Annual report and accounts 2009

Dynamic business

Solid basis

dynamic

as a

small one...

As capable as a large company,

About Morgan Sindall 01//16

Find out about Morgan Sindall and how we performed in 2009.

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An in-depth look at the Group including how we are delivering our strategy and our targets for the future.

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Group at a glance

Morgan Sindall plc

Morgan Sindall is a construction and regeneration group. Operating through five main divisions and one specialist unit focused on different sectors within the market, the Group offers clients a market leading construction service based on strong financial and management principles.

Our breadth of experience and capability enables us to deliver integrated solutions to our clients for all sizes and complexities of construction and regeneration projects.

Our culture is one of pace, dynamism, excitement and openness.

This report details our performance in 2009, our markets, strategy and the potential risks that may impact our business.

The divisions

Fit Out

More detail on page 38

Morgan Sindall's Fit Out companies refurbish and fit out offices, bank branches, hotels and universities. They offer clients a high quality national capability through a network of three businesses operating out of eight offices:

- **Overbury** specialises in office refurbishment and fit out, working with clients directly through their professional teams;
- **Morgan Lovell** offers a one-stop service covering every aspect of design, project management and fit out; and
- **Vivid Interiors** undertakes fit out and refurbishment projects in the retail banking, hotel and higher education sectors. It works both directly with clients and through appointed professional teams.

Revenue	Operating profit
£291m	£13.8m
2008: £474m	2008: £25.8m

Employees	Order book
569	£171m
2008: 655	2008: £124m

Operating companies

Construction

More detail on page 42

Morgan Sindall's Construction division comprises Morgan Ashurst and Morgan Professional Services:

- **Morgan Ashurst** is a national construction business working for public and commercial sector clients on projects valued from £50,000 to over £300m. These range from small works, repair and maintenance services to complex large-scale projects; and
- **Morgan Professional Services** is a design, engineering and project management consultancy specialising in complex and technically challenging construction projects.

Revenue	Operating profit
£743m	£13.0m
2008: £813m	2008: £9.5m

Employees	Order book
2,002	£532m
2008: 2,300	2008: £805m

Operating companies

Infrastructure Services

More detail on page 46

Morgan Sindall's Infrastructure Services division, operating under the Morgan Est brand, is one of the UK's leading providers of infrastructure services offering an integrated capability to customers. The division is split into four main business units, which work together to provide integrated solutions across the transport, water and energy sectors:

- **infrastructure:** specialising in the design and delivery of complex projects in the roads, water and energy sectors;
- **utilities:** network solutions in water, gas and electricity;
- **capital projects:** specialising in the design and delivery of complex projects in the air and rail sectors; and
- **tunnelling:** the UK's leading tunnelling contractor, with in-house piling, design and pre-cast capabilities.

Revenue	Operating profit
£770m	£17.1m
2008: £799m	2008: £14.4m

Employees	Order book
3,987	£1.1bn
2008: 4,070	2008: £1.4bn

Operating companies

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Our strategy

Our vision is to create a construction and regeneration group with market leading positions in our chosen sectors.

We endeavour to do this by:

- delivering a quality construction service in close collaboration with our clients;
- operating safely and sustainably;
- growing profitable businesses;
- generating cash resources to develop our businesses and to fund acquisitions; and
- producing strong shareholder returns.

The success of the Group is underpinned by continual investment in recruitment, development and retention of talented people.

Many of the Group's divisions pursue a quality initiative called Perfect Delivery. Perfect Delivery sets out for each of the divisions a series of cornerstones to shape attitudes and processes towards exceptional delivery. These cornerstones are widely published and measured within each project and frequently include: delivery on time, defect free completion, budget achievement, provision of all technical and record information, as well as project specific measures defined by our clients.

Revenue £m ↓13%

Year	Revenue £m
09	2,214
08	2,548
07	2,115

Profit before tax and amortisation £m ↓28%

Year	Profit £m
09	51.5
08	71.4
07	62.1

Affordable Housing

More detail on page 50

Morgan Sindall's Affordable Housing division operates under the Lovell brand. This business develops, constructs, refurbishes and maintains affordable, social and open market housing.

The division operates in four core markets:

- refurbishing existing local authority and housing association stock under the Government's Decent Homes initiative;
- building new housing for social rent and shared ownership, working in partnership with Registered Social Landlords and local authorities;
- building affordable homes for sale on the open market as part of mixed tenure regeneration; and
- responsive and emergency maintenance of homes for public sector residential property owners.

Revenue	Operating profit
£374m	£14.9m
2008: £377m	2008: £21.0m

Employees	Order book
1,324	£1.3bn
2008: 1,467	2008: £1.3bn

Operating companies

Urban Regeneration

More detail on page 54

Morgan Sindall's Urban Regeneration division operates under the Muse Developments brand. It specialises in working with landowners to unlock value from under-developed land assets and to bring about urban renewal and regeneration.

The division works in partnership with landowners, local authorities and other public and private sector partners to progress development opportunities and maximise the contribution to urban renewal through 'mixed use' projects, typically including commercial and leisure space, residential accommodation and community facilities.

Muse Developments has developed a dynamic and resilient business model offering long-term opportunities linked to land agreements not land banks and offers a genuinely 'mixed use' development capability.

Revenue	Operating profit
£32m	£0.7m
2008: £84m	2008: £7.8m

Employees	Share of development pipeline
49	£1.4bn
2008: 51	2008: £1.3bn

Operating companies

Investments

More detail on page 58

Morgan Sindall Investments provides project funding and investment expertise for public sector projects. The unit's primary function is to act as a facilitator for projects that involve another Morgan Sindall division as a delivery partner.

Morgan Sindall Investments works in partnership with other equity funders and associated professionals to fund, deliver and operate assets focusing in particular on health, education, affordable housing, emergency services, defence and infrastructure.

Revenue	Operating profit
£3m	£(3.0m)
2008: £1m	2008: £(2.2m)

Employees	Order book
24	n/a
2008: 21	2008: n/a

Operating companies

Operating profit is profit from operations before amortisation.

Financial highlights

£2,214m

£51.5m

£44.7m

Revenue £m

↓13%

Year	£m
09	2,214
08	2,548
07	2,115

Group revenue decreased against an overall fall in the construction market of 11% in 2009. More details on page 92.

Profit before tax and amortisation £m

↓28%

Year	£m
09	51.5
08	71.4
07	62.1

Decline in higher margin activities was partly offset by record results from Construction and Infrastructure Services. More details on page 92.

Profit before tax £m

↓28%

Year	£m
09	44.7
08	62.3
07	57.6

More details on page 80.

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Adjusted EPS pence

↓27%

09	93.9
08	127.8
07	104.5

Earnings per share have declined in line with profits. More details on page 95.

Basic EPS pence

↓27%

09	77.9
08	106.3
07	93.8

More details on page 95.

Dividends pence

→00%

09	42.0
08	42.0
07	38.0

Total dividend is unchanged from last year. More details on page 95.

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Cutting edge

Busy reception area of Guardian News and Media's London HQ, a major fit out by Overbury, accommodating nearly 2,000 staff. Established delivery principles combined with cutting edge environmental practices have created an inherently green building using public transport, local resources, strict waste management and sustainable design.

Established principles

Inspired generation

Young adults, using sports and leisure facilities at a newly constructed secondary school in South Lanarkshire. This project was one of an impressive programme of 15 newly built schools, two refurbished schools and two special educational needs centres all of which were handed over from Morgan Ashurst to South Lanarkshire Council as planned in 2009.

Planned delivery

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South Lanarkshire Schools
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High speed

Careful progress

The town centre link-bridge between the Olympic retail site and Stratford Station in London. The bridge was formed by the incremental launching of separate sections just eight metres above 11 fully operational Network Rail and London Underground lines, a UK first. Morgan Est used intricate planning and safety management to achieve this highly regarded implementation, which allowed the rail operators to maintain a normal service in an area which provides critical transport links into the City and east London.

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Exciting future

Safe haven

Final elements of work being completed by Lovell during the Beswick affordable housing project in Manchester.
The scheme will create 550 houses for sale, rent and shared ownership ensuring the community has maximum access to new homes. As part of the wider regeneration of east Manchester, these homes will be built to the most exacting standards and generate the minimum environmental impact.

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Advanced technology

Complex steel framing, using the latest safety standards, taking shape during the second phase of a major regeneration project at Liverpool's new central business district. This phase of the project will create major office accommodation to complement the first phase of offices, apartments and a restaurant all overlooking a central square. Muse Developments utilised advanced technology to deliver exceptional savings in energy consumption and costs.

Practiced methods

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Fit Out
Overbury

Client	Guardian News and Media
Location	London

During the consolidation of four Guardian newspaper offices from locations across London into one building, Overbury's task at the new Guardian News and Media headquarters in King's Place, London was to carry out the fit out in a manner that minimised carbon emissions. Moving all of the newspaper's operations to one location is a positive environmental step in itself, as it reduces travel and deliveries between disparate sites, minimises energy use and encourages an entire workforce to cooperate to reduce their waste.

Construction
Morgan Ashurst

Client	South Lanarkshire Council
Location	Scotland

South Lanarkshire Council PPP scheme involved a modernisation programme for all of the Council's 19 secondary schools, transforming the school estate to meet the needs of a 21st century learning environment.

The majority of the schools were designed in three main parts, the community facility, the 'street', which is the focus for all the schools, and the teaching wings. Several of the schools have large scale community sports facilities for out of hours community use which are accessed through the striking public frontages.

Infrastructure Services
Morgan Est

Client	Westfield Shopping Towns
Location	Stratford, East London

Morgan Est's work at the Stratford City development forms part of the supporting infrastructure for the 2012 Olympics. The new town centre link bridge was designed and built for the Westfield Group, a project worth £25m, crossing over 11 Network Rail, London Underground Limited and Docklands Light Railway rail lines at Stratford Station. In addition, Morgan Est has also undertaken further projects on the site which include the modification of two existing bridges, three new bridges and associated works.

Affordable Housing
Lovell

Client	Manchester City Council
Location	Beswick, Manchester

Lovell was selected by New East Manchester following a design-led competition to develop 550 new homes as part of the regeneration of Beswick. The properties are predominantly for outright sale, with homes for rent and shared ownership being provided through its Registered Social Landlord partners. The development, the largest off site manufactured housing project in Europe, offers a mixed tenure environment where homes are indistinguishable by tenure creating a fully inclusive community.

Urban Regeneration
Muse Developments

Client	Liverpool City Council
Location	Liverpool

The development comprises five buildings overlooking a stunning landscaped public square. The first phase comprised prime office space, apartments, a restaurant and a 400 space car park. Phase two has provided a further 133,000 square feet of Grade A office accommodation in a stunning landmark building which delivers significant savings in energy costs, whilst the third and final stage, now under construction, will deliver a further 109,000 square feet of 'BREEAM excellent' office space. When completed the development will provide workplaces for 3,500 people.

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Directors' report: business review

Cautionary statement

This business review has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

The business review contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business factors, underlying any such forward-looking information.

The directors, in preparing this business review, have complied with s417 of the Companies Act 2006. They have also complied with the guidance set out in the Accounting Standards Board's Reporting Statement: Operating and Financial Review.

This business review has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Morgan Sindall plc and its subsidiary undertakings when viewed as a whole.

Chairman and Chief Executive's statement

"The Group produced a robust performance in 2009 against a backdrop of very challenging trading conditions. Although we face similar conditions in 2010, we remain confident that we can continue to capitalise on the opportunities presented by our markets."

Paul Smith
Chief Executive

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John Morgan
Executive Chairman

Chairman and Chief Executive's statement

"Since the beginning of 2008 we have realised annualised cash savings of £38m and we continue to focus on cash management, cost reduction and supply chain improvements, as well as responding to market growth opportunities where they present themselves."

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Robust performance in line with expectations

We delivered a robust performance for 2009, despite experiencing some challenging trading conditions across our chosen sectors. The 13% decrease in revenue to £2,214m (2008: £2,548m) and the 28% decrease in profit before tax and amortisation to £51.5m (2008: £71.4m) were principally due to a decline in higher margin activities in the Fit Out and Affordable Housing divisions, although this was partly offset by record results from our Construction and Infrastructure Services divisions.

Earnings per share before amortisation of intangible assets fell by 27% to 93.9p (2008: 127.8p). Profit before tax (after amortisation of intangible assets) fell by 28% to £44.7m (2008: £62.3m). We have declared a second interim dividend of 30.0p payable on 1 April 2010. This is in place of the final dividend, which for 2008 was 30.0p and was paid on 8 May 2009. This gives a total dividend for the year of 42.0p (2008: 42.0p).

Our year end cash balance was £118m (2008: £120m) and we achieved, as expected, an average cash balance throughout the year of £31m (2008: £77m). This lower level of average cash reflects the higher levels of working capital required as construction activity has slowed. The Group's financial position remains strong which, combined with our debt facilities of £100m available through to mid-2012, leaves us well placed to take advantage of opportunities presented by our markets.

Long-term strategy supported by emphasis on robust financial disciplines

Our long-term strategy continues to be the achievement of leading positions in all our chosen markets. Delivering a quality construction service in close collaboration with our clients is a key component in achieving this aim.

In 2009 the Fit Out division experienced a considerable contraction in the commercial office sector, resulting in reductions in revenue and operating profit. In challenging market conditions the division remained focused on securing profitable opportunities rather than securing revenue at any cost and it is our view that the division performed well in maintaining its market leading position and healthy operating profit margin.

The Construction and Infrastructure Services divisions both delivered record results, increasing operating profit and margin in 2009, based largely on the strength of their positions in the public and regulated sectors, combined with an increased capability to take on larger and more complex projects. The Construction division also benefited from further improvements resulting from its continuing Perfect Delivery quality programme.

The Affordable Housing division maintained its revenue and generated an excellent operating profit during the year given the difficult market conditions for open market housing. This was due to strong new build contracting and refurbishment demand for social housing which helped to counteract reductions in profitability from sales of open market housing.

The Urban Regeneration division delivered a satisfactory performance in 2009 and contributed a small profit in a very subdued market, aided in some part by the recovery in sales of open market housing. The business remains ideally positioned to take advantage of future opportunities as occupier demand recovers.

The Investments unit secured a number of new projects during the year and is currently at preferred bidder stage on several high value schemes. The directors' valuation of the investment portfolio held by the division increased during the year to £38m (2008: £28m).

We report more fully on each division in the business review that follows this statement.

Since the beginning of 2008 we have realised annualised savings of £38m and we continue to focus on working capital management, cost reduction and supply chain improvements, as well as responding to market growth opportunities where they present themselves.

Changes to the Board

We welcomed Patrick De Smedt to the Board as a non-executive director in December 2009. In addition, we are pleased to announce that Simon Gulliford will join the Board as a non-executive director on 1 March 2010. Simon has particular experience in the area of strategic marketing both as a consultant and in an executive capacity.

Patrick and Simon's experience will further enhance the range of skills and abilities our non-executive directors bring to the Board.

Jon Walden will leave the Board at the forthcoming annual general meeting after nine years as a non-executive director; we thank him for his valuable contribution during his time with the Group.

Chairman and Chief Executive's statement

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Opportunities are presented in continued challenging markets

Whilst we expect that our markets will remain challenging in 2010, as many of them continue to be impacted by the effects of the economic downturn, we are seeing some signs of recovery in demand for open market housing and demand for fit out from the financial services sector. This, combined with the strength of our order book and projects progressed to preferred bidder stage, should help to offset some of the effect of the expected further weakening of public sector spending. We have taken positive and timely action as overall construction activity has slowed and we will continue to take the necessary steps to shape our business as the market changes.

At the same time, however, we will continue to assess all new market opportunities that arise and use our track record, expertise and operational and financial strength to exploit them where appropriate.

Fit Out is well positioned to respond to signs of improved demand for major projects in the commercial office market, especially demand from the financial services sector, and will focus on growing its share of the retail banking, hotel and education sectors.

Construction's focus on sectors with growth potential such as prisons, airports, defence and rail and its capability to deliver larger projects will help counter the effects of a subdued commercial market and any future public sector spending reductions.

Infrastructure Services' medium and longer-term growth potential in the energy and transport sectors, driven by investment in key infrastructure projects, will complement the division's strong presence in the utilities market.

Affordable Housing will focus on exploiting the improving open market housing sector and on the latest round of social housing PFI opportunities, as well as growing its new responsive maintenance offering alongside its existing refurbishment expertise.

Having secured substantial regeneration projects in the past few years, Urban Regeneration will continue to progress each of its current schemes, although we expect its market to remain subdued in the short-term. With its quality portfolio the division retains an excellent platform for growth as occupier demand returns in the medium-term.

The Investments unit has a healthy pipeline of PPP/PFI schemes to pursue alongside the five operating divisions. In addition to the construction revenue to be created for the other divisions, these schemes are expected to increase the unit's long-term investment income.

Our forward order book at the start of 2010 stood at £3.2bn (2008: £3.7bn). We also started 2010 with over £0.9bn (2008: £nil) of projects at preferred bidder stage. This element of potential work was created entirely during 2009 and reflects our capability to deliver large and more complex schemes. In addition, Urban Regeneration's forward development pipeline (its share of regeneration projects in which it has an interest) was valued at £1.4bn (2008: £1.3bn).

The Group produced a robust performance in 2009 against a backdrop of challenging trading conditions. Although we face similar conditions in 2010, our breadth of capability gives us confidence that we are well placed to capitalise on the opportunities presented by our markets.

John Morgan
Executive Chairman
23 February 2010

Paul Smith
Chief Executive
23 February 2010

Business review

The market and Morgan Sindall[1]

The UK construction market fell by 11% in 2009

In 2008 the UK construction market was valued at £109.7bn (2007: £111.0bn), a 1.1% reduction in output from the previous year.

Estimates for 2009 indicate that the total UK construction market is expected to be valued at around £97.1bn, a reduction of 11% or £12.6bn compared with 2008. This reduction is the result of a 13% drop in new work and a 10% fall in spending on repairs and maintenance. The value of new work reduced by £8.0bn and repairs and maintenance fell by £4.6bn.

Experian forecasts for the UK construction market indicate a further decline of 2% in 2010, although the market is forecast to start growing again in 2011 by around £1.1bn.

"Our vision is to create a construction and regeneration group with market leading positions in our chosen sectors within the UK construction market."

[1] Data reported includes the full cost of construction work undertaken, including materials, labour, overheads and profits. This adds up to a total value for the UK construction market and provides a basis for comparison period on period.

Public expenditure increases offset significant reductions in private work

	2007		2008		2009 Estimated	
	£bn	%	£bn	%	£bn	%
Private work	76.4	69	72.2	66	57.1	59
Public work	34.6	31	37.5	34	40.0	41
Total	111.0		109.7		97.1	

Source: ONS/Experian

Public expenditure across the UK market has increased over the past three years, from £34.6bn in 2007 to a forecast £40.0bn in 2009, an increase of £5.4bn (16%). In 2009 the public sector is estimated to account for 41% of the market. By contrast, private sector spend on construction work is forecast to have fallen 25%, from £76.4bn in 2007 to £57.1bn in 2009.

Whilst we expect that our markets will remain challenging in 2010 as many of them continue to be impacted by the effects of the economic downturn, we are seeing some signs of recovery in demand for open market housing and demand for fit out from the financial services sector. This, combined with the strength of our order book and projects progressed to preferred bidder stage, should help to offset some of the expected further weakening in public sector spending. We have taken positive and timely action as overall construction activity has slowed and we will continue to take the necessary steps to shape our business as the market changes. We remain mindful of the potential impact of cuts in public spending and are readying ourselves for changes as and when they become apparent.

Morgan Sindall has a presence in all the major sectors of the UK construction market

The UK construction market is measured by the Office for National Statistics ('ONS'). Active contractors provide information which is collated and circulated quarterly.

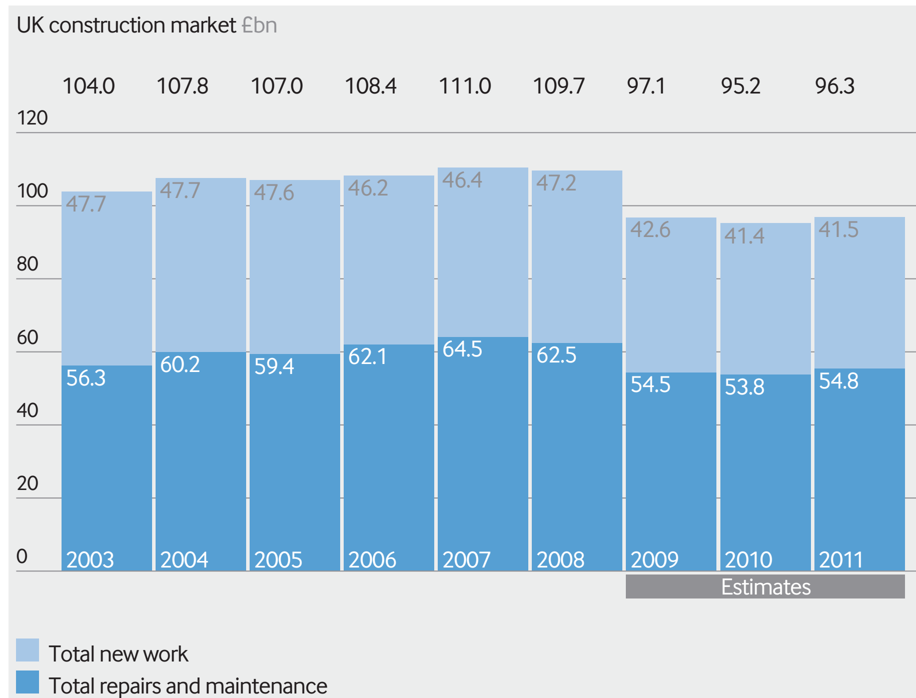
The market is presented in two main sections, New Work and Repairs and Maintenance, and each main section is further stratified to create ten segments for the market:

New work
1 Public housing
2 Private housing
3 Infrastructure
4 Public non-residential
5 Private industrial
6 Private commercial

Repairs and maintenance
1 Public housing
2 Private housing
3 Public non-residential
4 Private non-residential

Source: ONS

Morgan Sindall has a diverse and balanced mix of private and public sector clients. The Group's five operating divisions are active across the UK construction market, as shown in the table opposite. These divisions often work together to provide the best integrated solution for each client project. More detail on each of the divisions is reported on pages 38 to 60.



