website at [www.mpsonline.org.uk](http://www.mpsonline.org.uk).

## Website and electronic communications

The 2008 annual report and other information about the Company are available on its website, [www.morgansindall.co.uk](http://www.morgansindall.co.uk). The Company operates a service whereby you can register to receive notice by email of all announcements released by the Company.

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

Shareholder documents are now, following changes in Company law and shareholder approval, primarily made available via the Company's website at [www.morgansindall.co.uk/investors](http://www.morgansindall.co.uk/investors) unless a shareholder has requested to continue to receive hard copies of such documents. If a shareholder has registered their up-to-date email address, an email will be sent to that address when such documents are available on the website. If shareholders have not provided an up-to-date email address and have not elected to receive documents in hard copy, a letter will be posted to their address on the register notifying them that the documents are available on the website. Shareholders can continue to receive hard copies of shareholders documents by contacting Capita Registrars (see details on page 126).

If you have not already registered your current email address, you can do so at [www.capitashareportal.com](http://www.capitashareportal.com).

Investors who hold their shares via an intermediary should contact the intermediary regarding the receipt of shareholder documents from the Company.

## Analysis of shareholdings at 31 December 2008

	Number of accounts	% of total accounts	% of total shares	Number of shares
<b>Holding of shares</b>				
Up to 1,000	718	51.5	1	333,086
1,001 to 5,000	367	26.3	2	896,423
5,001 to 100,000	230	16.4	13	5,799,499
100,001 to 1,000,000	75	5.4	57	24,398,724
Over 1,000,000	5	0.4	27	11,576,123
	1,395	100	100	43,003,85

## Shareholder communication

Email: [enquiries@morgansindall.co.uk](mailto:enquiries@morgansindall.co.uk)  
Telephone: 020 7307 9200

## Registered office

Kent House, 14–17 Market Place, London, W1W 8AJ  
Registered in England and Wales, No: 521970

## Advisers

Brokers  
Solicitors  
Bankers  
Independent Auditors  
RBS Hoare Govett Limited  
Slaughter and May  
Wragge & Co LLP  
Lloyds TSB Bank plc  
The Royal Bank of Scotland plc  
Deloitte LLP

# MORGAN SINDALL

Morgan Sindall plc, Kent House 14-17 Market Place, London W1W 8AJ  
Tel: 020 7307 9200 Fax: 020 7307 9201

Visit our website at [www.morgansindall.co.uk](http://www.morgansindall.co.uk)



50% recycled stock