Source: ONS/Experian

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Solid positioning in expected growth sectors in 2010

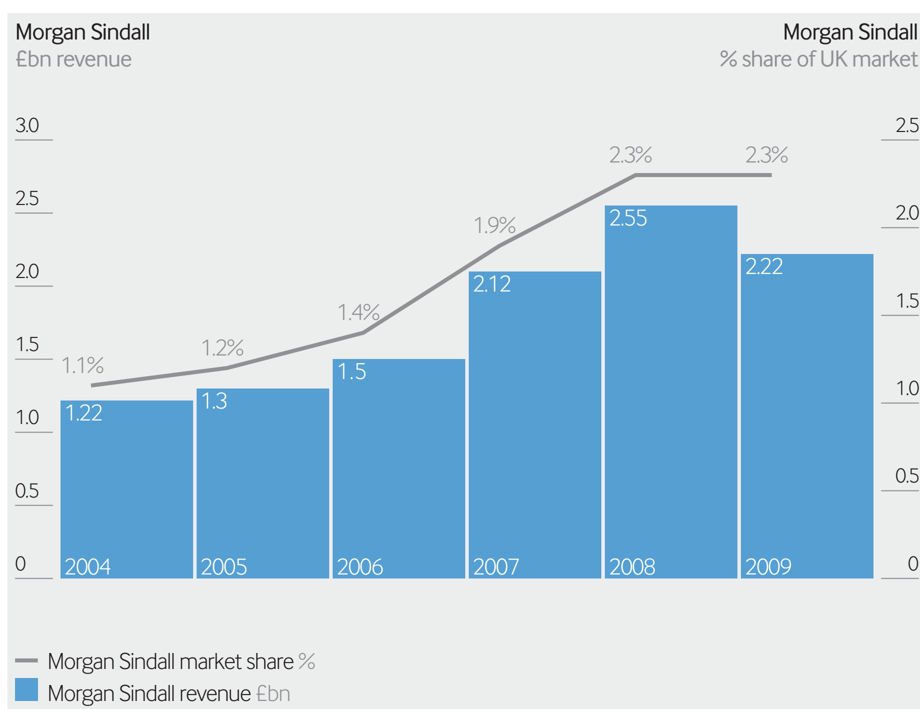
A forecast reduction in the repairs and maintenance segments in 2010 of £1.1bn to £41.5bn is increased by a forecast fall in the new work segment of £0.7bn, leading to an overall reduction of 2% (£1.9bn). Morgan Sindall's divisions are well positioned within the market sectors forecast to recover strongest in 2010, including new work public housing, infrastructure and public non-residential. The expected continued decline in non-residential repairs and maintenance may affect the Fit Out and Affordable Housing divisions during 2010.

Market share protected in 2009

Morgan Sindall has grown its share of the UK construction market over the last six years. Market share has more than doubled during this period to 2.3%, increasing from 1.1% in 2004. After a period of largely organic growth, the Group acquired two businesses from AMEC in 2007.

	2004	2005	2006	2007	2008	2009
Market £bn	107.8	107.0	108.4	111.0	109.7	97.1
Revenue £bn	1.21	1.30	1.50	2.11	2.55	2.22
Market share %	1.1	1.2	1.4	1.9	2.3	2.3

Source: Morgan Sindall/ONS/Experian



Source: Morgan Sindall/ONS/Experian

New work	Fit Out	Construction	Infrastructure	Affordable Housing	Urban Regeneration	Investments	2009 value forecast £bn	2010 value forecast £bn	Change %
Public housing				✓		✓	3.3	3.5	↑6
Private housing				✓	✓		10.7	10.9	↑2
Infrastructure			✓			✓	7.8	8.7	↑12
Public non-residential		✓			✓	✓	13.3	14.2	↑7
Private industrial							2.4	2.4	→ –
Private commercial		✓			✓		17.0	14.0	↓17

Repairs and maintenance	Fit Out	Construction	Infrastructure	Affordable Housing	Urban Regeneration	Investments	2009 value forecast £bn	2010 value forecast £bn	Change %
Public housing				✓			8.0	7.8	↓3
Private housing							14.0	14.0	→ –
Public non-residential	✓		✓				7.5	7.2	↓4
Private non-residential	✓						13.1	12.5	↓5
						Total	97.1	95.2	↓2

Source: Morgan Sindall/ONS/Experian

Business review
Strategy

A proactive strategy that utilises our resources

The Group is proactive in addressing changes in its various chosen markets and actively shapes its approach to those markets and customers.

In addition to financial resources, the Group draws on further tangible and intangible resources. Principal amongst these are the Group's talented people and a highly capable specialist supply chain that utilises local resources to offer a national service. Working together, they innovate and provide new ideas and methods to deliver client needs. Beyond this, the Group draws further upon the strength of its divisions and corporate reputation.

The Group's aims, strategies and performance indicators are reported fully in the table opposite.

Strategic aim	Our strategy
Deliver a quality construction service	◆ Extend Perfect Delivery and Customer Experience quality programmes ◆ Improve Perfect Delivery performance ◆ Improve the quality of supply chain by using accredited subcontractors and suppliers ◆ Attract, retain and develop talented employees
Operate safely and sustainably	◆ Continue to develop Group safety culture ◆ Develop system to meet Carbon Reduction Commitment obligations
Grow profitable businesses	◆ Maintain healthy pipeline of projects ◆ Manage resources and cost base efficiently ◆ To expand the Group's capability
Generate cash resources to develop the Group's divisions and fund acquisitions	◆ Maintain tight control of working capital ◆ Ensure the Group has sufficient committed banking facilities available
Generate strong shareholder returns	◆ Generate superior returns by developing positions of market leadership in each of the Group's divisions

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KPI measure and description	Performance in 2009	Plans for 2010
Perfect Delivery scores Measured by the percentage of projects achieving Perfect Delivery Approved supply chain coverage Measured by the percentage of the Group's spend that is through approved suppliers Staff turnover/retention Training level Measured by average number of training days per employee	84% of projects achieved Perfect Delivery (2008: 84%) Average number of training days is 5 (2008: 5)	Increase the number of projects that achieve Perfect Delivery Develop standard measures of customer and employee satisfaction across the Group Developing KPIs to measure the Group's spend through approved suppliers Develop KPIs to measure staff retention
Accident Incident Rate ('AIR') Measured by the number of reported incidents expressed per 100,000 persons employed Carbon dioxide emissions Calculated as tonnes equivalent CO_2	The AIR for 2009 is 519 (2008: 719) Carbon dioxide emissions are established for the first time for 2009 as 27,466 tonnes equivalent (2008: n/a)	To make further progress in reducing the AIR To reduce the Group's carbon footprint To establish an efficient reporting system to meet our obligations under the CRC Energy Efficiency Scheme
Forward order book Measured by future revenue from legally committed contracts plus a prudent estimate of future revenue under framework agreements Operating margin Measured by profits from operations before amortisation of intangible assets, expressed as a percentage of revenue Overheads percentage Defined as Group overheads expressed as a percentage of revenue	Forward order book currently stands at £3.2bn (2008: £3.7bn). Operating margin of 2.0% (2008: 2.3%) Established responsive maintenance service at Affordable Housing Increased Fit Out's proportion of activity outside of London to 32% (2008: 22%) Overheads percentage is 7.7% (2008: 7.3%)	Increase forward order book Improve Group operating margin To maintain or reduce overheads as a percentage of revenue
The average cash balances at bank reported daily Year end cash balance Operating cash conversion	The average cash balance for the year was in line with our expectations at £31m (2008: £77m) Year end cash balance of £118m (2008: £120m) £100m of banking facilities put in place through to June 2012 5 year rolling cash conversion at 94% (2008: 119%)	To improve average cash balance To improve five year operating cash conversion
Adjusted earnings per share ('EPS') Dividend per share	Adjusted EPS down 27% to 93.9p (2008: 127.8p) Dividend per share maintained at 42.0p (2008: 42.0p)	To increase adjusted EPS over the longer–term To maintain a progressive dividend policy

Business review
Key risks

The Group's achievement of its strategy and vision is subject to a number of key risks. Risk management processes are designed to continually assess, identify, understand and challenge the effectiveness of mitigating actions. The Board considers that the most significant risks and the main mitigating actions are:

Market and economic environment

The market sectors in which the Group operates are affected to varying degrees by general macroeconomic conditions and changes in Government spending priorities. The Group is particularly focused at present on managing impacts of the challenging economic conditions and continuing to invest for the long-term to be prepared for opportunities when they arise.

Risks

- Shortage of opportunities caused by macroeconomic factors
- Reliance on key customers and sectors and increased competition
- Projects consuming excessive capital inhibit growth
- Inability to manage overheads during downturn
- More onerous financial security such as bonding and other financial guarantees required in current market in order to qualify for work

Regulatory environment

The Group operates within a constantly changing regulatory environment governed by legislation and industry specific regulation. Non-compliance with legislation or regulations can damage the Group's reputation, market standing and ability to secure new business and may lead to financial penalties.

Risks

- Regulatory or legislative breach, failure to understand regulatory environment
- Failure of employees and subcontractors to comply with legislation

Health, safety and environmental risks

The Group's health and safety and environmental performance affect employees, subcontractors and the public and, in turn, can affect its reputation and commercial performance.

Risks

- Environmental or safety incidents caused by the Group's activities

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Impacts

- Loss of revenue, profit effect magnified if overheads not managed appropriately
- Increased competition leads to falling margin on work
- Excessive consumption of cash leads to inability to carry out work

Mitigation

- Delegated authorities in place throughout the Group require approval of tenders at appropriate levels
- Refusal to compete solely on price: Perfect Delivery quality programme seeks to differentiate the Group's offering on service and quality
- Adequacy of cash resources and facilities available, bonding lines and insurance programme are kept under constant review
- Sector spread and diversification offer some protection against decline in individual sectors
- Regular feedback from clients and others used to tailor the Group's offering
- Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities
- Regular review of resource levels against anticipated workload

Impacts

- Loss of reputation, market share, cost of investigations, fines and prosecutions

Mitigation

- Regular communication of relevant regulation, including changes and amendments; key regulatory risks dealt with in Group policies and induction processes
- Regular training and updates for those with responsibility for ensuring compliance
- Regular reporting of significant measures relevant to regulation
- Systems of management to identify risks and controls, audits and reviews to ensure that controls are operating effectively
- Periodic reviews by external professionals and involvement of external experts in training where necessary
- Whistleblowing and ethical policies and procedures in place

Impacts

- Harm to individuals and communities, reputational damage, loss of market share, fines and prosecutions

Mitigation

- Health and safety and environmental policy frameworks are communicated and senior managers appointed in each division
- Well established safety systems, site visits, monitoring and reporting (including near miss and potential hazard reporting) in place
- Investigation and root cause analysis of accidents and near misses
- Regular health and safety and environmental training and updates including behavioural training
- Certification of workforce under Construction Skills Certification Scheme

Business review
Key risks

Developing talent

The ability of the Group to deliver projects successfully to clients, grow in profitability and develop strong, sustained financial performance relies on the quality of its employees. It is critical that talented individuals are attracted, developed and retained.

Risks

- Failure to attract talented individuals to the construction industry
- Inadequate succession planning
- Failure to retain talented individuals

Contractual risks

The Group undertakes several hundred contracts each year and it is important that contractual terms reflect risks arising from the nature and complexity of the works and the duration of the contract.

Risks

- Acceptance of work outside core competences
- Acceptance of unprofitable work
- Poor project management leads to delays and cost overruns
- Inability to agree valuation of additional work and variations

Acquisitions

The Group regularly identifies and evaluates potential acquisitions and it is important that acquisitions deliver the planned benefits.

Risks

- Group fails to deliver benefits sought at time of acquisition, through issues with due diligence, execution, strategic assessment, alignment of cultures or other reasons

Counterparty and liquidity risks

The terms on which the Group trades with counterparties affect its liquidity. 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. Further disclosure on liquidity risks and liquidity risk management is contained in note 29 to the consolidated financial statements on pages 113 to 116.

Risks

- Insolvency of key client, subcontractor or supplier
- Inadequate liquidity

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Impacts

- Group and divisions fail to develop the people necessary to provide future growth
- Talented people see better opportunities for reward and satisfaction in other industries or with competitors

Mitigation

- Management development programmes in place alongside formal individual appraisal and development processes
- Regular review of remuneration levels and competitive bonus structure
- Long-term incentivisation through Save As You Earn and share option schemes
- Succession and staff development is considered in annual and longer-term business planning cycle

Impacts

- Loss of profitability and reputation
- Excessive resources and attention devoted to poorly performing projects

Mitigation

- System of delegated authorities governs tenders and acceptance of work
- Work carried out under standard terms wherever possible
- Well established systems of measuring and reporting project progress and estimated outturns
- Collation and review of client feedback
- Lessons learned exercises carried out on projects
- Use of accredited subcontractors with established relationships wherever possible
- Staff incentivised on basis of contract performance
- Cross regional peer reviews

Impacts

- Loss of profitability and reputation
- Excessive resources required to be directed towards acquisition

Mitigation

- All acquisitions approved at Board level
- Commercial and financial due diligence led by senior teams including executive directors, with clear roles and responsibilities
- Post acquisition integration plans prepared and monitored
- KPIs established and monitored post acquisition

Impacts

- Significant financial loss due to bad debt, cost of replacing supplier
- Reputational impact
- Group cannot continue in business, or cannot grow as desired, due to lack of funds

Mitigation

- Work only carried out for financially sound clients, established through credit checks
- Work with approved suppliers wherever possible
- Contracts with clients, subcontractors or suppliers only entered into after review at appropriate level of delegated authority
- Work carried out under standard terms of contract as far as possible
- Specific commercial terms, including payment terms; escrow accounts used as appropriate
- Regular monitoring of cash levels and forecast cash
- Regular stress testing of longer-term cash forecasts
- Regular assessment of the level of banking facilities available to the Group
- Regular monitoring of banking covenants

Business review
Financial review

As at 31 December 2009 the Group had net cash of £118m and committed banking facilities of £100m extending until mid-2012.

Additional information on the Group's financial performance can be found elsewhere in the annual report and accounts as follows:

- divisional trading performance is covered in note 1 to the consolidated financial statements on pages 92 and 93;
- cash flow is analysed in detail in note 26 to the consolidated financial statements on page 108;
- this financial review addresses treasury risks and risk management; the broader risks facing the Group are dealt with under Key Risks above; and
- directors' valuation of PPP/PFI investments is included under the Investments review on page 59.

Difficult conditions but Construction and Infrastructure Services deliver record results

Where stated, operating profit is profit from operations before amortisation.

Although 2009 has been a difficult year for the economy, Morgan Sindall has delivered strong results in challenging market conditions, which in particular impacted the commercial fit out, regeneration and housing markets and accounted for the declines in revenue and profit. However, within these results are record performances for the Construction and Infrastructure Services divisions which have served to offset declines in Fit Out, Affordable Housing and Urban Regeneration. Since the start of 2008, the Group has acted decisively to address its cost base, resulting in annualised cost savings of £38m. Further action will continue to be taken as necessary.

The principal factors behind the reductions in revenue are falls of £183m (39%) in Fit Out, £70m (9%) in Construction, £29m (4%) in Infrastructure Services and £52m (62%) in Urban Regeneration. Revenue in Affordable Housing has been maintained, largely due to robust demand for refurbishment and new build activities and, the success of its shared equity scheme in supporting open market house sales.

Profit before tax and amortisation has fallen from £71.4m in 2008 (a margin of 2.8%) to £51.5m (2.3%) in 2009. This was due largely to falls in operating profit in Fit Out of £12.0m (47%), in Affordable Housing of £6.1m (29%) and in Urban Regeneration of £7.1m (91%), which have been partly offset by an increase in Construction of £3.5m (37%) to a record £13.0m and Infrastructure Services of £2.7m (19%) to a record £17.1m. Operating margin in Construction and Infrastructure Services was a record, standing at 1.7% (2008: 1.2%) in Construction and 2.2% (2008: 1.8%) in Infrastructure Services. These improvements reflect the Group's progress in its Perfect Delivery quality programme and proactive management of its cost base, as well as a more mature project profile at Infrastructure Services. Finance income has fallen from £4.3m in 2008 to £1.0m, as a result of lower average cash balances and lower interest rates.

Robust 2009 performance

Revenue £m

Year	£m
09	2,214
08	2,548
07	2,115

Profit before tax and amortisation £m

Year	£m
09	51.5
08	71.4
07	62.1

Profit before tax £m

Year	£m
09	44.7
08	62.3
07	57.6

Year end cash balance £m

Year	£m
09	118
08	120
07	219

The Investments unit is reported separately for the first time this year and incurred an operating loss of £3.0m (2008: £2.2m).

The Group made a small acquisition of a housing responsive maintenance business in 2009 and, goodwill of £1.1m arose on this transaction. The acquired business is trading as expected.

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Tax

The Group's tax charge of £11.8m (2008: £17.5m) represents an effective tax rate of 26.4% (2008: 28.1%). The decrease in the effective tax rate is largely due to the lower UK corporation tax rate of 28.0% (2008: 28.5%) and prior year adjustments of £1.2m (2008: £0.7m). The Group is in discussion with HMRC concerning the corporation tax treatment of the fair value adjustments which arose following the 2007 acquisition of certain businesses and assets from Amec. As a result of these discussions, the Group received £9.5m in provisional corporation tax repayments from HMRC during 2009, and reduced payments by £9.2m which it would otherwise have made to HMRC during the year. No benefit has been recognised in the tax charge in the income statement in respect of this matter, as discussions are at an early stage and the eventual outcome is unclear. Overall, the Group received a net corporation tax repayment of £7.7m during 2009 (2008: net payment of £18.9m).

Earnings per share

Adjusted basic earnings per share before amortisation has fallen by 27% from 127.8p to 93.9p, in line with the 26% fall in profit after tax adjusted for amortisation expense to £39.7m (2008: £53.9m).

Dividend

The Board has declared a second interim dividend of 30.0p payable on 1 April 2010 to shareholders on the register at the close of business on 12 March 2010. This is in place of the final dividend, which for 2008 was also 30.0p. This gives a total dividend for the year of 42.0p (2008: 42.0p). This is covered by adjusted EPS by 2.2 times (2008: 3.0 times). The fall in cover is acceptable in the short-term as the dividend remains covered by operating cashflows. The Group's long-term policy remains one of increasing 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.

Continuing balance sheet strength

Total equity increased to £209.3m (2008: £192.3m). The number of shares in issue at 31 December 2009 was 43.2m (2008: 43.0m). The increase of 0.2m shares was due to the exercise of options under employee share option schemes.

Group has substantial cash balances

The cash position of the Group at the year end was strong at £118m (2008: £120m). Average cash during 2009 was £31m (2008: £77m), the decline being principally due to the decline in profit and increasing working capital as construction activity has slowed.

The net cash inflow from operating activities was £25.0m (2008: outflow of £65.5m), with operating profit being offset by a higher level of working capital employed in the business. The working capital increase of £31.3m (2008: £115.3m) is as a result of a decrease in inventories of £29.1m, a decrease in receivables of £62.3m and a decrease in payables of £122.7m. Additionally, the Group has £9.0m (2008: £nil) of shared equity receivables relating to open market sales in the Affordable Housing division. There were net payments of £1.1m to acquire subsidiaries (2008: £nil), capital expenditure was £7.5m (2008: £8.4m) and payments to increase interests in joint ventures were £4.2m (2008: £12.4m), all of which reflect ongoing investment in the business. Cash dividends of £2.2m (2008: £nil) were received from joint ventures. After tax payments, dividends and servicing of finance, the net decrease in cash and cash equivalents was £2.6m. It is anticipated that these cash resources will be available for the development of the Group's businesses, either to fund acquisitions or invest in working capital as required.

Banking facilities of £100m committed until 2012

The Group renewed its banking facilities during 2009 and now has £100m of committed facilities available through to mid-2012. The banking facilities are subject to financial covenants, all of which have been met during the year. These committed facilities supplement the cash balances in providing financial security to the Group.

Consistent approach to treasury risk management

The Group has clear treasury policies which set out approved counterparties and determine 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; 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. Further information on the Group's use of financial instruments is explained in note 29 to the consolidated financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this business review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described above. In addition, note 29 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

As at 31 December 2009 the Group had net cash of £118m and committed banking facilities of £100m extending until mid-2012.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show the Group should be able to operate within the level of its current banking facilities.

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Business review
Sustainability review

Delivering today for tomorrow

The Group's approach to sustainability has continued to strengthen throughout 2009. Significant progress has been made in developing policy, encouraging best practice at all levels and communicating achievements to a wider stakeholder group that includes employees, suppliers, investors and regulators.

The Group's new sustainability statement *Delivering today for tomorrow* was launched to all employees during the year. To give sustainability more meaning and relevance at all levels of the organisation, the terms People, Planet and Profit have been adopted. These describe the three elements of sustainable development; social, environmental and economic. During the year, the Group also initiated a continuous dialogue with stakeholders through a dedicated sustainability section on the Group's website.

The Group particularly values the engagement of its employees. It continually keeps them informed on matters affecting their employment and wellbeing, as well as the various factors that affect the Group's performance. The main channel used for this is the Group's intranets which are supported by regular divisional newsletters, as well as direct engagement through facilitated focus groups and employee surveys. Feedback gathered from these internal and external communications activities is considered and, where appropriate, acted upon.

A year of progress and recognition for achievements

Carbon management and reduction has been a particular focus area in 2009, along with an ongoing emphasis on safety, education and training. Morgan Sindall continues to improve sustainability at Group and divisional level as described in this review. Reporting procedures have been improved during the year, providing detailed data on key performance indicators covering health and safety, employment, environmental protection, procurement, supply chain and waste and further improvements will continue to be made in 2010.

Recognition by clients, the media and other third parties of the Group's efforts in all areas of sustainability increased significantly during 2009. The many completed projects recognised by regional and national sustainability awards include Clackmannanshire Bridge, DLR Woolwich Arsenal extension, Longannet flue-gas desulphurisation and Waverley Station regeneration. The Group continues to be a member of FTSE 4Good and has extended its support of social projects and sponsorship during the year, notably by becoming a corporate member of the Wildfowl and Wetlands Trust ('WWT').

PEOPLE: the social element of sustainability

Attracting, developing and retaining talented people are priorities for the Group. There is an ongoing commitment to investing resources to support, engage and motivate employees. A policy of equal opportunity employment is actively promoted, helping to attract and retain the best talent in the industry. Disabled persons have equal opportunities when applying for vacancies, due regard being given to their aptitudes and abilities. Procedures are also in place to ensure that disabled employees are treated fairly and that their training and career development is carefully managed.

Delivering today for tomorrow is an appropriate description of how the Group recruits and trains employees. It begins with an active schools programme operating in several divisions. For example, Morgan Est's 100 Club helps schools bring construction topics into their teaching to increase pupil understanding of civil engineering. Morgan Sindall graduates provide curriculum support to teaching staff throughout the year and pupils are given the opportunity to learn about working in the construction industry on a four-day residential course, organised in conjunction with the Smallpeice Engineering Trust.

Developing skills and changing behaviours

The Group's divisions recognise that providing opportunities coupled with the correct type of training and guidance can help people to develop more worthwhile careers. For example, Lovell actively supports schools in delivering the Government's Construction and Built Environment diploma and was one of the first companies to be recognised by this scheme. Lovell is also an active partner in a programme which provides adult construction apprenticeships and additional support and supervision for ex-offenders.

Safety is a shared responsibility

Safety continues to be emphasised at all levels throughout the Group. Behavioural change and education play vital roles in promoting a healthy, safe workplace. The priority is to ensure that safe working practices are always maintained by employees and subcontractors. One example of how increased employee engagement has led to safety improvements is the Learning Events programme introduced by Morgan Ashurst.

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Reporting near misses after they occur is being replaced by employees and subcontractors proactively alerting site safety managers of potential hazards and safety issues prior to an incident taking place. The result has been a marked increase in employee feedback and a 40% reduction in accidents across the Construction division.

Shared ownership of the responsibilities for a safer working environment is promoted through another Morgan Ashurst programme, the LIFE (Looking to an Incident Free Environment). During 2009, 48 people from within the Construction division were trained as LIFE coaches and provided training to the great majority of their employees.

Finding new ways to improve safety further

Innovative approaches to health and safety education play a central role in reducing accidents. A good example is training undertaken on the West Midlands Gas Alliance project which included demonstrations by a partially-sighted person to illustrate how pedestrians with disabilities encounter pavement obstructions. At Morgan Est, behavioural based safety training has been taken to employees' and subcontractors' places of work through two mobile training facilities. The outreach has been impressive; over 270 members of the Heathrow pavement repair team were briefed in a single week.

The Group's commitment to safety is reflected in the year's accident figures and is further illustrated by the following examples: Lovell reports a further decrease in the number of incidents recorded in 2009, with a 23% reduction in reportable accidents under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) and a 34% drop in minor injuries compared with the previous year. Zero incidents were recorded on 19 Lovell projects. There were no RIDDOR incidents in 42 Morgan Est projects, accounting for 4.6m hours worked. Within Morgan Ashurst, 92% of all projects were RIDDOR-free, including long-term projects.

Social engagement aids biodiversity

The Group's commitment to support the WWT demonstrates how working with a charity can deliver benefits for everyone. Practical advice provided by the WWT is being applied by Muse Developments through the inclusion of water and wetland areas in urban regeneration schemes to improve local biodiversity as well as making developments more appealing to residents and visitors. This co-operation has been extended to examine the viability of similar schemes for other development projects for Muse Developments and Lovell.

PLANET: the environmental element of sustainability

As a leading construction group, Morgan Sindall has a major role to play in reducing emissions of carbon and other greenhouse gases. Actions that can be directly controlled within the Group focus primarily on more efficient monitoring and use of electricity, better utilisation of plant and reducing transportation costs. In addition, the Group is able to offer advice to clients on design and build projects for reducing the carbon footprint of a building throughout its life.

New regulation provides business opportunities

An independent carbon management review was completed during 2009. This gave a clear understanding of where performance can be improved, particularly in the measurement and reporting of electricity consumption. It provides an excellent platform on which all divisions can build robust carbon management programmes.

Below
Muse Developments

Changing landscapes for the better

By improving the biodiversity of urban regeneration projects, Muse Developments is transforming living and working environments at Cheadle Royal Business Park, Stockport.

Business review
Sustainability review

The work undertaken has already enabled the Group to report publicly under the Carbon Disclosure Project in 2009. This follows a break from reporting in 2008 to carry out the review, having previously participated in 2006 and 2007.

The review has also ensured that all divisional companies are properly prepared for their obligations under the CRC Energy Efficiency Scheme ('CRC'). The implementation of the CRC in April 2010 is seen by the Board as an opportunity, rather than a cost. A focus on the CRC should deliver further improvements in energy management and may provide new business opportunities. The divisions will be able to apply their existing knowledge of low carbon design, build, refurbishment and regeneration to benefit clients whose own operations are covered by the CRC.

In preparation for implementation of the CRC, the Group has examined where potential energy savings can be made. This has already led to significant improvements in procurement, including improved monitoring of hire fleet fuel use and centralised purchasing of electricity.

The Group is also able to use its influence externally to deliver carbon reductions in supplier companies and clients' businesses. Action in these areas includes promoting behavioural change throughout the supply chain and providing expert help on low-carbon construction techniques to clients.

Working with the supply chain to reduce impact and improve performance

The Group's plant desk is a major new supply chain initiative responsible for providing machinery and equipment to sites throughout the UK. Sharing data and information with registered suppliers through the Group's back-office procurement systems is helping to minimise plant hire costs and reduce the carbon footprint of machinery used on site. Multiple deliveries are now consolidated and the nearest hire depot can be easily identified. The system also improves safety as alerts relating to faulty equipment are now shared with participating suppliers.

The Group recognises the important role that suppliers play in improving sustainable performance. Its procurement teams seek to ensure that all supply agreements are supported by suitable environmental policies and are actively involved in driving responsible sourcing and waste minimisation through the entire supply chain.

The re-use of waste material is actively encouraged. The Group participates in the Wood for Good recycling programme and unused off-cuts of materials, including plasterboard and ceiling tiles, are collected by the manufacturer to be recycled. Timber is used widely across the Group. Directly purchased wood either Forest Stewardship Council

Below
Lovell

Delivering homes today
for tomorrow's population

Lovell is helping to lead the national move towards zero carbon housing, through its involvement in the Code Level 6 research project at Nottingham University.

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('FSC') or the Programme for the Endorsement of Forest Certification ('PEFC') accounted for 88% of the timber used in 2009.

Raising environmental performance standards

Design and build projects provide the opportunity for the Group to deliver maximum benefit to clients who are looking to minimise the carbon footprint of a factory, office, school or hospital throughout its life. The recently completed research and development facility at GlaxoSmithKline's Les Ulis site in France is one example of a project where sustainability was a key driver. The building was designed and construction managed by Morgan Professional Services to the client's own global standard, equivalent to the BRE Environmental Assessment Method ('BREEAM') Excellent rating.

Improvements in environmental performance and reductions in energy use need not be limited to new build, as the Fit Out division has demonstrated repeatedly during 2009. Morgan Lovell's own premises in London are an example of what can be achieved with a carefully planned refurbishment. A 30% reduction in energy consumption and a BREEAM Excellent rating were obtained. Other examples from the Fit Out division include Overbury's delivery of RWE nPower Renewables' new headquarters in Swindon. It is one of the UK's first projects completed to the new SKA rating, an environmental performance benchmark operated by the Royal Institution of Chartered Surveyors specifically for office fit outs.

Below
MSLI

Committed to delivering on all aspects of sustainability

Four new police and fire facilities were completed in December 2009 by the Investments unit for the Dorset Emergency Services Partnership Initiative. Working as part of the Partnership for Fire, Morgan Sindall Investments ensured that all aspects of sustainability were considered. Local employees and suppliers were used extensively during construction. Morgan Ashurst undertook the construction of the facilities.

Innovation in sustainable construction

The Affordable Housing division has delivered a highly innovative low carbon project. Working with Tarmac Limited, Lovell completed two semi-detached houses built to Sustainability Code Level 4 and the highly demanding Code Level 6 as part of the University of Nottingham's Creative Energy Homes research project. Lovell's expertise in low carbon construction techniques, coupled with its willingness to work with conventional materials, made it Tarmac's ideal partner. The experience gained will be applied to future social housing projects.

PROFIT: the economic element of sustainability

Profit is an essential aspect of sustainability. Without it, the Group would be unable to invest in the many social and environmental initiatives highlighted in this review. The economic performance of the Group, underpinning all its business activities, is described in detail elsewhere in this annual report and accounts, providing further examples of *Delivering today for tomorrow.*

Environmental

	2009	2008	2007
Total waste diverted from landfill* Tonnes	1,411,358	938,090	505,000
Total waste produced* Tonnes	1,701,214	1,400,262	808,000
Percentage diverted from landfill* %	83.0	66.9	62.5
Percentage of directly purchased timber from F SC/PEFC certified sources %	88	77	Not provided
Number of permanent buildings	46	Not provided	Not provided
Amount of electricity used in permanent buildings kWh	4,537,548	Not provided	Not provided
Amount of gas used in permanent buildings kWh	1,442,676	Not provided	Not provided
CO_2 emissions for company vehicle fleet Tonnes	27,466	Not provided	Not provided
CO_2 emissions per employee Tonnes	1.89	Not provided	Not provided

*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 has been identified as being reused or recycled.

Health and safety

	2009	2008	2007
Fatalities	0	1	1
Major incidents (AIR)	206	330	202
Other over 3 day incidents (AIR)	312	389	535
Total of all reportable incidents (AIR)	518	719	737

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

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

People

	2009	2008	2007
Average number of employees	7,977	8,585	7,209
Average absence due to sickness Days	2.0	4.5	5.0
Proportion of women employed %	16	15	15
Proportion of ethnic minorities employed %	7	6	3
Average training per employee Days	5.0	5.0	6.0
Apprentices at different stages of development	138	188	188
Undergraduates on year out or being sponsored	94	110	55
Graduates recruited during the year	50	37	47

Business review
Fit Out

"2009 presented a very challenging market for the fit out and refurbishment sector. The Group's Fit Out division has performed well in maintaining its market share and healthy operating profit margin. Through the quality of its delivery and depth of experience, Fit Out is well placed to capitalise on the early indications of renewed growth in its sector."

Steve Elliott
Managing director, Fit Out

The division

Morgan Sindall's Fit Out companies refurbish and fit out offices, bank branches, hotels and universities. They offer clients a high quality national capability through a network of three businesses operating through eight offices.

Overbury specialises in office refurbishment and fit out, working with clients directly through their professional teams. It works on projects from a few thousand pounds upwards, with a high proportion of projects completed whilst clients occupy sensitive workplaces.

Morgan Lovell provides office fit out and refurbishment to clients requiring a one-stop design and build service. The company covers every aspect of design, project management and fit out.

Vivid Interiors undertakes fit out and refurbishment projects in the retail banking, hotel and higher education sectors. It works both directly with clients and through appointed professional teams.

Revenue £m

Year	Value
09	291
08	474
07	492

Operating profit £m

Year	Value
09	13.8
08	25.8
07	25.9

Operating profit %

Year	Value
09	4.7
08	5.4
07	5.3

Order book £m (as at 1 January 2010)

Year	Value
09	171
08	124
07	179

Operating profit is profit from operations before amortisation.

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Above
Overbury

Client	BBC
Location	Media Village, West London

BBC staff using an informal meeting area as part of the major refurbishment of Media Village for the BBC in West London. This project was undertaken within a framework agreement between the BBC and Overbury to refurbish and fit out a number of spaces across the corporation's broad property estate.

Business review
Fit Out

2009 review

Sound financial performance

In 2009 the Fit Out division delivered a strong performance given the challenging market and generated revenue of £291m (2008: £474m) and operating profit of £13.8m (2008: £25.8m). Margin held up strongly for the year at 4.7% (2008: 5.4%).

Tough market conditions

Contract volumes in both the commercial office and hotel sectors reduced significantly during 2009. This, combined with downward pressure on tender prices, made it much more difficult to maintain margin. However, the division remained focused

on securing profitable opportunities and tight cost control and it is our view that the division performed well in maintaining its market leading position and healthy operating profit margin.

Regional markets and smaller projects held up well

More resilient market conditions outside London led to a proportional increase in regional revenue to 32% (2008: 22%). Fit Out's longer-term strategic aim is to generate 50% of its revenue from regional clients. The mainstay of the business continues to be smaller projects of under £1m in value and revenue levels in this market have remained broadly consistent during 2009.

Key growth sectors remain active

In contrast with the commercial sector, healthy activity in the public sector office and educational market during 2009 helped to insulate Fit Out's overall performance. The division also increased its share of the retail banking market. These markets are showing some signs of improving demand in 2010, albeit they remain highly competitive, and Fit Out is well placed to take advantage of opportunities as they arise.

Fewer major projects have an impact on revenue

During 2009 the market for larger projects (those valued at greater than £5m) reduced by around 40%. This sector had accounted for around half of the division's revenue in 2008 so the fall in demand impacted heavily in 2009. Tendering activity in this segment is expected to increase in value by around a third in 2010 from 2009 levels. As Fit Out is recognised as a market leader for delivering these large projects, it is in a strong position to capitalise on this growth in opportunities.

Differentiation through quality remains a key aim

Delivering leading margin over the long-term will depend on the division's ability to provide its clients with a superior service. It therefore continues to invest in industry-leading approaches to safety, sustainability and staff development. This includes the continued commitment to Perfect Delivery and providing an excellent client experience.

Outlook

2010 will continue to be challenging

An improvement in tender volumes towards the end of 2009 supports the view that demand in the UK fit out and refurbishment market has improved in the short-term. However, a meaningful recovery in the market or in tender prices is likely to be slow to emerge.

The division continues to look for growth in more stable markets and will therefore be targeting the retail banking, education and public sector occupier sectors in 2010.

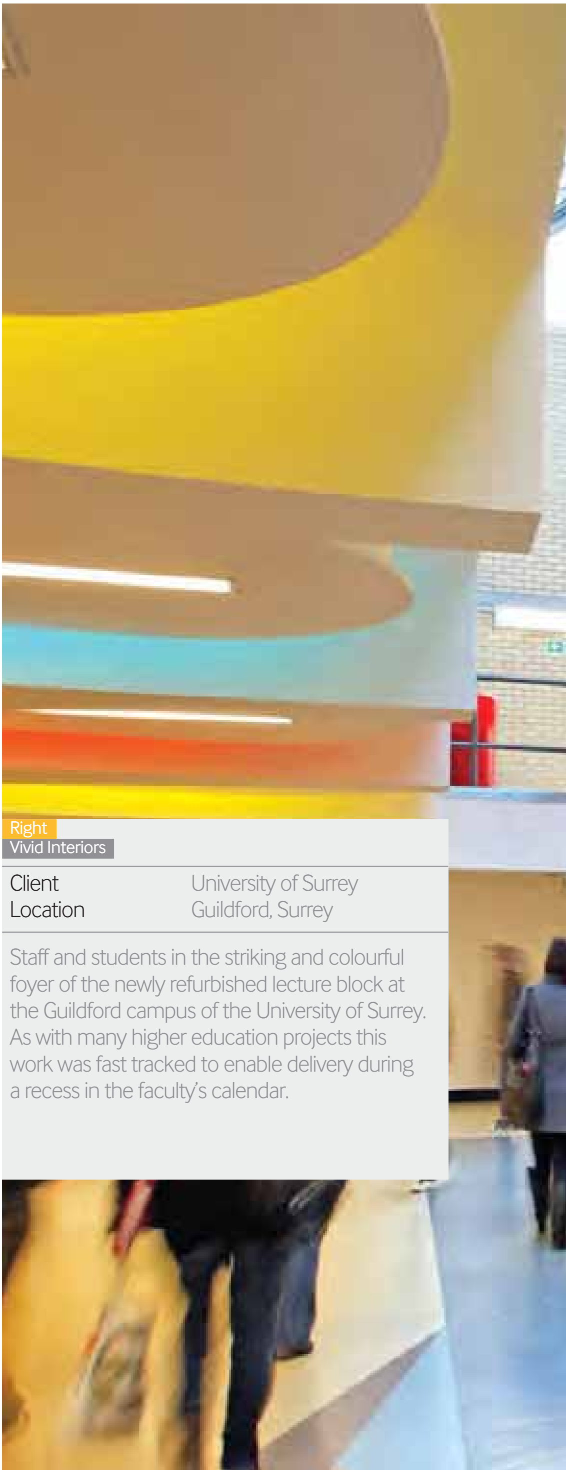
Secured work for 2010

The division started 2010 with an order book at £171m (2008: £124m). This supports its belief that demand in 2010 will improve on 2009 although the market remains highly competitive and price sensitive.

Below
Overbury and Morgan Ashurst

Client	Shire Pharmaceuticals
Location	Basingstoke, Hampshire

Meeting and office areas being used at the completed construction and fit out of a major extension building for Shire at their HQ in Basingstoke. This project was a joint venture between Overbury, who completed the fit out, and Morgan Ashurst who constructed the shell of the building. The design was undertaken by Morgan Professional Services.



Right
Vivid Interiors

Client	University of Surrey
Location	Guildford, Surrey

Staff and students in the striking and colourful foyer of the newly refurbished lecture block at the Guildford campus of the University of Surrey. As with many higher education projects this work was fast tracked to enable delivery during a recess in the faculty's calendar.

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Below
Morgan Lovell

Client	LV=
Location	Bournemouth, Dorset

Staff using breakout and flexible working spaces at Liverpool Victoria's offices in Bournemouth. This project completed by Morgan Lovell included the full design and fit out of the space whilst in occupation. It is one of several projects delivered to the client during the year.

Business review
Construction

"It was a year of improvement for the Construction division. Robust revenue was driven by public sector projects within the education, healthcare and defence sectors and an increased capability to deliver larger and more complex schemes. The division sees future potential in the rail, airports and prisons sectors."

Graham Shennan
Managing director, Construction

The division

Morgan Sindall's Construction division comprises Morgan Ashurst and Morgan Professional Services.

Morgan Ashurst is a leading national construction business, with a network of local offices across the UK. It works for public and private sector clients on projects valued from £50,000 to over £300m. These range from small works, repair and maintenance services, to complex large-scale projects across the commercial, defence, education, healthcare, industrial, leisure, retail and transport sectors.

Morgan Professional Services is a design, engineering and project management consultancy specialising in complex and technically challenging construction projects. It provides services to the science and technology, pharmaceutical, environmental, waste-to-energy, nuclear, transport and public sectors.

Revenue £m

Year	Value
09	743
08	813
07	621

Operating profit £m

Year	Value
09	13.0
08	9.5
07	4.9

Operating profit %

Year	Value
09	1.7
08	1.2
07	0.8

Order book £m (as at 1 January 2010)

Year	Value
09	532
08	805
07	810

Operating profit is profit from operations before amortisation.

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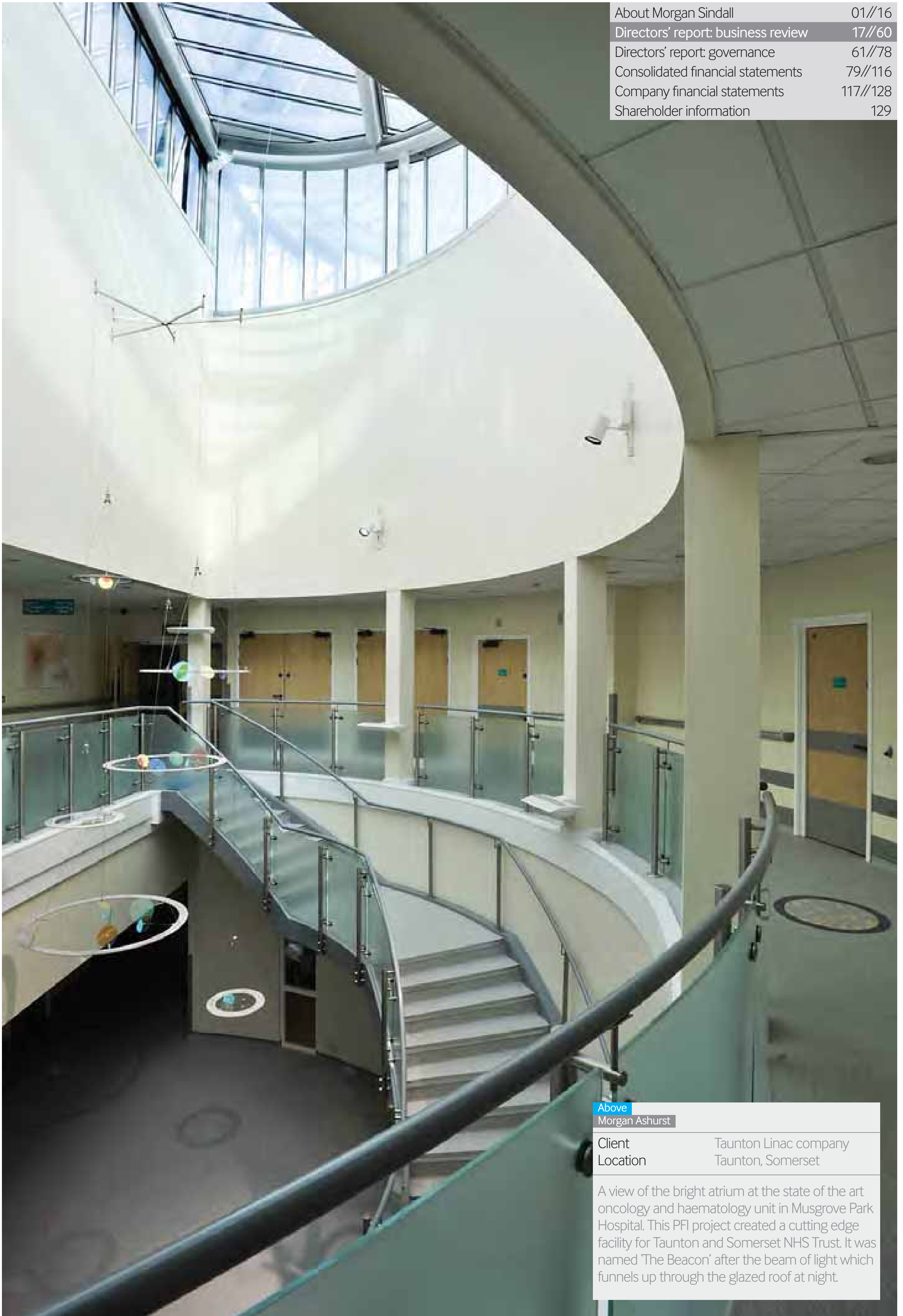

Above
Morgan Ashurst

Client	Taunton Linac company
Location	Taunton, Somerset

A view of the bright atrium at the state of the art oncology and haematology unit in Musgrove Park Hospital. This PFI project created a cutting edge facility for Taunton and Somerset NHS Trust. It was named 'The Beacon' after the beam of light which funnels up through the glazed roof at night.

Business review
Construction

Below
Morgan Ashurst

Client	Devon County Council
Location	Bideford, Devon

A view of the sedum roof at the new £44m Bideford College, a 1,800 student secondary school which Morgan Ashurst is rebuilding under the BSF programme. The new facility, due to be handed over in Spring 2011, is a model for sustainability in construction and environmental management and a demonstration project for science teaching. It has won a BSF Award for the Most Sustainable School Design.

2009 review

Improved financial performance in 2009

The Construction division performed strongly during 2009, growing operating profit by 37% to £13.0m (2008: £9.5m) on revenue of £743m (2008: £813m). The division's operating margin for the year rose to 1.7% (2008: 1.2%) as a result of performance improvements from its continuing Perfect Delivery quality programme.

Reputation for superior quality

The division's growing reputation for superior quality is helping it to secure significant volumes of new work, including three replacement schools for Liverpool's Building Schools for the Future ('BSF') framework worth £37m and a £71m wing assembly facility for Airbus, as well as being appointed preferred bidder for the £200m Hull BSF and the £100m Tayside Mental Health Hospital.

The division is also improving the way it manages its supply chain and is working to enhance the quality and consistency of its delivery with a smaller number of preferred suppliers. This initiative improves the commitment and quality of service

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from the suppliers. They are in turn rewarded through initiatives such as not holding retention payments.

Education sector remained robust

Over half of Construction's 2009 revenue came from the education sector. This focus has helped insulate the division from weak demand from the private sector. The year also saw the business build on its presence in the healthcare, prisons and defence sectors through key NHS LIFT schemes and projects for the Scottish Prison Service and Defence Estates.

Appropriate management of the cost base

The combination of lower volumes of private sector work and increased competition on costs made market conditions particularly tough in 2009. Construction has responded to these short-term pressures by reducing staff numbers and managing its overheads more tightly which, combined with reductions in some input prices, has enabled the division to achieve an increase in operating margin for the year.

Working closely with other Morgan Sindall companies

The Construction division took advantage of a large number of opportunities to work with its sister divisions during 2009. These included delivery of complex projects such as the new headquarters building for Shire Pharmaceuticals with Fit Out and the refurbishment of Stratford and Paddington stations with Infrastructure Services.

The division is also one of the Investments unit's construction partners on the re-development of 17 schools for the Hull BSF framework and the sole construction partner on the £60m Wigan Life Centre.

Outlook

Secured work for 2010

The division's forward order book at the start of 2010 stood at £532m (2008: £805m), indicating that the tough market conditions are likely to continue during this year. In addition, the division is at preferred bidder stage on a further £324m of projects which have a high likelihood of becoming secured and provide additional visibility on revenue for the year ahead.

The division will continue to actively manage its cost base throughout 2010, alongside its strategic focus on high quality delivery.

The Construction division is well placed to continue to take advantage of cross Group opportunities into 2010 and beyond. This builds on the division's strength in the public sector, particularly in health and education, the latter remaining important due to the opportunities afforded by the BSF programme. Higher potential sectors for the longer-term include rail, airports, prisons and defence where the division has a growing track record and expertise.

Below
Morgan Ashurst

Client	Camden and Islington Community Solutions
Location	Kentish Town, London

Exterior view of the Kentish Town Health Centre offering the local community a multi-service centre covering general practice, dentistry, physiotherapy, audiology and breast screening services. The project, delivered under the NHS LIFT initiative, has won the *National LIFT Award* for best design.

Below
Morgan Ashurst

Client	Wigan Metropolitan Borough
Location	Wigan, Lancashire

An artist's impression of a new community swimming pool which forms part of the Wigan Life Centre, a pioneering public service hub. It has been named *Best Public Service Development* in the *UK Property Awards*. The PFI scheme will create a state of the art leisure, health, learning and information complex to regenerate the town's civic centre.

Business review
Infrastructure Services

"The Infrastructure Services division maintained revenue levels and increased operating margin during 2009, despite competitive market conditions. It secured major projects and long-term frameworks which will provide it with some stability for the future. The division sees long-term growth potential from the Government's commitment to a lower carbon economy in many of its core markets."

Mark Cutler
Managing director, Infrastructure Services

morgan est

The division

Morgan Sindall's Infrastructure Services division, operating under the Morgan Est brand, is one of the UK's leading providers of infrastructure services offering an integrated capability to customers.

The division is split into four main business units, which work together to provide integrated solutions across the transport, water and energy sectors:

- infrastructure: specialising in the design and delivery of complex projects in the roads, water and energy sectors;
- utilities: network solutions in water, gas and electricity;
- capital projects: specialising in the design and delivery of complex projects in the air and rail sectors; and
- tunnelling: the UK's leading tunnelling contractor, with in-house piling, design and pre-cast capabilities.

Revenue £m

Year	Value
09	770
08	799
07	575

Operating profit £m

Year	Value
09	17.1
08	14.4
07	10.6

Operating profit %

Year	Value
09	2.2
08	1.8
07	1.8

Order book £bn (as at 1 January 2010)

Year	Value
09	1.1
08	1.4
07	1.7

Operating profit is profit from operations before amortisation.

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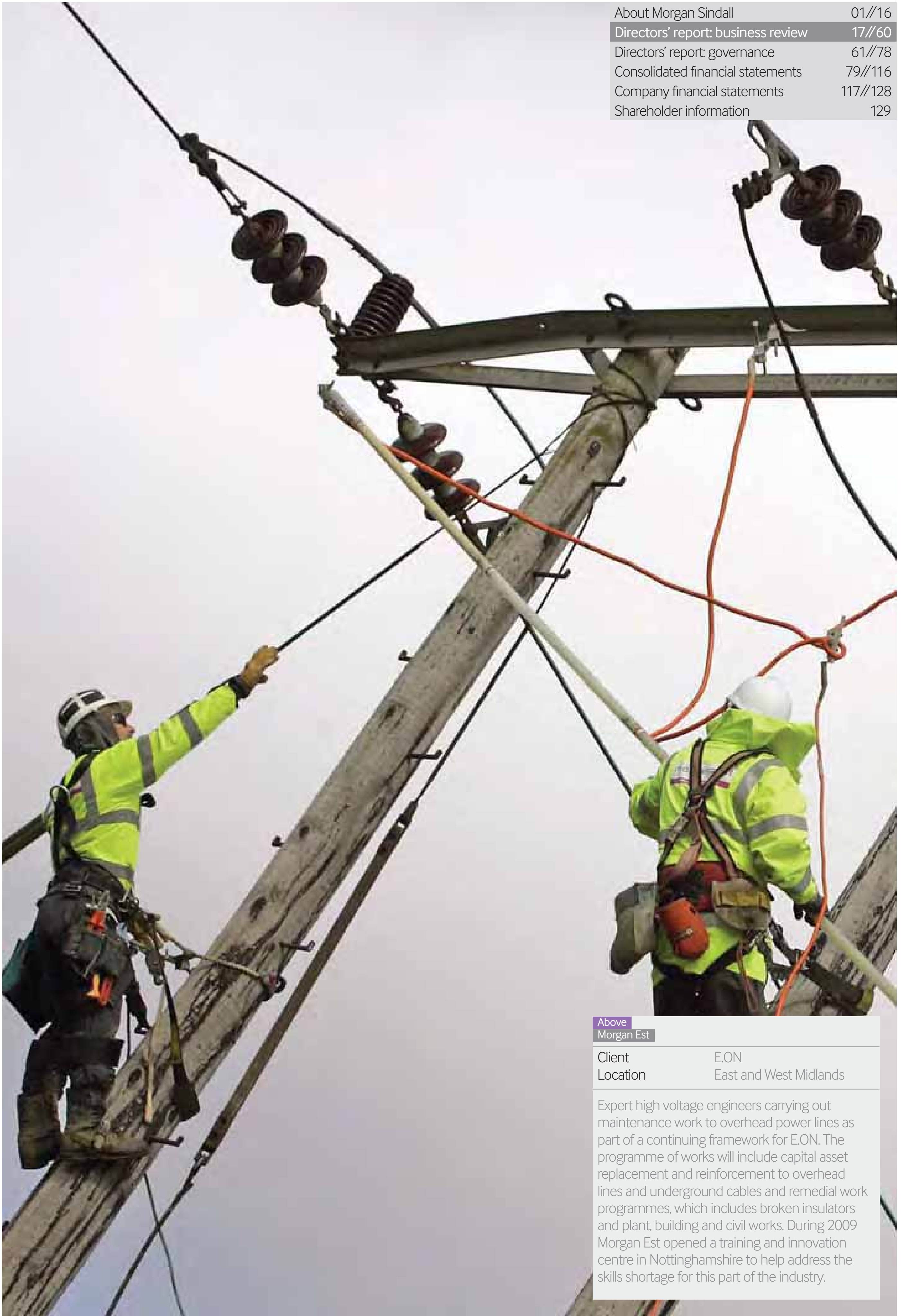

Above
Morgan Est

Client	E.ON
Location	East and West Midlands

Expert high voltage engineers carrying out maintenance work to overhead power lines as part of a continuing framework for E.ON. The programme of works will include capital asset replacement and reinforcement to overhead lines and underground cables and remedial work programmes, which includes broken insulators and plant, building and civil works. During 2009 Morgan Est opened a training and innovation centre in Nottinghamshire to help address the skills shortage for this part of the industry.

Business review
Infrastructure

2009 review

Improved financial performance
The Infrastructure Services division continued to perform strongly during 2009, achieving revenue of £770m (2008: £799m) and increasing operating profit by 19% to £17.1m (2008: £14.4m). The increase in operating margin to 2.2% (2008: 1.8%) resulted from an improved mix of more profitable contracts as a result of better contract selection within the division.

Key sector wins continue
Although the division saw reductions in new orders and significant price competition during 2009, it responded well and continued to secure high profile frameworks and projects in its core sectors of water, energy and transport. These significant wins included the £250m Severn Trent AMP5 phase of water treatment upgrades, a further £35m of project work at Heathrow Airport and the upgrade to the A1 from Dishforth to Barton in North Yorkshire (division's share valued at £105m). Following the year end the division also achieved financial close on the £417m Lee Tunnel project for Thames Water, with its share of the project valued at £209m. In the energy sector the division was successful with the award of preferred partner to deliver the £500m, ten year infrastructure alliance with E.ON Central Networks.

Progress with major projects
Infrastructure Services made significant progress on the £445m joint venture for the M74 Completion Project, currently Scotland's largest infrastructure scheme, as well as continuing to advance the £336m improvement scheme in joint venture on the M1. The division also built on its reputation as a leading joint venture partner, being successful on Network Rail's multi-asset enhancement framework and positioning itself to bid for major project opportunities including Crossrail and the second Forth Crossing in Scotland. It also worked alongside Morgan Ashurst on a comprehensive refurbishment of Paddington Rail Station and the infrastructure enabling works for the RAF Valley project in Anglesey.

High quality integrated services
Infrastructure Services' vision is to build a sustainable competitive advantage through providing a high quality integrated service. In 2009, the division enhanced its integrated service offering by extending its mechanical and electrical capability on tunnelling projects such as the Croydon cable tunnel and the Belfast sewerage project. In addition, the launch of the Perfect Delivery quality programme will help it to further differentiate itself by focusing on exceptional delivery across all its operations.

Outlook

Secured work for 2010
The division's forward order book at the start of the year stood at £1.1bn (2008: £1.4bn). In addition, the division is at preferred bidder stage on a further £0.6bn of contracts. The delay in commencement of key projects combined with new regulatory periods in the water and electric sectors will see revenue fall in 2010, but it is expected to recover in 2011 and beyond. The division has been more

Below
Morgan Est

Client	Transport Scotland and Glasgow City Council
Location	Glasgow, Scotland

View of the largest mobile crane in Europe lifting steel beams for the first spans of the Eastbound link viaduct at the M74 completion project near Glasgow. This is Scotland's largest current infrastructure project and is being delivered through a joint venture. The project will deliver greatly improved transport links through Glasgow carrying an estimated 20,000 vehicles each day.

Below
Morgan Est

Client	Severn Trent Water
Location	Birmingham, Midlands

View of the complex piping and pumping installation at the new Frankley Water Treatment Plant near Birmingham. When completed the plant will treat and supply drinking water for Birmingham and the surrounding area, which it receives from the Elan Valley in Wales. The plant uses cutting edge filtration technology to remove impurities from the water supply.

Right
Morgan Est

Client	Northern Ireland Water
Location	Belfast, Northern Ireland

Ancillary services supporting the tunnel boring machine on the Belfast Sewers Project. This contract is part of an overall scheme to upgrade Belfast's outdated Victorian sewer network which can no longer cope with the needs of the expanding city. The new system will provide one in 30-year flood protection, substantially reducing the volume of untreated storm water entering the River Lagan and its tributaries.

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selective in its approach to the latest cycle of bidding in the utilities sector, with a particular focus on its gas and electric expertise as well as longer-cycle frameworks in the water sector. It also continues to bid for significant opportunities in civil engineering and tunnelling projects where it holds a market leading position.

Well placed for long-term growth

The infrastructure market offers the division significant growth opportunities in the medium and long-term in its target sectors of transport, energy and water. For example, the Government's determination to improve the country's infrastructure and to make the UK a low carbon economy is likely to drive significant investment in projects such as Crossrail and in programmes for managed motorways, power generation, waste and renewable projects and the electrification of the rail network. Infrastructure Services' integrated service offering and depth of engineering expertise place it in an excellent position to capitalise on these opportunities.

Business review
Affordable Housing

"A late recovery in residential sales aided a robust financial performance in 2009. The launch during the year of new responsive maintenance and rental services enables Lovell to offer a complete service for housing development, refurbishment and maintenance. The business is in an excellent position for future growth."

Stewart Davenport
Managing director, Affordable Housing

The division

The Group's Affordable Housing division operates under the Lovell brand. This business develops, constructs, refurbishes and maintains affordable social and open market housing. Operating from seven regional centres it delivers projects in England, Scotland and Wales.

The division operates in four core markets:

- refurbishing existing local authority and housing association stock under the Government's Decent Homes initiative;
- building new housing for social rent and shared ownership, working in partnership with Registered Social Landlords and local authorities;
- building affordable homes for sale on the open market as part of mixed tenure regeneration; and
- responsive and emergency maintenance of homes for public sector residential property owners.

Lovell offers clients a full lifetime service for all affordable housing projects and for all types of tenure. This specialism in mixed tenure developments means that it delivers projects which have homes for rent, homes for sale under shared ownership and shared equity and affordable homes for sale to the open market. The shared equity scheme involves Lovell retaining a proportion of the equity in the home for repayment within ten years.

Revenue £m

Year	Value
09	374
08	377
07	398

Operating profit £m

Year	Value
09	14.9
08	21.0
07	25.5

Operating profit %

Year	Value
09	4.0
08	5.6
07	6.4

Order book £bn (as at 1 January 2010)

Year	Value
09	1.3
08	1.3
07	1.5

Operating profit is profit from operations before amortisation.

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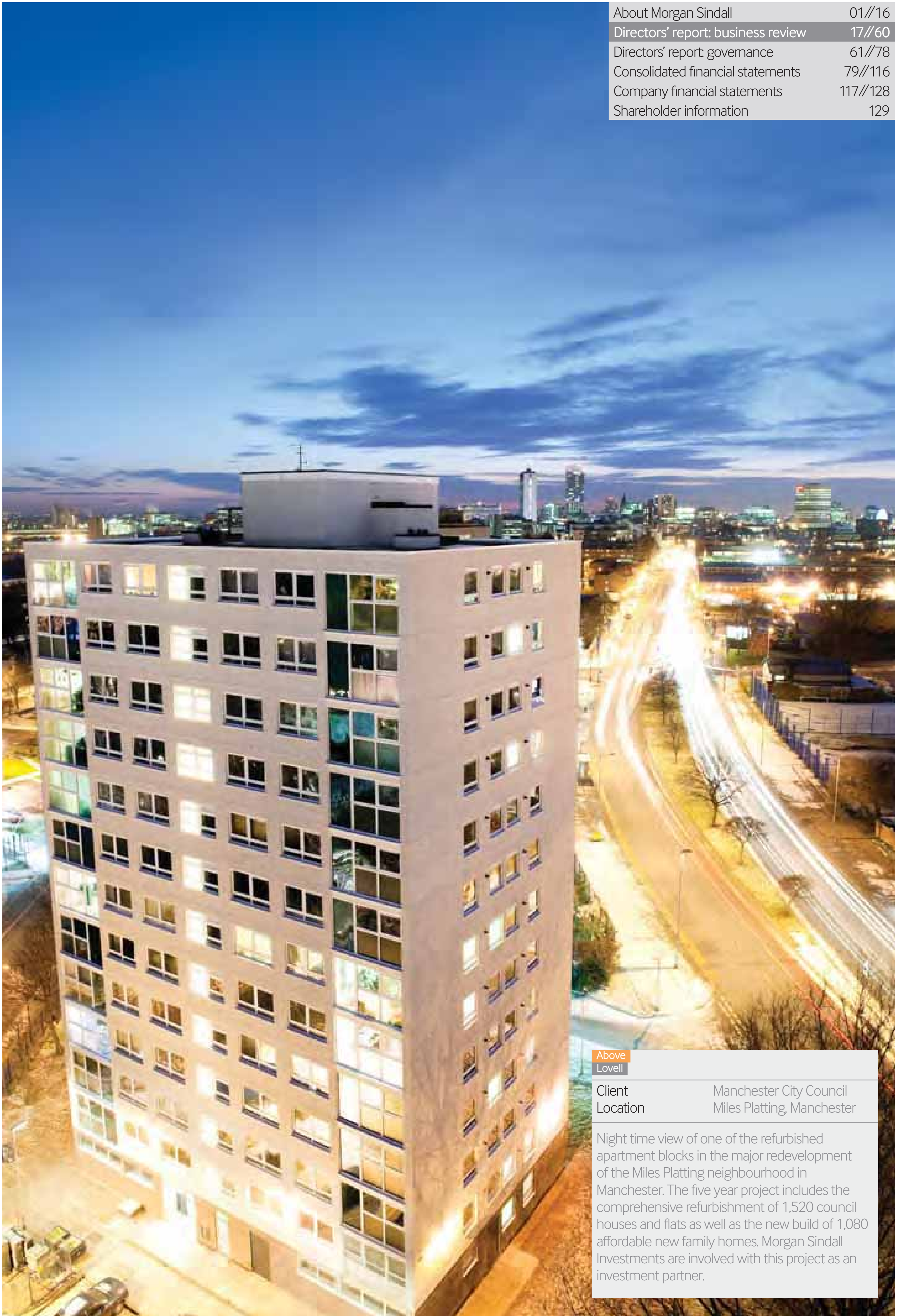

Above
Lovell

Client	Manchester City Council
Location	Miles Platting, Manchester

Night time view of one of the refurbished apartment blocks in the major redevelopment of the Miles Platting neighbourhood in Manchester. The five year project includes the comprehensive refurbishment of 1,520 council houses and flats as well as the new build of 1,080 affordable new family homes. Morgan Sindall Investments are involved with this project as an investment partner.

Business review
Affordable Housing

2009 review

Robust financial performance
The Affordable Housing division performed robustly during 2009, maintaining revenue at £374m (2008: £377m) and achieving an operating profit of £14.9m (2008: £21.0m). Margin fell to 4.0% (2008: 5.6%) due to a higher volume of lower margin new build and refurbishment work undertaken to offset lower levels of volume and profitability from the open market housing sector.

Residential sales recovery
Residential property prices stabilised during the second half of 2009 and this led to a tentative recovery in open market sales of affordable homes. Although the availability of mortgage finance remains tight, the division increased the number of open market house sales by around 50% in 2009 compared with the previous year, albeit at lower average sales prices, largely due to the success of the shared equity scheme launched by Lovell in 2008.

PFI success offers market opportunities
Affordable Housing's first major PFI scheme, the £230m Miles Platting Neighbourhood Project in Manchester, performed strongly during 2009. The refurbishment contract began in 2007 and is due to run until 2011, covering houses, flats and seven multi-storey blocks. The high levels of customer satisfaction and operational performance being achieved on this project provides the division with an excellent platform for the next wave of PFI projects coming to market in 2010 and beyond.

Strategic developments to extend service offering
Clients are increasingly bringing responsive and planned maintenance into a single contract. In early 2009 the division acquired BMS, a responsive maintenance business, which has been rebranded as Lovell Respond. This has allowed the division to offer a responsive maintenance service to its public sector clients and further extends its service offering.

Strong cash management principles
The Affordable Housing division responded to the challenging trading conditions by strengthening its working capital management and taking tighter control of overheads. Increased open market sales and a higher volume of contracting business enabled the division to trade positively in 2009 and reduce the level of work in progress. Having a strong balance sheet, along with relevant expertise and an established track record, are key elements in securing mixed tenure opportunities as the market recovers.

Below
Lovell

Client	Birmingham City Council
Location	Rea Valley, Birmingham

Completed homes with a nearby children's play area at the affordable and shared ownership properties constructed at Rea Valley in Birmingham. The Rea Valley was identified by the City Council as needing complete transformation and following demolition of the existing stock Lovell carried out the design and build of the two and three-storey homes to the EcoHomes Excellent standard.

Below
Lovell

Client	Partnership Development
Location	Nottingham

In partnership with Tarmac and the University of Nottingham, Lovell built two houses to Level 6 and 4 of the Code for Sustainable Homes. This demonstrated that the highest level of the Code for Sustainable Homes can be achieved in a cost-effective way using traditional masonry. These homes have the potential to be built across the UK.

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Outlook

Well placed to deliver long-term growth

The division will benefit from the recent improvements in the housing market and house prices, as its expertise in mixed tenure regeneration means it is well positioned to take advantage of regeneration opportunities. The refurbishment market will continue as the Government's Decent Homes programme extends well beyond the original 2010 target date. New build affordable housing remains a priority for any future Government. Through its strong relationship with the Homes and Communities Agency, the division is well placed to benefit from further Government funding that becomes available.

Secured work for 2010 and beyond

The division's forward order book at the start of 2010 was maintained at £1.3bn (2008: £1.3bn).

Right
Lovell

Client	Sandwell Homes
Location	West Bromwich, Midlands

Construction workers carrying out external work as part of the year-long refurbishment of Mountford House in West Bromwich, part of a major framework to modernise 44 high-rise apartment blocks. Local residents continued to live in their homes during the work and were closely involved in the programme. A specialist Lovell resident liaison officer met regularly with them to ensure that the impact of the work on their day-to-day lives was kept to a minimum.

Business review
Urban Regeneration

"2009 was a difficult market for the Urban Regeneration division. A recovery in residential sales contributed to a positive operating performance during the year and the division has also secured significant levels of new business for 2010 and beyond. It is currently involved in 24 major schemes which put it in a strong position to capitalise on market opportunities as they arise."

Nigel Franklin (left)
Joint managing director, Urban Regeneration

Matt Crompton (right)
Joint managing director, Urban Regeneration

The division

Morgan Sindall's Urban Regeneration division operates under the Muse Developments brand. It specialises in working with landowners to unlock value from under-developed land assets and to bring about urban renewal and regeneration.

The division works in partnership with landowners, local authorities and other public and private sector partners to progress development opportunities and maximise the contribution to urban renewal through 'mixed use' projects, typically including commercial and leisure space, residential accommodation and community facilities. Muse Developments has developed a dynamic and resilient business model, offering long-term opportunities linked to land agreements not land banks, and offers a genuinely 'mixed use' development capability through a highly skilled team operating from regional offices across the UK.

The Urban Regeneration division seeks to reduce its exposure to fluctuating land and property values by limiting its investments in land holdings and in completed property, and continues to pursue and win new opportunities in both the public and commercial sectors.

Revenue £m

Year	Revenue
09	32
08	84
07	26

Operating profit £m

Year	Operating profit
09	0.7
08	7.8
07	4.2

Development pipeline £bn (as at 1 January 2010)

Year	Development pipeline
09	1.4
08	1.3
07	1.2

Operating profit is profit from operations before amortisation.

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Above
Muse Developments

Partners	Homes and Communities Agency, Plymouth City Council, South West of England Regional Development Agency
Location	Plymouth, Devon

The main square surrounded by 130 homes and business units forming the first phase of the regeneration of the 19 acre harbour side at Plymouth Millbay. The project will see the creation of an exciting new waterfront community including flats, houses, retail, leisure, hotels, squares and a marina. The project is part of the local authority's broader objective to continue the renaissance of Plymouth.

Business review
Urban Regeneration

2009 review

On target performance in subdued conditions
Despite tough trading conditions, Muse Developments delivered a satisfactory performance in 2009 and achieved an operating profit of £0.7m (2008: £7.8m), on revenue of £32m (2008: £84m).

£520m of new development projects secured
The Urban Regeneration division secured over £520m of long-term development partnerships during 2009. These included a £300m project to regenerate Doncaster town centre, the initial phase creating Doncaster's first public square, a world-class performance venue and council offices. Future phases include a library and art showcase area, leisure facilities, office developments, housing and car parking.

The division also signed a £220m redevelopment agreement with Blackpool Council. This includes high quality offices, modern town centre parking facilities and a public transport interchange. The plan also allows for the possibility of replacement law courts, divisional police headquarter buildings, a health centre and a new library.

Below
Muse Developments

Partners	English Cities Fund
Location	Wakefield

An image showing the impact of a substantial mixed use regeneration of Wakefield City Centre. The 17 acre development which links the station to the city centre will deliver 700,000 square feet of mixed use space including offices, a hotel, retail, leisure and 350 new homes. The new 'urban hub' will contribute to the ongoing regeneration of Wakefield.

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Muse Developments is currently involved in the master planning, design or construction phases of 24 major schemes.

Residential success returns with a rising market

Construction of three significant residential phases of mixed use schemes was completed during 2009. These projects at Reading, Plymouth and Leeds released 460 units onto the open market, of which 60% were sold by the year end. The tentative recovery in the housing market gives the division increased confidence in future residential development phases.

Innovative approach to regeneration

The Urban Regeneration division has a highly experienced team, which applies an innovative approach to regeneration thereby developing the best possible solutions for its commercial and public sector partners across the UK. A combination of lasting relationships, commercial performance and consistent quality gives it a solid base for future success. The division is always looking for fresh ways to exploit new opportunities even in difficult market conditions.

Outlook

Similar trading landscape in 2010

A recovery in the development market will be driven by a revival in occupier demand. Although conditions are expected to remain subdued for the next 12 months, the division is in a strong position to capitalise on the return to growth that should follow. In the medium-term occupier demand is expected to recover, which will help to increase returns from the capital invested in its high quality development portfolio.

Secured pipeline for 2010 and beyond

The division's future development pipeline at the start of the year stood at £1.4bn (2008: £1.3bn). This pipeline represents the total capital value of the secured development portfolio and will be realised over the next five to ten years. This level of secured workflow gives the division confidence on its outlook for the medium-term.

Below
Muse Developments

Partner	Doncaster Borough Council
Location	Doncaster

Proposed civic offices building at the Waterdale development in Doncaster. The landmark 25 acre scheme will create a new civic and cultural quarter and help regenerate the town centre with facilities including a new performance venue, leisure facilities, new civic buildings and town centre homes. The project will also create high quality public space in the town centre.

Below
Muse Developments

Partner	London Borough of Newham
Location	Canning Town, East London

This is a radical scheme to build a new commercial district, new housing and a refreshed high street near Canary Wharf. The development of 700,000 square feet of mixed use spaces will deliver 651 private and affordable dwellings, along with new retail and leisure amenities and revitalise a local market. The 5.5 acre site is within the Thames Gateway and Olympic areas.

Business review
Investments

> "2009 was a significant year for Morgan Sindall Investments. An excellent performance in securing new projects, combined with the Group's increased capability to approach larger and more complex construction projects, sets the unit on a very strong footing for growth. Its investment portfolio value has grown during the year, as has the potential to generate construction revenue for the Group's divisions."

Ernie Battey
Managing director, Investments

The unit

Morgan Sindall Investments provides project funding and investment expertise mainly for public sector projects. The unit's primary function is to act as a facilitator for projects that involve another Morgan Sindall division as a delivery partner in order to secure construction as well as investment returns. The unit generates investment returns from income derived largely from the long-term unitary charges paid by public sector clients on assets constructed under Public Private Partnerships. These assets are held and maintained over the term of the arrangement, typically 25-30 years, at which point they normally pass to the client to own and operate.

Morgan Sindall Investments works in partnership with other equity funders and associated professionals to fund, deliver and operate assets focusing in particular on health, education, affordable housing, emergency services, defence and infrastructure.

Revenue £m

Year	£m
09	3
08	1
07	2

Operating profit £m

Year	£m
09	(3.0)
08	(2.2)
07	0.9

Portfolio market value £m

Year	£m
09	38
08	28
07	23

Operating profit is profit from operations before amortisation.

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2009 review

Investing for the future

The Investments unit is reported as a separate segment for the first time this year as a result of the disclosure requirements of IFRS 8 'Operating Segments'. The unit's results were previously reported within Group Activities. The unit comprises the Group's project finance activities (predominantly in PFI/PPP) and includes the cost of bidding for investment opportunities as well as the management of existing investments. Its strategy is to target and invest in projects where the Group has expertise and a competitive advantage in terms of construction delivery through one of its operating divisions.

In 2009 Morgan Sindall Investments' revenue was £3m (2008: £1m) and the operating loss was £3.0m (2008: £2.2m). Ongoing operating losses reflect the significant upfront costs of bidding for PPP and PFI projects.

However, the directors' valuation of the investment portfolio gives a clearer indication of the value created within the unit.

Exceptionally successful investment performance

The directors' valuation of the unit's portfolio of investments is £38m (2008: £28m). This valuation represents the value of invested equity and subordinated debt, funding committed and the value created from its investments.

Key achievements in 2009 included the on-time and on-budget completion of an integrated £60m scheme delivering new operational stations and new headquarters for the Dorset fire service and the Dorset police service. In addition the unit achieved financial close on a number of schemes including the Basildon Sporting Village valued at £36m, the Wigan Life Centre valued at £60m, both of which will also be constructed by Morgan Ashurst, and several NHS LIFT schemes totalling £53m.

A year of improved capability

The Group's improved capability to deliver larger and more complex projects, particularly at Morgan Est and Morgan Ashurst, has opened up bidding opportunities for the Investments unit. The appointment as preferred bidder for the Tayside Mental Health Hospital (development value £121m) and the framework for the Hull BSF programme (development value £400m) are landmark examples.

The unit also delivered its first project in partnership with the Fit Out division in 2009, working in Camden on the NHS LIFT programme.

In excess of £700m in development value

The Investments unit currently has interests in development schemes with a gross development value of over £700m. These developments are either operational or in construction and are evenly spread across the division's core sectors of health and social care, emergency services, education, leisure, regeneration and infrastructure. The developments are located across the UK and are being constructed with the Construction, Infrastructure Services or Affordable Housing divisions as the delivery partner.

The unit's long-term aim is to grow the construction revenue of Morgan Sindall by exploiting its funding and operational expertise, with a special focus on public sector projects, with the additional benefit of delivering recurring investment returns.

Outlook

Significant potential in preferred bidder status

The total gross development value of projects where the Investments unit has reached preferred bidder status currently stands at more than £500m. These projects have a high likelihood of being secured. They represent potential income growth for the unit and potential construction revenue for other Morgan Sindall divisions.

Creating long-term value

The Group's enhanced ability to handle larger projects and developments has expanded the market available to the Investments unit in the medium-term. The unit is currently pursuing early stage opportunities in the BSF programme and PFIs in the social housing sector. Whilst any change in Government in 2010 may lead to a review of specific priorities in the short-term, it is expected that the firm demand for PPP/PFI schemes will remain robust in the medium-term.

Directors' valuation approach

At 31 December 2009 the Group had total equity and subordinated invested and committed debt in its portfolio of PPP/PFI concessions of £19.2m (2008: £13.7m). Of this total, £12.1m had been invested and £7.1m is committed to be invested over the next three years. This figure does not include a further investment of around £8.5m of equity and subordinated debt likely to be committed to four schemes at preferred bidder stage or any value attributed to future schemes likely to be awarded under exclusivity agreements.

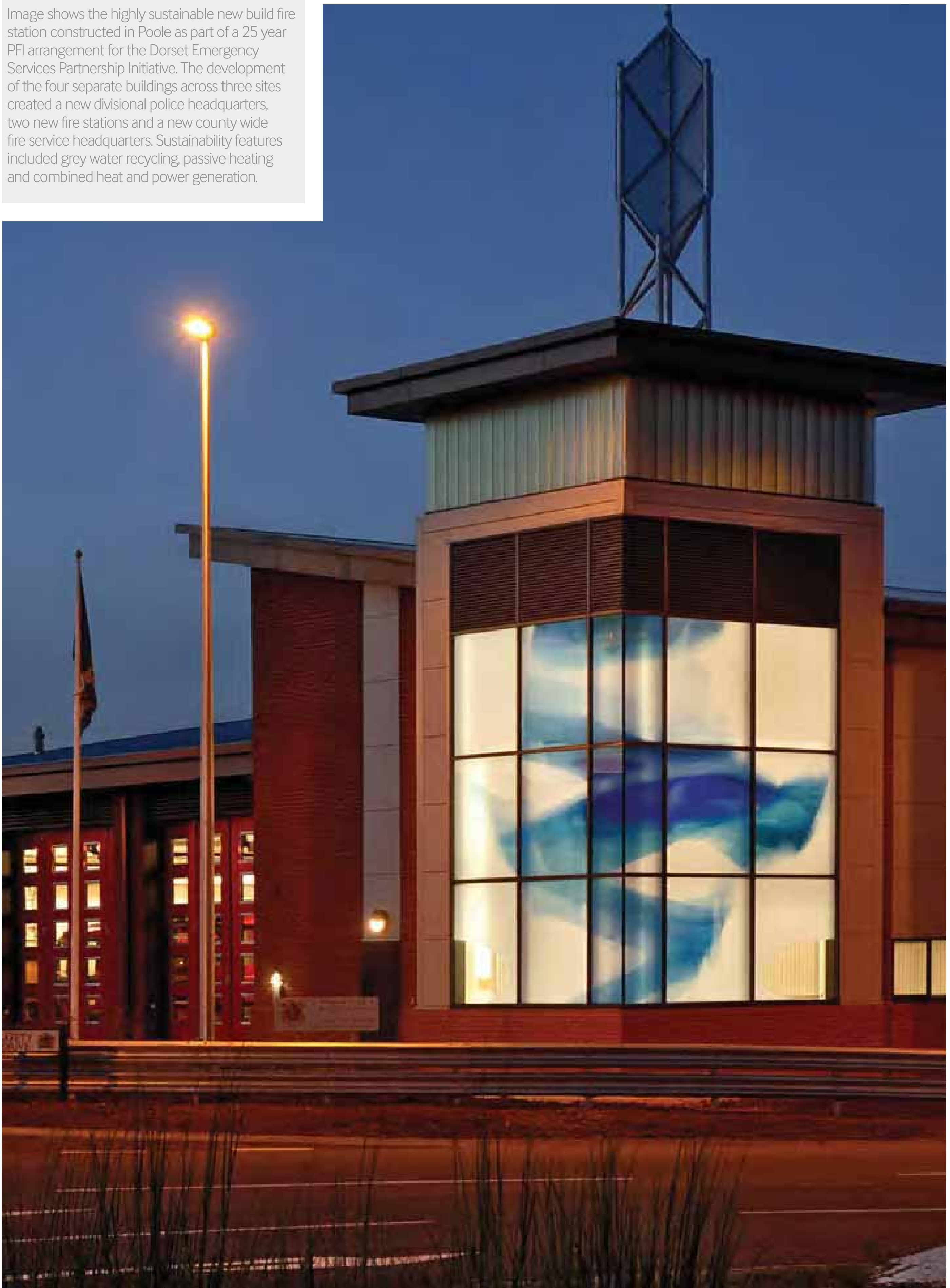
The Group is reporting for the first time its own valuation of its portfolio. This is based on discounting expected future cash flows but does not include potential refinancing gains or projects at preferred bidder stage or profits made by Investments from providing services or profit made by other parts of the Group that perform the construction, maintenance or facilities management work.

At 31 December 2009 the directors' valuation of the PPP/PFI concession portfolio, prior to the application of Group tax, is £38m (2008: £28m). The valuation is derived from the Group's latest detailed financial models discounted using rates appropriate to the particular scheme's nature and stage of development. These vary from 7.0% to 9.0% (post tax). Committed, but not currently invested, subordinated debt is added to this discounted cash flow value to give the directors' valuation. Investment properties are valued on a traditional basis using property yields that reflect the nature of the leases and stability of the tenants.

Below
Morgan Sindall Investments

Client	Dorset Fire and Police Authorities
Location	Dorset

Image shows the highly sustainable new build fire station constructed in Poole as part of a 25 year PFI arrangement for the Dorset Emergency Services Partnership Initiative. The development of the four separate buildings across three sites created a new divisional police headquarters, two new fire stations and a new county wide fire service headquarters. Sustainability features included grey water recycling, passive heating and combined heat and power generation.



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Directors' report: governance

Information about our Board of directors and corporate governance

Governance
Board of directors

David Mulligan
Finance director

Appointed finance director in April 2004 having been with the Group in finance roles since 1997. Prior to this he worked at Smiths Group plc and Ernst & Young where he qualified as a chartered accountant.

Paul Whitmore
Commercial director

Appointed a director in April 2000. A chartered surveyor, he has previously undertaken various roles over a 27 year period with John Laing plc, latterly as chief executive of Laing Construction plc.

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.

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.

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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.

Adrian Martin
Independent non-executive

Appointed a director in December 2008. Adrian had a 30 year career at the accountants, BDO Stoy Hayward, the last eight years as managing partner, before becoming chief executive and then consultant at Reynolds Porter Chamberlain LLP until 2009. He now holds a number of non-executive directorships, including M&C Saatchi plc and Safestore Holdings plc. He was a non-executive director of The Carphone Warehouse plc until July 2008.

Gill Barr
Independent non-executive

Appointed a director in September 2004. Gill's previous executive positions include marketing director of John Lewis plc, 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.

Patrick De Smedt
Independent non-executive

Appointed a director in December 2009. Patrick's career includes 23 years with Microsoft, culminating as chairman for Europe, Middle East and Africa from 2003. Since leaving Microsoft in 2006, Patrick has served on the boards of a number of European public and private companies and is currently a non-executive director of Victrex plc and Option NV, a Belgian listed technology company, and is on the advisory board to a division of ING Europe.

Simon Gulliford
Independent non-executive

Appointed a director with effect from 1 March 2010. Simon has run his own marketing consultancy since 1992, after leaving Ashridge College where he was head of the marketing faculty. He has had marketing roles at companies including Sears plc, EMAP plc and, until 2004, was group marketing director for Barclays plc. His previous non-executive roles have included director of St James's Place plc and Business Control Solutions plc. He is currently chief marketing officer at Standard Life plc.

Governance
Corporate governance statement

Board complies with the Code

The Board recognises the importance of high standards of corporate governance and is committed to managing the Group's affairs in accordance with the principles of good governance set out in section 1 of the Combined Code on Corporate Governance published in June 2008 by the Financial Reporting Council ('the Code').

In accordance with the Listing Rules, the Company is required to confirm whether it has complied with the relevant provisions of section 1 of the Code and to report on how it has applied the main principles of section 1 of the Code. A summary of how the Company has applied the main principles of the Code is set out below.

The Board has complied with the provisions of section 1 of the Code throughout the year ended 31 December 2009 and up to the date of this report. The Board will also keep under review the proposed changes to the Code, which are currently under consultation by the Financial Reporting Council and will consider any changes required once the amended Code becomes effective.

Directors

Changes to the Board

The Board currently comprises an executive chairman, three further executive directors and five non-executive directors. One of the non-executive directors, Patrick De Smedt, was appointed with effect from 1 December 2009. In addition, Simon Gulliford will join the Board as a non-executive director on 1 March 2010. Bernard Asher served during the year as a non-executive director until the annual general meeting on 30 April 2009. 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. Jon Walden has indicated his intention not to seek re-election when he retires at the forthcoming annual general meeting.

Jon Walden is the senior independent director and he will be succeeded by Adrian Martin following his retirement at the annual general meeting.

Executive chairman and chief executive have clear roles and responsibilities

The Board has a separate chairman and chief executive. 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 the Group's 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.

Procedure implemented for managing conflicts of interest

The Board was briefed on the Companies Act 2006 provisions relating to conflicts of interest ahead of their implementation on 1 October 2008 and procedures were agreed to identify and manage potential conflicts of interest. Any potential conflicts were authorised, subject to such limitations as considered appropriate, by the non-conflicted members of the Board under the powers set out in the Company's Articles of Association ('the Articles'). In addition to the directors' duty to seek Board approval for any new potentially conflicting situations or changes to existing interests, the register of potential conflicts is circulated for review by the Board on an annual basis.

Patrick De Smedt and Simon Gulliford standing for election

The Articles 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. Patrick De Smedt (appointed on 1 December 2009) and Simon Gulliford (appointed with effect from 1 March 2010) will, accordingly, be submitting themselves for election at the forthcoming annual general meeting. Their biographies are set out on page 63. As part of the appointment process, both Patrick and Simon disclosed their other appointments and responsibilities and the Board was satisfied that both would be committed to the role.

Description of Board activities

Eleven scheduled meetings of the Board were held during the year. The key purposes of the scheduled meetings were to review all significant aspects of the Group's activities, to supervise the executive management, to review the overall system of internal control and risk 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 half-yearly 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 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 2009 at scheduled Board meetings and meetings of the remuneration, audit and nominations committees are set out below.

	Board	Remuneration committee	Audit committee	Nominations committee
Total no. of meetings	11	1	3	1
John Morgan	11	–	–	1
Paul Smith	11	–	–	–
David Mulligan	11	–	–	–
Paul Whitmore	11	–	–	–
Gill Barr	10	1	2	1
Patrick De Smedt[(i)]	1	1	–	–
Geraldine Gallacher	11	–	–	1
Adrian Martin	10	1	3	1
Jon Walden	11	1	3	1
Bernard Asher[(ii)]	3	–	1	–

(i) Only one Board meeting was held after Patrick De Smedt's appointment.

(ii) Bernard Asher ceased to be a director on 30 April 2009.

Non-attendance by directors at meetings was due to conflicting commitments and in each case was previously agreed with the chairman. In such instances, papers were read in advance and comments passed to the chairman prior to the meeting.

Three of the scheduled board meetings in 2009 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.

Training, development and advice is provided

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. The non-executive directors update their knowledge of and familiarity with the Group by regular visits to its operations. 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.

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Board evaluated its performance
An evaluation was carried out of the Board's performance, and that of its committees, during the year. This took the form of an internally developed assessment form, requiring each director to provide a rating and comments against a series of statements. Particular emphasis was given to matters highlighted as action points from last year's evaluation process.

The statements relating to the Board as a whole required consideration of a broad range of matters including:

- the structure and composition of the Board;
- the quality of information provided to the Board;
- the effectiveness of its meetings;
- the ability of the Board to understand the significant risks facing the Group and to monitor corporate performance;
- the Group's management of risk; and
- the allocation of time devoted to matters such as corporate governance, sustainability, business risk and succession issues.

In relation to the committees, the assessment form focussed on the frequency and conduct of meetings, the quality of information provided to the committee and of reports from the committee to the Board and the extent to which the committees were fulfilling their terms of reference.

Evaluation of individual directors took the form of written 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 responses to the assessment form and the written feedback were aggregated and circulated to the directors and discussed at a subsequent Board meeting leading to a number of agreed actions for the forthcoming year.

Board committees
The Board has established three committees: the audit, remuneration and nominations committees. Each committee has terms of reference, approved by the Board, setting out its authorities and responsibilities. Copies of the terms of reference are available on the Company's website.

Audit committee

Members
Jon Walden (chair) Gill Barr Patrick De Smedt (appointed 1 December 2009) Adrian Martin Bernard Asher (resigned 30 April 2009)

All committee members are independent non-executive directors. Adrian Martin has agreed to take over as chair when Jon Walden retires at the forthcoming annual general meeting. Biographical details of each member of the committee remaining after the annual general meeting, including financial experience where relevant, are set out on page 63. The Board is satisfied that the committee has, and will continue to have, the appropriate level of financial experience to fulfil its terms of reference.

Responsibilities
- to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control;
- to monitor the integrity of the financial statements and related information of the Company and, where practicable, any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them;
- to review the Company's internal financial controls;
- to approve the appointment and replacement of the Group head of audit and assurance and to monitor and review the effectiveness of the Company's internal audit function;
- to make recommendations to the Board regarding the appointment, re-appointment and removal of the external auditors and to approve their remuneration and terms of engagement;
- to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process;
- to apply the Board's policy on the engagement of the external auditors to supply non-audit services with the objective of ensuring that the provision of such services does not impair their independence or objectivity; and
- to review the Company's whistleblowing procedures.

Activities
The committee had three scheduled meetings during the year. The first took place prior to the announcement of the Company's results for 2008 and approval of the annual report, the second prior to the announcement of its half-yearly results and the third before commencement of the audit for 2009. Senior representatives from the independent auditors, the finance director and the Group head of audit and assurance were invited to attend each of these meetings. The committee also met privately with the external auditors and the Group head of audit and assurance.

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 half-yearly financial statements and to discuss with the external auditors their overall work plan for the forthcoming audit. In addition, at each meeting the committee reviewed reports from the Group head of audit and assurance on the results of reviews carried out by the internal audit team. Further details of the internal audit function are set out under internal controls below.

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

External auditors

Monitoring the independence and objectivity of the external auditors
To fulfil its obligations, the committee reviewed the external auditors' presentation of their policies and safeguards to ensure their continued independence within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff had not been impaired. This included details of changes in external audit executives in the audit plan in accordance with the external auditors' policy on rotating audit executives. In particular, a new lead partner has become the senior statutory auditor in 2009 after the rotation of the previous audit partner. 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.

Governance
Corporate governance statement

Assessing the effectiveness of the external auditors
As part of its responsibility for assessing the effectiveness of the external audit, the committee discussed the external audit plan at the audit committee meeting held in November. At the meeting prior to the announcement of the preliminary results, it reviewed the external auditors' fulfilment of the agreed audit plan and any major issues highlighted as part of the external audit.

Reviewing the use of the external auditors for non-audit work
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. Where fees fall below the threshold they have to be approved by the finance director. No non-audit services to the Company provided by Deloitte LLP in 2009 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 93. These represented approximately 11% 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 Deloitte LLP's objectivity or independence.

Reappointment of external auditors
The committee considers the reappointment of the external auditor each year and makes a recommendation to the Board. The committee has satisfied itself that Deloitte LLP, the external auditors, remain independent and effective. The committee has recommended to the Board that Deloitte LLP be reappointed.

Whistleblowing procedures
The committee also reviewed the Group's whistleblowing policy containing arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. It has made recommendations to the Board to improve the effectiveness of the arrangements by using the services of an external call line provider and increasing publicity of the service throughout the Group's operations.

Remuneration committee

Members
Gill Barr (chair) Patrick De Smedt (appointed 1 December 2009) Geraldine Gallacher Adrian Martin (appointed 1 May 2009) Jon Walden Bernard Asher (resigned 30 April 2009)

Responsibilities
- to set all elements of remuneration and any compensation payments for executive directors and the executive chairman;
- to monitor the structure and level of remuneration for divisional managing directors;
- to ensure that the requirements for disclosure of directors' remuneration are fulfilled; and
- to select remuneration consultants to advise the committee.

Activities
The activities of the committee during the year are set out in the separate remuneration report on pages 68 to 74.

Nominations committee

Members
John Morgan (chair) Gill Barr Patrick De Smedt (appointed 1 December 2009) Geraldine Gallacher Adrian Martin Jon Walden Bernard Asher (resigned 30 April 2009)

Responsibilities
- to review the structure, size and composition of the Board;
- to make recommendations to the Board for any changes considered necessary;
- to approve the description of the role and capabilities required for a particular appointment; and
- to ensure suitable candidates are identified and recommended for appointment to the Board.

Activities
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 Patrick De Smedt as an additional non-executive director. It also met informally on several occasions to review progress on the non-executive director selection process prior to Patrick De Smedt's appointment. This process involved agreeing the specific attributes and capabilities required for the role, instructing external search consultants, arranging interviews by individual members of the committee (and by the executive directors) with candidates proposed by the consultants and discussing the results of the interviews.

As part of the selection process carried out during 2009, Simon Gulliford was introduced to the Company through a personal recommendation as an opportunity to broaden the strategic marketing expertise on the Board. Following a careful review of his skills and experience as well as several interviews and meetings with the committee and the executive directors, the committee agreed to recommend to the Board that he be appointed as an additional non-executive director.

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 Company's sectors. In particular, presentations are made to institutional investors and analysts following the announcements of the preliminary and half-yearly 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 also 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 attended the annual general meeting held in 2009. Details of proxy votes submitted for each resolution at general meetings, including proxy directions to withhold votes, are published on the Company's website.

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Internal controls

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 due to circumstances which may reasonably be foreseen. 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 this report.

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

Group structure

The Group's operating structure comprises five operating divisions and one specialist unit, each with its own management board which is given authority and responsibility for managing its division or unit 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, internal audit, pensions and insurance, is retained at Morgan Sindall plc level.

Robust financial reporting system

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 divisions' management accounts.

Scrutiny of 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.

Detailed review of tenders and project selection

Individual tenders or projects are subject to detailed review with approvals required at relevant levels and 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 subcontractors is assessed.

Robust 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.

Continual monitoring of working capital

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

Health, safety and environmental issues

The Group has well established safety systems including site visits and regular training and updates. Monthly monitoring and 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, identifies the root cause and appropriate treatment for each, including the relevant internal control strategy 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 28 to 31.

Internal audit

The Group head of audit and assurance, who reports to the chief executive and to the audit committee, is responsible for managing the internal audit 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 Group head of audit and assurance reports to the Board monthly on a range of performance metrics including the current status of agreed audit actions and progress against the annual audit plan.

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 whilst 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.

Board review of effectiveness of internal controls

The Board has conducted a review of the effectiveness of the system of internal controls for the year ended 31 December 2009 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.

Governance
Remuneration report

The tough market conditions experienced last year and the continued uncertainty likely to be faced by the Company in the medium-term have caused the Remuneration Committee to look carefully once more at its policies and the overall structure of the executive directors' remuneration. For the second year running neither the chief executive nor the executive chairman will receive an increase in base salary, nor will the other executive directors receive an increase this year, reflecting the rigorous cost-conscious approach adopted for other senior employees in the Group. The challenge for the committee has been to set appropriate targets for both short-term and long-term incentives in these uncertain times. The committee carried out a careful review of the annual bonus and long-term incentive arrangements and believes that the awards to be granted this year will prove sufficiently challenging whilst still realistic, relevant and therefore valued by the recipients.

Gill Barr
Chair of the Remuneration Committee

This report has been prepared by the Remuneration Committee ('the committee') on behalf of the Board in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. 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'). A resolution to approve the report will be proposed at the annual general meeting of the Company to be held on 6 May 2010.

The Companies Act 2006 ('the Act') requires the auditors to report to the Company's members on certain parts of the 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

Members of the committee
The members of the committee during 2009 were Gill Barr (chair), Bernard Asher (until 30 April 2009), Jon Walden, Geraldine Gallacher, Adrian Martin (from 1 May 2009) and Patrick De Smedt (from 1 December 2009). All members during the year were independent non-executive directors.

Responsibilities of the committee
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 their salaries and remuneration packages and monitors the structure and level of remuneration for other senior executives.

External advice received
During the year the committee received advice from Hewitt New Bridge Street ('HNBS') in relation to executive directors' remuneration, in particular in relation to its review of the annual bonus and long-term incentive structure referred to below. The committee also consulted the chief executive and the executive 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.

The committee's approach to executive directors' remuneration
The general principles underlying the committee's approach to developing remuneration packages for the executive directors are:

- to attract, retain and motivate the best possible person for each position, without paying more than is necessary;
- 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, taking account of individual performance and experience, 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 focus the performance conditions for performance linked pay on the achievement of financial performance objectives, as this creates a clear line of sight for individuals between performance and reward and provides a focus on improving profitability (something which management can influence) rather than rewarding directly through share price performance (which management cannot influence directly);

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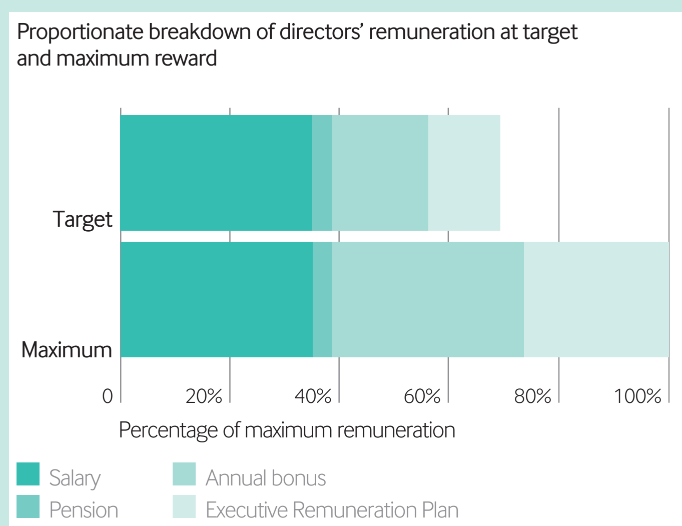
- to ensure that financial performance metrics and associated sliding scale ranges are calibrated carefully to ensure that performance is incrementally rewarded and that executives are not incentivised inadvertently to take inappropriate business risks;
- to recognise that executives should be able to have different share-based incentive structures depending on their appetite for individual risk;
- to provide a significant proportion of performance linked pay in share-based form, providing an opportunity for executives to build significant shareholdings in the business; and
- to align the interests of executives with those of the Company's shareholders.

The committee has reviewed its policy
During the course of 2009, the committee reviewed its policy towards the annual bonus and long-term incentive arrangements. In particular, in light of the continuing uncertainty in the economy and the challenges facing the construction industry as a whole, the committee wished to consider whether the current long-term incentive arrangements, which had been in place since 2005, were still achieving their intended aim and whether a performance condition based solely on earnings per share remained appropriate.

After detailed analysis the committee concluded that none of the proposed changes that it had considered to the structure of the arrangements would represent a material improvement to the policy. Accordingly, the committee is satisfied that the current policy remains appropriate for the current financial year. It has, however, taken the opportunity to set out in greater detail above the principles underlying its approach to the performance related element of the executive directors' remuneration package.

Fixed versus performance related
A significant proportion of the package is subject to performance related elements. The chart below shows that just under half of the value of the package at a broadly target level of performance comprises performance related elements, whilst at a maximum level of reward (assuming a maximum bonus and full vesting of the Executive Remuneration Plan awards) more than 60% of the total remuneration comprises performance related elements.



No increases to 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 it remains aware of relevant market data. The committee is aware, however, of the risk of an upward ratchet in remuneration levels through the use of comparative pay surveys.

At its meeting in December 2009, the committee determined that, in line with the policy adopted for other senior employees in the Group, there should be no salary increases for 2010 for any executive director.

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

The Company operates 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 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.

Challenging targets for annual bonus
The maximum potential annual cash bonus for executive directors for 2009 was 100% of base salary. The performance criteria were based on performance relative to the Group profit before tax and amortisation ('PBTA') budget. Recognising that the maximum bonus for 2009 would be payable for achieving a PBTA outturn lower than that required to trigger the maximum bonus in 2008, the bonus vesting structure was tightened. The maximum bonus for 2009 required the achievement of greater outperformance of budget than in 2008, a smaller percentage of maximum bonus was payable for achieving the PBTA budget and the threshold before any bonus became payable was set at a higher level than in 2008.

Following its review of incentives in 2009, the committee decided to retain the maximum potential annual bonus at 100% of base salary for the 2010 financial year and decided to retain a condition based on a 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 performance of the Group. Other performance measures were considered but ultimately not adopted, as most of the Company's annual financial performance is reflected in its PBTA and the use of non-financial measures was considered inappropriate due to the additional complexity and potential lack of objectivity around target measurement.

In setting the target range for 2010, the committee has again attempted to balance challenge with realism and relevance given the economic environment in which the Company is continuing to operate. Accordingly, the PBTA target range has been set at a similarly challenging level by reference to Group budget to that of 2009.

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Long-term incentives

The Group's current long-term incentive arrangements 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 remain appropriate

In normal circumstances the maximum annual award, which is subject to the achievement of testing performance targets, is for an award of performance shares worth (at face value as at the time of grant) 75% of base salary (100% of salary in exceptional circumstances). For a number of years executives have been given the choice at the time of grant of receiving their awards either in the form of performance shares or by electing to receive market price share options to replace some or all of their performance shares at a rate of 4 share options for every 1 performance share.

As part of its review during 2009, 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 are imposed, the committee determined that this ratio remained appropriate.

Adjusted EPS remains the basis of the performance conditions

The committee continues to believe that long-term incentives should be structured so as to focus executives on maximising profitability by use of a performance condition based on earnings per share before amortisation of intangible assets ('adjusted EPS') measured at the end of a single three year period, as this provides a clear linkage between performance and reward for senior executives and should be reflected over time in enhanced shareholder value.

For the awards granted in 2009, given the record adjusted EPS achieved in 2008 and the highly challenging medium-term economic outlook, the committee decided to move from an adjusted EPS performance condition based on growth in excess of the Retail Prices Index ('RPI') to an absolute adjusted EPS target for the financial year ended 31 December 2011.

The committee has decided to retain an absolute EPS performance condition for awards to be made in 2010 and the EPS target ranges required in respect of the financial year ended 2012 are set out below.

Targets remain challenging

Despite the fact that the lower end of the target range is lower than actual adjusted EPS for the year ended 31 December 2009, the committee is satisfied that the range is at least as challenging in the circumstances as targets that have been attached to prior years' awards. In particular, a significant proportion of the range is ahead of the actual adjusted EPS for the 2009 financial year and the top end of the range represents growth of circa 7.8% over the three year period. In highly challenging and uncertain market conditions, these targets are considered appropriate. In addition, the committee considers that the value of the award is considered relatively low compared to market norms and the structure of the sliding scale (with zero vesting at the EPS performance threshold) is tougher than market norms.

Adjusted EPS performance for the year ending 31 December 2012:

Performance shares	Share options	Vesting percentage
Less than 68.9p	Less than 77.0p	0%
At 81.0p	At 81.0p	50%
Between 68.9p and 81.0p	Between 77.0p and 81.0p	pro rata on a straight-line basis
101.2p or more	101.2p or more	100%
Between 81.0p and 101.2p	Between 81.0p and 101.2p	pro rata on a straight-line basis

As mentioned above, in order to ensure that the condition is appropriately challenging, the committee has carried over for this award the decision to reduce the vesting percentage for achieving the vesting threshold 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. The committee will also bear in mind the need to avoid incentive arrangements which encourage management to take undue risk.

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; and
- the Morgan Sindall Employee Share Option Plan 2007, under which executive directors do not receive awards.

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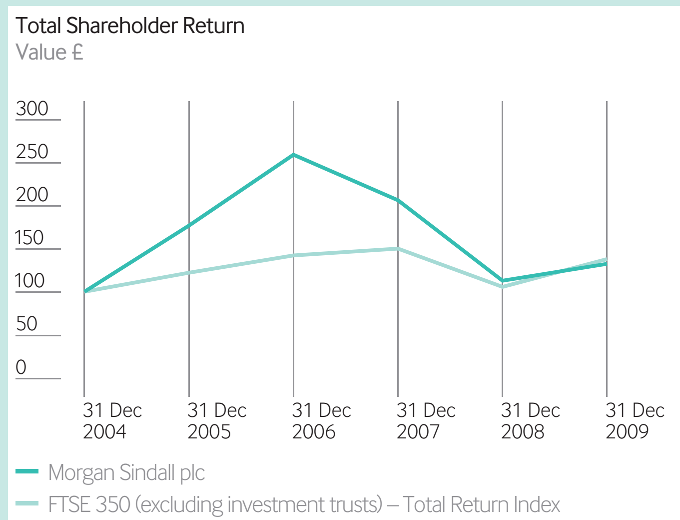
Five year performance continues to outperform relevant benchmark
The graph below shows a comparison of Total Shareholder Return ('TSR') for the Company's shares over the last five financial years against TSR for the companies in the FTSE 350 index excluding investment trusts. This is considered by the committee to be the most suitable comparable broad index against which the Company's performance should be measured for this purpose.



The graph shows the value to 31 December 2009, of £100 invested in Morgan Sindall plc on 31 December 2004, compared with the value of £100 invested in the FTSE350 (excluding investment trusts) Total Return Index. The other points plotted are the values at intervening financial year ends.

Source: Thomson Reuters

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 whilst 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. There are no specific provisions for compensation on early termination or loss of office due to a takeover bid.

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. Paul Smith was a non-executive director of Young Samuel Chambers ('YSC') Limited until May 2009 for which he received a fee of £12,500 during the year.

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

Gill Barr	11 August 2004
Patrick De Smedt	26 November 2009
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 2010, 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.

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Aggregate directors' remuneration
The total amounts for directors' remuneration were as follows:

	2009 £'000s	2008 £'000s
Emoluments	2,156	2,223
Amounts vesting under long-term incentive schemes	201	1,460
Gains made on the exercise of share options	–	780
Money purchase pension contributions	163	158

Directors' emoluments

Name of director	Fees/basic salary £'000s	Benefits £'000s	Annual cash bonuses(i) £'000s	Total 2009 £'000s	Total 2008 £'000s
Executive					
John Morgan	425	20	114	559	600
Paul Smith(ii)	500	21	134	655	703
David Mulligan(ii)	295	16	79	390	384
Paul Whitmore	270	18	72	360	358
	1,490	75	399	1,964	2,045
Non-executive					
Gill Barr	45	–	–	45	45
Patrick De Smedt(iii)	3	–	–	3	–
Geraldine Gallacher	40	–	–	40	40
Adrian Martin	40	–	–	40	3
Jon Walden	48	–	–	48	42
Bernard Asher(iv)	16	–	–	16	48
	192	–	–	192	178
Totals	1,682	75	399	2,156	2,223

(i) Group PBTA in 2009 of £51.5m resulted in the executive directors becoming entitled to 26.851% of the maximum cash bonus. The maximum cash bonus required PBTA of £60.75m and the threshold PBTA was £48.6m.

(ii) The Company operates a salary exchange process for members of The Morgan Sindall Retirement Benefits 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 2008 and 2009 represent the salary and bonus entitlements before any salary exchange has taken place.

(iii) Patrick De Smedt was appointed with effect from 1 December 2009.

(iv) Bernard Asher ceased to be a director on 30 April 2009.

Pension contributions
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 employer's 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:

	2009 £'000s	2008 £'000s
John Morgan	43	43
Paul Smith	61	61
David Mulligan	32	29
Paul Whitmore	27	25

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The 2005 Plan

The following long-term incentive awards have been made to executive directors under the 2005 Plan during 2009:

Performance shares awarded and vested during 2009

	No. of awards outstanding as at 1 Jan 2009	No. of shares awarded March 2009	No. of dividend equivalent shares awarded April 2009[i]	Total no. of shares vested April 2009	Monetary value of vested shares[ii] £'000s	No. of awards outstanding as at 31 Dec 2009
Paul Smith	43,849	32,328	1,971	13,885	80	64,263
David Mulligan	21,301	19,073	788	5,554	32	35,608
Paul Whitmore	45,350	34,914	2,169	15,275	89	67,158

[i] The rules of the 2005 Plan provide that, if the committee so determines, 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 April 2009 this was satisfied by the transfer of additional shares. These additional shares are included in the Total no. of shares vested column.

[ii] Based on the HMRC value on the date of vesting of £5.7975.

Awards that vested during the year were granted on 5 April 2006 when the Company's share price was £12.38.

Details of performance shares outstanding as at 31 December 2009

	Date of award	No. of shares awarded	Date awards vest
Paul Smith	6 March 2007	13,889	6 March 2010
	9 April 2008	18,046	9 April 2011
	30 March 2009	32,328	30 March 2012
David Mulligan	6 March 2007	6,790	6 March 2010
	9 April 2008	9,745	9 April 2011
	30 March 2009	19,073	30 March 2012
Paul Whitmore	6 March 2007	14,198	6 March 2010
	9 April 2008	18,046	9 April 2011
	30 March 2009	34,914	30 March 2012

Details of share options granted during the year ended and outstanding as at 31 December 2009

	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
	30 March 2009	219,828	£5.80	30 March 2012
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
	30 March 2009	129,310	£5.80	30 March 2012
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
	30 March 2009	76,294	£5.80	30 March 2012

Notes:

- no options were exercised during the year;
- the share options detailed above will, if not exercised, lapse ten 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, on 9 April 2008 was £10.34 and on 30 March 2009 was £5.61;
- the awards of performance shares and share options made in 2007 and 2008 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). The awards of performance shares and share options made in 2009 are subject to an absolute adjusted EPS performance target with full vesting of awards for achieving adjusted EPS of 133.0p or more for the year ending 31 December 2011, reducing on a sliding scale to 0% vesting for achieving 103.0p (performance shares) or 115.0p (share options);

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- average adjusted EPS growth for the three financial years ended 31 December 2007 and 31 December 2008 respectively exceeded RPI + 10% and the options granted on 20 May 2005 and 5 April 2006 are therefore fully exercisable. Average adjusted EPS growth for the three financial years ended 31 December 2009 was equal to RPI plus 4% per annum and therefore 25% of the performance share awards awarded on 6 March 2007 will vest but all of the options granted on that date will lapse; and
- the market price of a share on 31 December 2009 was £6.00 and the range during the year was £4.60 to £7.34.

The Morgan Sindall Savings Related Share Option Scheme ('the SAYE scheme')

The executive directors hold the following options granted under the SAYE scheme, further details of which are given in note 24 on pages 106 to 107.

	Outstanding as at 31 Dec 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 Dec 2009	Option exercise price	Dates within which exercisable
Paul Smith	1,338	–	–	–	1,338	£7.02	1/9/2011 – 28/2/2012
David Mulligan	1,338	–	–	–	1,338	£7.02	1/9/2011 – 28/2/2012
Paul Whitmore	1,338	–	–	–	1,338	£7.02	1/9/2011 – 28/2/2012

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

Gill Barr
Chair of the Remuneration Committee
23 February 2010

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Requirement for business review
The Companies Act 2006 ('the Act') requires the Company to set out in the directors' report a fair review of the business of the Group during the financial year ended 31 December 2009 and the position of the Group at the end of the year, including but not limited to a description of the principal risks and uncertainties facing it and analysis using key performance indicators. The information required to fulfil these requirements of the Act can be found in this governance section of the directors' report and in the chairman and chief executive's statement on pages 18 to 23 and in the business review section of the directors' report on pages 24 to 60. The liabilities of the directors in connection with this report shall be limited as provided by applicable English law.

The Group's principal activities
Morgan Sindall is a construction and regeneration group with five divisions: Fit Out, Construction, Infrastructure Services, Affordable Housing and Urban Regeneration and one specialist unit, Investments. The principal subsidiary companies operating within this divisional structure are listed in note 14 of the Company financial statements on page 128.

Results and dividends
The Group's profit before tax for the year amounted to £44.7m (2008: £62.3m). An interim dividend of 12.0p (2008: 12.0p) per share amounting to £5.0m (2008: £5.1m) was paid on 18 September 2009. The directors have declared a second interim dividend in place of a final dividend for the year of 30.0p (2008: 30p) per share amounting to £12.7m (2008: £12.7m) payable on 1 April 2010 to shareholders on the register at close of business on 12 March 2010.

Share capital and shareholders' rights
As at 22 February 2009, the Company's issued share capital comprised a single class of ordinary shares of 5p each ('shares'). During the year 156,561 shares were allotted and issued on the exercise of options under the Company's 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 24 of the consolidated financial statements on pages 106 to 107. Note 24 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 and dividends in respect of which have been waived.

The following description summarises certain provisions of the Articles and applicable English law concerning companies. Certain amendments to the Articles will be proposed at the annual general meeting on 6 May 2010, primarily to deal with the implementation of the Shareholder Rights Directive in the UK on 3 August 2009 and the implementation of the remaining provisions of the Act on 1 October 2009. In addition, it is proposed that the maximum number of directors which the Company may have be increased from 10 to 12. Details of these proposed changes will be set out in the circular to shareholders accompanying this document.

Subject to applicable statutes (in this section the 'Companies Acts'), shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as it does not make specific provision) as the Board (as defined) in the Articles may decide. Subject to the Articles, the Companies Acts and other shareholders' rights, unissued shares are at the disposal of the Board.

Voting
Subject to any other provisions of the Articles, every member present in person or by proxy at a general meeting has, upon a show of hands, one vote and, upon a poll, one vote for every share held by him or her. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

No member shall 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.

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.

Dividends and other distributions
The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Acts, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25%. interest (as defined in the Articles) if such a person 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.

Variation of rights
Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

Restrictions on transfer of securities in the Company
There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); or
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's shares.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities.

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Amendment of articles of association
Any amendments to the Articles may be made in accordance with the provisions of the Act by way of special resolution.

Appointment and replacement of directors
The directors shall be not less than two and not more than ten in number. The Company may by ordinary resolution vary the minimum and/or maximum number of directors. Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next following annual general meeting of the Company and is then eligible for reappointment.

At every annual general meeting of the Company any director who has been appointed by the Board since the last annual general meeting, or who held office at the time of the two preceding annual general meetings and who did not retire at either of them, shall retire from office and may offer himself for reappointment by the members. The Company may by special resolution remove any director before the expiration of his period of office. The office of a director shall be vacated if: (i) he resigns or offers to resign and the Board resolve to accept such offer; (ii) his resignation is requested by all of the other directors and all of the other directors are not less than three in number; (iii) he is or has been suffering from mental ill health and the Board resolves that his office be vacated; (iv) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; (v) he becomes bankrupt or compounds with his creditors generally; (vi) he is prohibited by a law from being a director; (vii) he ceases to be a director by virtue of the Companies Acts; or (viii) he is removed from office pursuant to the Articles.

Powers of directors
Subject to the Articles, the Companies Acts and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular, the Board may exercise all the powers of the Company to borrow money, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Powers in relation to the Company issuing its own shares
The directors were granted authority at the annual general meeting on 30 April 2009 to allot relevant securities up to a nominal amount of £716,731. That authority will apply until the conclusion of this year's annual general meeting and a resolution to renew the authority will be proposed at the forthcoming annual general meeting, as explained further in the circular to shareholders accompanying this document.

A special resolution will also be proposed to renew the directors' power to make non-pre-emptive issues for cash, as explained in the circular accompanying this document.

Purchase of own shares
At the annual general meeting on 30 April 2009, a resolution was passed giving the directors authority to make market purchases of its shares up to 4,300,385 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 30 April 2010 and a resolution to renew the authority will be proposed at the forthcoming annual general meeting, as explained further in the circular to shareholders accompanying this document.

Significant agreements
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 are described in the business review on page 33; its facilities for surety bonding provide for payment of cash collateral of outstanding bonds upon a change of control of the Company.

Directors
The names of the directors as at the date of this report are set out below under Directors' interests. All of these directors held office throughout the year except for Patrick De Smedt, who was appointed as a non-executive director with effect from 1 December 2009. Jon Walden will be retiring at the annual general meeting and will not be seeking re-election. Bernard Asher retired at the annual general meeting in April 2009 and so is not listed in the table below.

Patrick De Smedt, having been appointed by the directors during the year, will retire and stand for election at the annual general meeting. In addition, Simon Gulliford, having been appointed with effect from 1 March 2010, will retire and stand for election at the annual general meeting. Their biographical details, including details of significant external commitments, are set out on page 63.

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

	2009 No. of shares	2008 No. of shares
John Morgan	4,497,508	4,497,508
Paul Smith	213,749	205,503
David Mulligan	22,508	16,954
Paul Whitmore	60,328	51,257
Jon Walden	2,000	2,000
Gill Barr	1,013	1,013
Geraldine Gallacher	7,772	7,772
Adrian Martin	2,000	–
Patrick De Smedt	–	–

There have been no changes in the interests of the directors between 31 December 2009 and 22 February 2010.

The directors' share options and interests in shares under long-term share incentive and other schemes are set out in the remuneration report on pages 68 to 74.

Directors' indemnities
The Articles entitle the directors of the Company to be indemnified, to the extent permitted by the Act 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.

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Substantial shareholdings
As at 22 February 2010, 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	5,610,187	12.99%
John Morgan	4,497,508	10.42%
Standard Life Investments Ltd	3,904,497	9.05%
John James Clifford Lovell	2,415,273	5.60%
Aberdeen Asset Management plc	2,161,387	5.01%
JPMorgan Chase & Co	2,123,287	4.92%
Barclays Global Investors	1,303,861	3.02%

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 investment is usually contained within project work performed for customers.

Employment
The average number of employees in the Group during the year is given in note 3 to the consolidated financial statements on page 94.

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 sustainability review on pages 34 to 37. Details of the Company's share option schemes are set out in note 24 of the consolidated financial statements on pages 106 to 107.

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 2009 the Group's number of creditor days outstanding was equivalent to 23 days' purchases (2008: 24 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 £118,950 (2008: £79,105), principally to local charities serving the communities in which it operates. More details of the Group's involvement in the community can be found in the sustainability review on pages 34 to 37.

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.

Disclosure of information to the external auditors
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

External auditors
Deloitte LLP has expressed its willingness to continue in office as external auditors and a resolution to reappoint 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 6 May 2010 at 12.00 noon. The formal notice convening the annual general meeting together with explanatory notes can be found in the separate circular accompanying this document and is available on the Company's website at www.morgansindall.com. Shareholders will also find enclosed with this document a form of proxy for use in connection with the meeting.

The directors' report from pages 17 to 78 inclusive was approved by the Board and signed on its behalf by:

Mary Nettleship
Company Secretary
23 February 2010

Governance
Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Paul Smith
Chief Executive
23 February 2010

David Mulligan
Finance Director
23 February 2010

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Consolidated financial statements

The Group's consolidated financial statements for the financial year ended 31 December 2009

Consolidated financial statements
Independent auditors' report

Independent auditors' report to the members of Morgan Sindall plc
We have audited the Group financial statements of Morgan Sindall plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the significant accounting policies and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements; and
- the information given in the corporate governance statement with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the directors' statement contained within the financial review in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter
We have reported separately on the parent company financial statements of Morgan Sindall plc for the year ended and on the information in the remuneration report that is described as having been audited.

Ian Krieger
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
23 February 2010

Consolidated financial statements
Consolidated income statement
for the year ended 31 December 2009

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	Notes	2009 £m	2008 £m
Continuing operations			
Revenue	1	2,213.5	2,548.1
Cost of sales		(1,993.0)	(2,297.8)
Gross profit		220.5	250.3
Amortisation of intangible assets	1, 2, 9	(6.8)	(9.1)
Other administrative expenses		(170.1)	(185.8)
Total administrative expenses		(176.9)	(194.9)
Share of net profit of equity accounted joint ventures	1, 12	0.1	2.6
Profit from operations	1	43.7	58.0
Finance income	5	3.3	9.4
Finance costs	5	(2.3)	(5.1)
Net finance income		1.0	4.3
Profit before income tax expense	1	44.7	62.3
Income tax expense	6	(11.8)	(17.5)
Profit for the year	2	32.9	44.8
Attributable to:			
Owners of the Company		33.0	44.8
Minority interests		(0.1)	–
		32.9	44.8
Earnings per share			
From continuing operations			
Basic	8	77.9p	106.3p
Diluted	8	77.1p	105.1p

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

Consolidated statement of comprehensive income
for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Profit for the year		32.9	44.8
Other comprehensive income/(expense):			
Actuarial losses arising on defined benefit obligation	19	(0.6)	(0.2)
Movement on cash flow hedges in equity accounted joint ventures	12	0.6	(0.1)
Other comprehensive income/(expense) for the year, net of income tax		–	(0.3)
Total comprehensive income for the year		32.9	44.5
Attributable to:			
Owners of the Company		33.0	44.5
Minority interests		(0.1)	–
		32.9	44.5

Consolidated financial statements
Consolidated balance sheet
at 31 December 2009

	Notes	2009 £m	2008 £m
Non-current assets			
Goodwill	9	184.4	183.3
Other intangible assets	9	16.6	23.4
Property, plant and equipment	10	31.3	32.7
Investment property	11	1.8	–
Investments in equity accounted joint ventures	1, 12	50.2	53.0
Investments		0.1	0.1
Shared equity loan receivables	13	9.0	–
Deferred tax assets	20	3.8	2.7
		297.2	295.2
Current assets			
Inventories	14	141.2	171.3
Amounts due from construction contract customers	16	179.7	189.2
Trade and other receivables	15	155.1	209.0
Cash and cash equivalents	29	117.7	120.3
		593.7	689.8
Total assets	1	890.9	985.0
Current liabilities			
Trade and other payables	17	(576.3)	(675.2)
Amounts due to construction contract customers	16	(49.0)	(78.3)
Current tax liabilities		(27.3)	(8.5)
Finance lease liabilities	18	(1.8)	(1.9)
		(654.4)	(763.9)
Net current liabilities		(60.7)	(74.1)
Non-current liabilities			
Trade and other payables	17	(0.1)	(0.1)
Finance lease liabilities	18	(7.1)	(7.4)
Retirement benefit obligation	19	(3.2)	(3.0)
Provisions	21	(16.8)	(18.3)
		(27.2)	(28.8)
Total liabilities		(681.6)	(792.7)
Net assets		209.3	192.3
Equity			
Share capital	24	2.2	2.2
Share premium account		26.7	26.6
Capital redemption reserve		0.6	0.6
Own shares		(6.0)	(6.4)
Hedging reserve		(1.7)	(2.3)
Retained earnings		187.6	171.6
Equity attributable to owners of the Company		209.4	192.3
Minority interest		(0.1)	–
Total equity		209.3	192.3

The consolidated financial statements of Morgan Sindall plc (company number 00521970) were approved by the Board and authorised for issue on 23 February 2010 and signed on its behalf by:

Paul Smith
Chief Executive

David Mulligan
Finance Director

Consolidated financial statements
Consolidated cash flow statement
for the year ended 31 December 2009

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	Notes	2009 £m	2008 £m
Net cash inflow/(outflow) from operating activities	26	25.0	(65.5)
Cash flows from investing activities			
Interest received		3.4	9.2
Dividend from joint ventures	12	2.2	–
Proceeds on disposal of property, plant and equipment		1.0	0.8
Purchases of property, plant and equipment		(7.5)	(8.4)
Payments to acquire interests in joint ventures	12	(4.2)	(12.4)
Payment for the acquisition of a subsidiary	25	(1.1)	–
Net cash outflow from investing activities		(6.2)	(10.8)
Cash flows from financing activities			
Net payments to acquire own shares		(0.1)	(0.9)
Dividends paid		(17.7)	(16.9)
Repayments of obligations under finance leases		(3.7)	(4.9)
Proceeds on issue of share capital		0.1	0.4
Net cash outflow from financing activities		(21.4)	(22.3)
Net decrease in cash and cash equivalents		(2.6)	(98.6)
Cash and cash equivalents at the beginning of the year		120.3	218.9
Cash and cash equivalents at the end of the year			
Bank balances and cash		117.7	120.3

Consolidated financial statements

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Attributable to owners of the Company								
	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 £m	Minority interests £m	Total equity £m
Balance at 1 January 2008	2.1	26.3	0.6	(5.5)	(2.2)	144.4	165.7	–	165.7
Total comprehensive income for the year:									
Net profit	–	–	–	–	–	44.8	44.8	–	44.8
Other comprehensive income:									
Actuarial losses arising on defined benefit obligation (note 19)	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Movement on cash flow hedges in equity accounted joint ventures (note 12)	–	–	–	–	(0.1)	–	(0.1)	–	(0.1)
Total comprehensive income for the year, net of income tax	–	–	–	–	(0.1)	44.6	44.5	–	44.5
Share-based payments	–	–	–	–	–	2.3	2.3	–	2.3
Issue of shares at a premium	–	0.3	–	–	–	–	0.3	–	0.3
Exercise of share options	0.1	–	–	1.9	–	(1.9)	0.1	–	0.1
Movement on deferred tax asset on share-based payments	–	–	–	–	–	(0.8)	(0.8)	–	(0.8)
Own shares acquired in the year	–	–	–	(2.8)	–	–	(2.8)	–	(2.8)
Dividends paid:									
Final dividend for 2007	–	–	–	–	–	(11.9)	(11.9)	–	(11.9)
Interim dividend for 2008	–	–	–	–	–	(5.1)	(5.1)	–	(5.1)
Balance at 31 December 2008	2.2	26.6	0.6	(6.4)	(2.3)	171.6	192.3	–	192.3
Balance at 1 January 2009	**2.2**	**26.6**	**0.6**	**(6.4)**	**(2.3)**	**171.6**	**192.3**	**–**	**192.3**
Total comprehensive income for the year:									
Net profit	–	–	–	–	–	33.0	33.0	(0.1)	32.9
Other comprehensive income:									
Actuarial losses arising on defined benefit obligation (note 19)	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Movement on cash flow hedges in equity accounted joint ventures (note 12)	–	–	–	–	0.6	–	0.6	–	0.6
Total comprehensive income for the year, net of income tax	**–**	**–**	**–**	**–**	**0.6**	**32.4**	**33.0**	**(0.1)**	**32.9**
Share-based payments	–	–	–	–	–	1.0	1.0	–	1.0
Issue of shares at a premium	–	0.1	–	–	–	–	0.1	–	0.1
Exercise of share options	–	–	–	0.5	–	(0.5)	–	–	–
Movement on deferred tax asset on share-based payments	–	–	–	–	–	0.8	0.8	–	0.8
Own shares acquired in the year	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Dividends paid:									
Final dividend for 2008	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Interim dividend for 2009	–	–	–	–	–	(5.0)	(5.0)	–	(5.0)
Balance at 31 December 2009	**2.2**	**26.7**	**0.6**	**(6.0)**	**(1.7)**	**187.6**	**209.4**	**(0.1)**	**209.3**

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 to Morgan Sindall plc of shares purchased in the market and held by the Trust to satisfy options under the Group's share incentive schemes (note 24).

The number of shares held by the Trust at 31 December 2009 was 797,034 (2008: 840,864).

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

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Significant accounting policies

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Reporting entity
Morgan Sindall plc ('the Company'), is a company domiciled and incorporated in the UK. The nature of the Group's operations and its principal activities are set out in note 1 and in the business review on pages 17 to 60. 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 33 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. The consolidated financial statements are prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

(b) Basis of measurement
The consolidated 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) Changes in accounting policy and disclosures
(i) New and revised accounting standards adopted by the Group
The Group has adopted the following new, amended and revised standards and interpretations from 1 January 2009:

- IFRS 2 (amendment) 'Share-based Payment': clarifies that vesting conditions of a share-based payment are service and performance conditions only. Other features are non-vesting conditions, which must be taken into account when determining the fair value at the grant date and a failure to meet such conditions is treated as a cancellation. Adoption of this amendment has not had a material impact on the Group's consolidated financial statements.

- IFRS 7 (amendment) 'Financial Instruments Disclosures': expands disclosures required in respect of fair value measurement and liquidity risk. The amendment specifically requires fair value disclosures to be made by each class of financial instrument with an increasing level of fair value measurement disclosure depending on the instrument's position in the prescribed fair value hierarchy.

- IFRS 8 'Operating Segments': requires disclosure of operating segment information on the same basis as that used to present information internally to the Chief Operating Decision Maker. Adoption of this standard has only impacted disclosure and presentation with the Investments segment being disclosed for the first time separately.

- IAS 1 (revised) 'Presentation of Financial Statements': requires certain classification and presentational changes to the Group's primary consolidated financial statements. There has been no impact on the Group's consolidated financial statements.

- IAS 23 (revised) 'Borrowing Costs': requires the capitalisation of borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The previously available option to immediately expense these borrowing costs has been removed. Adoption of this revision is prospective (from 1 January 2009) and there has been no material impact on the Group's consolidated financial statements.

- International Financial Reporting Interpretations Committee ('IFRIC') 15 'Agreements for the Construction of Real Estate': as the Group already accounts for the construction of real estate in accordance with this IFRIC, there has been no impact on the Group's consolidated financial statements.

- IFRIC 14 – IAS 19 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction': provides guidance on how to assess the limit of IAS 19 'Employee Benefits' on the amount of a surplus that can be recognised as an asset. As the Group's defined benefit plan is currently in a deficit position, adoption of this interpretation has had no impact on the Group's consolidated financial statements.

- Part 1 of the improvements to IFRS project: required a number of smaller amendments to existing IFRS that had implementation dates throughout 2009. None of these have had an impact on the Group's consolidated financial statements.

(ii) Accounting standards, amendments and interpretations to existing standards not yet effective and not adopted early by the Group
The following have been published and, when approved by the EU, will be mandatory for periods beginning on or after 1 January 2010 and have not been adopted early by the Group:

- IFRS 2 (amendment) 'Group cash-settled and share-based payment transactions': expands guidance issued as part of IFRIC 11 on group share-based payment arrangements with the aim of addressing the classification of group arrangements not covered in that interpretation. This is not expected to have a material impact on the Group's consolidated financial statements.

- IFRS 3 (revised) 'Business Combinations': requires the expensing of all acquisition related transaction costs (previously certain costs could be capitalised) and the recognition and measurement of contingent consideration at fair value, with subsequent changes in fair value usually taken through the income statement. The revision also provides the option of measuring non-controlling interests at fair value. The revised standard is prospective and will only affect business combinations effected from 1 January 2010.

- IAS 27 (revised) 'Consolidated and Separate Financial Statements': primarily relates to the accounting for non-controlling interests (partial and step-acquisitions) and the loss of control. Similar to the revised IFRS 3, this revised standard will only impact transactions in the Group's consolidated financial statements from 1 January 2010.

- IAS 38 (amendment) 'Intangible Assets': the amendment is part of the annual improvements project and will apply from 1 January 2010 when IFRS 3 (revised) is adopted. The amendment clarifies guidance in relation to measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if the assets have similar economic lives. This is not expected to have a material impact on the Group's consolidated financial statements.

- IFRIC 12 'Service Concession Arrangements': the Group currently classifies financial assets arising from its service concession arrangements as available for sale financial assets. However, under IFRIC 12, where a concession conveys to the operator a right to charge users for the public sector asset it has constructed or upgraded, that intangible asset must be bifurcated and recognised separately from the finance debtor component. The intangible asset will then need to be amortised and assessed for impairment. Adoption of this IFRIC is not expected to have a material impact on the Group's consolidated financial statements although additional disclosures will be required.

Consolidated financial statements
Significant accounting policies

- IFRIC 18 'Transfers of Assets from Customers': clarifies the treatment where an item of property, plant or equipment is received from a customer to connect to an ongoing supply of goods and services. This is not expected to have a material impact on the Group's consolidated financial statements.

- International Accounting Standards Board ('IASB') annual improvements 2008 – 2009: requires a number of smaller amendments to existing International Financial Reporting Standards with implementation dates at various points throughout 2010. The impact of these amendments is currently being assessed.

- IFRS 9 'Classification and Measurement': aims to simplify the classification and measurement of financial instruments according to a business model approach, which requires recognition and measurement according to how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Although approved by the IASB, this has not been endorsed by the EU and endorsement is not expected until the complete IAS 39 replacement programme is complete.

- IAS 24 (revised) 'Related Party Transactions': simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This is not expected to have a material impact on the Group's financial statement disclosures.

- Amendment to IFRIC 9 'Reassessment of Embedded Derivatives' and IAS 39 'Financial Instruments: Recognition and Disclosure': clarifies that where an entity has taken advantage of the reclassification amendment issued by the IASB in late 2008 (allowing certain financial instruments to be reclassified from fair value through profit or loss to amortised cost), an assessment has to be made for embedded derivatives with separate accounting if necessary in the financial statements. This amendment has no impact on the Group consolidated financial statements as the 2008 amendment was not applied.

(e) Restatement of comparative balances
Certain comparatives have been reclassified to conform to the current year's presentation.

(f) Critical accounting judgments and key sources of estimation uncertainty
The preparation of financial statements under International Financial Reporting Standards 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.

(i) Critical accounting judgments
The following are critical judgments, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

- *Accounting for tax in relation to the Amec acquisition fair value adjustments*
  The Group is in discussion with HMRC concerning the corporation tax treatment of the fair value adjustments which arose following the 2007 acquisition from Amec. As a result of these discussions, the Group received £9.5m in provisional corporation tax repayments from HMRC during 2009, and reduced payments which it would otherwise have made to HMRC during the year by £9.2m. No benefit has been recognised in the tax charge in the income statement in respect of this matter, as discussions are at an early stage and the eventual outcome is unclear. In total the Group received a net corporation tax repayment of £7.7m during 2009 (2008: net payment of £18.9m).

(ii) Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below.

- *Accounting for construction and service contracts*
  Recognition of revenue and margin is based on judgments made in respect of the ultimate profitability of a contract. Such judgments are arrived at through the use of estimates in relation to 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.

- *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 requires 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.

- *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.

- *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.

- *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 consolidated financial statements.

- *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.

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- *Private Finance Initiative ('PFI')/Private Public Partnership ('PPP') derivative financial instruments*
  Certain Group joint ventures use swaps to hedge interest rate and Retail Price Index (inflation) 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.

- *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.

- *Tax*
  Judgments are required in establishing the Group's liability to pay taxes where tax positions are uncertain.

- *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 exercised when estimating the number of awards that will ultimately vest and these estimates 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. Assumptions in relation to 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.

- *Recognition and measurement of embedded derivatives contained in shared equity loans*
  The Group's balance sheet includes loans that arise on the sale of properties under shared equity home ownership schemes which are recognised and measured at fair value through profit or loss (as discussed in the Group's accounting policies). Because it is impracticable to obtain regular market valuations on a property-by-property basis, except as required at repayment, the Group makes judgments on the fair value of the loans on a portfolio basis. This approach requires judgment on inputs used to determine fair value and which include property price indices, the discount rate, the anticipated loan duration and the expected rate of debtor default. Assumptions made in relation to these inputs have a material impact on the carrying value of the loan portfolio recognised on the balance sheet and the fair value movement recognised in the income statement.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries), together with the Group's share of the results of joint ventures made up to 31 December each year. The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the fair value, 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. Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of the changes in equity since the date of the combination.

(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.

The interest of minority shareholders in the acquiree is initially measured at the minorities' proportion of the net fair value of the assets and liabilities recognised.

(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.

(i) Jointly controlled entities

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.

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.

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(ii) Jointly controlled operations
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.

(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.

(e) Government grants
Funding received in respect of developer grants, where funding is awarded to encourage the building and renovation of affordable housing, is recognised as revenue on a stage of completion basis over the life of the project to which the funding relates.

Funding received to support the construction of housing where current market prices would otherwise make a scheme financially unviable is recognised as revenue on a legal completion basis when the properties to which it relates are sold.

Finance income and expense
Finance income comprises interest income on funds invested 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 except where such costs relate to qualifying assets for which the commencement date for capitalisation was on or after 1 January 2009. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are included as part of the cost of that asset.

Income tax
The income tax expense represents the current 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.

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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.

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.

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 8.3% 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 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.

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

Shared equity scheme receivables
The Group offers shared equity home ownership schemes under which qualifying home buyers can defer payment of part of the agreed sales price up to a maximum of 25% until the earlier of 10 years, remortgage or resale of the property. On occurrence of one of these events, the Group will receive a repayment based on its contributed equity percentage and the applicable market value of the property as determined by a member of the Royal Institute of Chartered Surveyors. Early or part repayment is allowable under the scheme and amounts are secured by way of a second charge over the property.

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The shared equity loans receivable are a hybrid financial instrument consisting of an initial principal component and an embedded derivative whose fair value varies in accordance with movements in the specific property prices to which the loan relates. The loans are non-interest bearing.

The Group has elected to designate the financial assets resulting from the shared equity schemes as fair value through profit or loss. This election can only be made at initial recognition and is irrevocable. As it is not practicable to obtain current market valuations on a property-by-property basis at each reporting date, the fair value of the loans is calculated on a portfolio basis using region specific property price indices, a discount rate which reflects the prevailing interest rate and a suitable risk premium for the borrowers, an anticipated loan duration and the expected rate of debtor default. Fair value movements are recognised in operating profit and the resulting financial asset is presented as a non-current receivable.

At each reporting date the accuracy of each of these assumptions is reviewed and, where appropriate, adjusted to reflect changes in market conditions and the Group's experience with the debtors.

Revenue resulting from the sale of properties under the shared equity scheme is recognised at the fair value of the consideration received or receivable.

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. Net realisable value is the estimated selling price less applicable costs.

Trade receivables
Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement when there is objective evidence that the asset is impaired.

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.

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.

(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.

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.

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With the exception of available for sale financial assets, if, in a subsequent period, the amount of the impairment loss previously recognised decreases and this decrease can be objectively related to an event that occurred after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

Government grants
Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that the Group will comply with the conditions attached and the grants will be received.

Revenue arising from Government grants is recognised on either a stage of completion or legal completion basis.

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.

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') exposures.

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.

Embedded derivatives are separated from the underlying host contract where the economic characteristics and risks of the host contract and the embedded derivative are not closely related except, as is the case with the Group's shared equity loan receivables, an election has been made to designate the financial asset which contains an embedded derivative as fair value through profit or loss as permitted by IAS 39. This designation can only be made at initial recognition and is irrevocable but can be made on a transaction-by-transaction basis.

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.

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1 Business segments

For management purposes, the Group is organised into five operating divisions: Fit Out, Construction, Infrastructure Services, Affordable Housing, Urban Regeneration and one specialist unit, Investments. Group Activities includes activities of the parent Company, Morgan Sindall plc. The divisions and the specialist unit are the basis on which the Group reports its primary segment information. Segment information about the Group's continuing operations is presented below:

2009

	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	£m	Eliminations £m	Total £m
Revenue: external	291.2	743.3	769.9	373.8	31.9	3.4	–	2,213.5	–	2,213.5
Revenue: internal	2.0	20.5	31.2	1.8	–	6.1	–	61.6	(61.6)	–
Operating profit/(loss) before amortisation	13.8	13.0	17.1	14.9	0.6	(3.0)	(6.0)	50.4	–	50.4
Share of results of associates and joint ventures after tax	–	–	–	–	0.1	–	–	0.1	–	0.1
Profit/(loss) from operations before amortisation	13.8	13.0	17.1	14.9	0.7	(3.0)	(6.0)	50.5	–	50.5
Amortisation of intangible assets	–	(1.1)	(0.4)	–	(5.3)	–	–	(6.8)	–	(6.8)
Profit/(loss) from operations	13.8	11.9	16.7	14.9	(4.6)	(3.0)	(6.0)	43.7	–	43.7
Net finance income								1.0		1.0
Profit before income tax expense								44.7		44.7

2008

	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	£m	Eliminations £m	Total £m
Revenue: external	473.7	813.1	799.2	377.2	83.6	1.3	–	2,548.1	–	2,548.1
Revenue: internal	0.6	13.1	28.8	5.1	–	–	–	47.6	(47.6)	–
Operating profit/(loss) before amortisation	25.8	9.5	14.4	21.0	6.5	(3.5)	(9.2)	64.5	–	64.5
Share of results of associates and joint ventures after tax	–	–	–	–	1.3	1.3	–	2.6	–	2.6
Profit/(loss) from operations before amortisation	25.8	9.5	14.4	21.0	7.8	(2.2)	(9.2)	67.1	–	67.1
Amortisation of intangible assets	–	(2.1)	(0.8)	–	(6.2)	–	–	(9.1)	–	(9.1)
Profit/(loss) from operations	25.8	7.4	13.6	21.0	1.6	(2.2)	(9.2)	58.0	–	58.0
Net finance income								4.3		4.3
Profit before income tax expense								62.3		62.3

Balance sheet analysis of business segments:

2009

	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Total £m
Goodwill	–	68.8	82.4	16.5	16.7	–	–	184.4
Other intangible assets	–	0.3	0.2	–	16.1	–	–	16.6
Equity accounted joint ventures	–	–	–	0.1	35.2	14.9	–	50.2
Other assets	73.1	196.5	175.9	168.7	14.7	3.8	7.0	639.7
Total assets	73.1	265.6	258.5	185.3	82.7	18.7	7.0	890.9
Total liabilities	(44.0)	(143.3)	(178.6)	(131.0)	(39.8)	(18.4)	(126.5)	(681.6)
Other information:								
Amortisation of intangible fixed assets	–	1.1	0.4	–	5.3	–	–	6.8
Depreciation	1.1	1.6	5.6	0.2	0.3	0.2	0.3	9.3
Property, plant and equipment additions	0.1	1.8	6.1	0.1	0.2	–	0.2	8.5

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1 Business segments continued

2008

	Fit Out £m	Construction £m	Infrastructure Services £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Total £m
Goodwill	–	68.8	82.4	15.4	16.7	–	–	183.3
Other intangible assets	–	1.5	0.6	–	21.3	–	–	23.4
Equity accounted joint ventures	–	–	–	0.1	41.5	11.4	–	53.0
Other assets	115.7	224.3	188.7	161.6	24.3	2.7	8.0	725.3
Total assets	115.7	294.6	271.7	177.1	103.8	14.1	8.0	985.0
Total liabilities	(103.5)	(282.8)	(209.5)	(134.6)	(35.6)	(2.3)	(24.4)	(792.7)
Other information:								
Amortisation of intangible fixed assets	–	2.1	0.8	–	6.2	–	–	9.1
Depreciation	1.3	1.3	4.7	0.3	0.2	0.2	0.1	8.1
Property, plant and equipment additions	1.5	3.0	12.1	0.3	0.1	–	0.6	17.6

Significantly all the Group's operations are carried out in the UK.

2 Profit for the year

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

	2009 £m	2008 £m
Depreciation of property, plant and equipment (note 10)	9.3	8.1
Gain on disposal of property, plant and equipment	(0.4)	(0.2)
Staff costs (note 4)	389.8	403.5
Amortisation of intangible assets (note 9)	6.8	9.1
Write downs in work in progress recognised as an expense	1.0	–
Impairment of trade receivables (note 29)	0.6	–
Auditors' remuneration for audit and other services (see below)	1.0	1.1

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

	2009 £m	2008 £m
Fees payable to the Company's auditors for the audit of the Company's annual report and accounts	0.1	0.1
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries and joint ventures pursuant to legislation	0.8	0.8
Total audit fees	0.9	0.9
Services to joint ventures relating to tax	0.1	0.2
Total non-audit fees	0.1	0.2
Total auditors' remuneration	1.0	1.1

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3 Employees

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

	2009 No.	2008 No.
Fit Out	569	655
Construction	2,002	2,300
Infrastructure Services	3,987	4,070
Affordable Housing	1,324	1,467
Urban Regeneration	49	51
Investments	24	21
Group Activities	22	21
	7,977	8,585

4 Staff costs

	2009 £m	2008 £m
Wages and salaries	342.8	356.3
Social security costs	37.6	38.4
Other pension costs	9.4	8.8
	389.8	403.5

5 Finance income and costs

	2009 £m	2008 £m
Interest income on bank deposits	1.8	6.8
Other interest income	0.2	1.1
Interest receivable from joint ventures	1.3	1.5
Finance income	3.3	9.4
Interest payable on bank overdrafts and borrowings	(1.7)	(4.4)
Interest payable on finance leases	(0.5)	(0.4)
Interest payable to joint ventures	–	(0.2)
Other interest payable	(0.1)	(0.1)
Finance costs	(2.3)	(5.1)
Net finance income	1.0	4.3

6 Income tax expense

Current tax expense:	2009 £m	2008 £m
UK corporation tax	12.2	18.1
Adjustment in respect of prior years	(1.1)	(1.3)
	11.1	16.8
Deferred tax expense:		
Current year	0.8	0.1
Adjustment in respect of prior years	(0.1)	0.6
	0.7	0.7
Income tax expense for the year	11.8	17.5

Corporation tax is calculated at 28.0% (2008: 28.5%) 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.

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6 Income tax expense continued

The total tax charge for the year of £11.8m is lower (2008: lower) than the standard rate of corporation tax in the UK of 28.0% (2008: 28.5%). The difference can be reconciled as follows:

	2009 £m	2008 £m
Current tax expense:		
Profit before tax	44.7	62.3
Income tax expense at UK corporation tax rate	12.5	17.7
Tax effect of:		
Share of net profit of equity accounted joint ventures	–	(0.7)
Expenses that are not deductible in determining taxable profits	0.8	1.2
Adjustments in respect of prior years	(1.2)	(0.7)
Other	(0.3)	–
Income tax expense for the year	11.8	17.5
Effective tax rate for the year	26.4%	28.1%
Effective tax rate for the year ignoring prior year adjustments	29.1%	29.2%

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2009 £m	2008 £m
Final dividend for the year ended 31 December 2008 of 30.0p (2007: 28.0p) per share	12.7	11.9
Interim dividend for the year ended 31 December 2009 of 12.0p (2008: 12.0p) per share	5.0	5.1
	17.7	17.0
Interim dividend in place of a final dividend for the year ended 31 December 2009 of 30.0p (2008: final dividend of 30.0p) per share	12.7	12.7

The second interim dividend has been declared, subject to the 2009 financial statements becoming relevant accounts for the purpose of the Companies Act 2006 and, subject as aforesaid, will be paid on 1 April 2010 to shareholders on the register at 12 March 2010. The ex-dividend date will be 10 March 2010. It has not been included as a liability in these financial statements.

8 Earnings per share

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

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

Earnings	2009 £m	2008 £m
Earnings before tax	44.7	62.3
Deduct tax expense per the income statement	(11.8)	(17.5)
Minority interests	0.1	–
Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to equity holders of the parent company	33.0	44.8
Add back current year's amortisation expense pre tax (see notes 2 and 9)	6.8	9.1
Earnings for the purposes of basic and dilutive earnings per share adjusted for amortisation expense being attributable to equity holders of the parent company	39.8	53.9

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8 Earnings per share continued

Number of shares	2009 No. 000's	2008 No. 000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	42,281	42,108
Effect of dilutive potential ordinary shares:		
Share options	92	268
Conditional shares not vested	332	196
Weighted average number of ordinary shares for the purposes of diluted earnings per share	42,705	42,572

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 £6.11 (2008: £7.36).

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

	2009	2008
Basic earnings per share	77.9p	106.3p
Diluted earnings per share	77.1p	105.1p

Earnings per share before amortisation are disclosed below:

	2009	2008
Basic earnings per share before amortisation expense	93.9p	127.8p
Diluted earnings per share before amortisation expense	93.0p	126.4p

A total of 2,820,160 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 2009 (2008: 1,171,003).

9 Goodwill and other intangible assets

	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
Cost or valuation						
Balance at 1 January 2008	4.2	26.9	0.9	5.0	37.0	192.3
Balance at 31 December 2008	4.2	26.9	0.9	5.0	37.0	192.3
Balance at 1 January 2009	4.2	26.9	0.9	5.0	37.0	192.3
Additions in the year (note 25)	–	–	–	–	–	1.1
Balance at 31 December 2009	4.2	26.9	0.9	5.0	37.0	193.4
Accumulated amortisation						
Balance at 1 January 2008	(0.8)	(2.8)	(0.2)	(0.7)	(4.5)	(9.0)
Amortisation charge for the year	(2.1)	(4.8)	(0.5)	(1.7)	(9.1)	–
Balance at 31 December 2008	(2.9)	(7.6)	(0.7)	(2.4)	(13.6)	(9.0)
Balance at 1 January 2009	(2.9)	(7.6)	(0.7)	(2.4)	(13.6)	(9.0)
Amortisation charge for the year	(1.0)	(3.9)	(0.2)	(1.7)	(6.8)	–
Balance at 31 December 2009	(3.9)	(11.5)	(0.9)	(4.1)	(20.4)	(9.0)
Carrying amount						
Carrying amount at 31 December 2009	0.3	15.4	–	0.9	16.6	184.4
Carrying amount at 31 December 2008	1.3	19.3	0.2	2.6	23.4	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.

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9 Goodwill and other intangible assets continued

Software was fully amortised by 31 December 2009.

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

Goodwill represents the value of people, track record and expertise acquired within acquisitions that are not capable of being individually identified and separately recognised.

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

Note 25 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 Board 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% (2008: 2.25%), which is equal to the estimated nominal long-term growth in construction sector GDP. The risk-adjusted nominal discount rates used are 12% (2008: 12%) for Construction and Infrastructure Services, 13% (2008: 13%) for Affordable Housing and 15% (2008: 15%) for Urban Regeneration. The directors have reviewed the rates used and believe they are still appropriate.

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.

10 Property, plant and equipment

	Owned plant, machinery and equipment £m	Leased plant, machinery and equipment £m	Freehold property and land £m	Leased property £m	Total £m
Cost or valuation					
Balance at 1 January 2008	35.4	9.9	0.5	5.3	51.1
Additions in 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)
Balance at 31 December 2008	38.7	13.5	2.8	7.8	62.8
Balance at 1 January 2009	38.7	13.5	2.8	7.8	62.8
Additions in the year	5.7	2.0	–	0.8	8.5
Transfers	1.2	(1.2)	–	–	–
Disposals during the year	(1.6)	(1.1)	(0.4)	–	(3.1)
Balance at 31 December 2009	**44.0**	**13.2**	**2.4**	**8.6**	**68.2**
Accumulated depreciation					
Balance at 1 January 2008	(21.0)	(3.7)	–	(2.6)	(27.3)
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
Balance at 31 December 2008	(22.8)	(3.9)	–	(3.4)	(30.1)
Balance at 1 January 2009	(22.8)	(3.9)	–	(3.4)	(30.1)
Depreciation charge for the year	(6.4)	(1.7)	–	(1.2)	(9.3)
Transfers	(1.1)	1.1	–	–	–
Disposals during the year	1.5	1.0	–	–	2.5
Balance at 31 December 2009	**(28.8)**	**(3.5)**	**–**	**(4.6)**	**(36.9)**
Net book value					
Net book value at 31 December 2009	**15.2**	**9.7**	**2.4**	**4.0**	**31.3**
Net book value at 31 December 2008	15.9	9.6	2.8	4.4	32.7

Within the carrying value of property, plant and equipment there are no assets under construction (2008: nil).

Contractual commitments for the acquisition of property, plant and equipment are £0.8m (2008: £2.4m).

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11 Investment property

Valuation	2009 £m	2008 £m
At 1 January	–	–
Additions in the year	1.8	–
At 31 December	1.8	–

Investment properties comprise certain residential properties constructed by the Group as part of larger mixed tenure projects for rental to social or private residential clients.

The fair value of the Group's investment property at 31 December 2009 has been arrived at on the basis of a valuation carried out at that date by the directors. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction proceeds for similar properties.

The property rental income earned by the Group from its investment property, which is leased out under operating leases, amounted to £nil (2008: £nil). Direct operating expenses arising on the investment property in the period amounted to £nil (2008: £nil).

Properties were transferred from inventories to investment properties late in 2009 and hence there was no material rental income or direct operating expense during the year.

12 Investments in equity accounted joint ventures

The Group has the following interests in significant joint ventures:

Access for Wigan (Holdings) Limited 50% share
Access for Wigan (Holdings) Limited is developing the Wigan Life Centre.

Ashton Moss Developments Limited 50% share
Ashton Moss Developments Limited has developed a mixed use site in Manchester.

Blue Light Holdings Limited 50% share
Blue Light Holdings Limited is a joint venture with Barclays Capital set up to hold the investment in a joint venture with Carden Croft for the Dorset Emergency Services PFI scheme.

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.

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.

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.

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.

Ician Developments Limited 50% share
Ician Developments Limited has developed a mixed use regeneration scheme in the Smithfield area of Manchester.

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 Limited Partnership is represented by three directors and no decision can be taken without the agreement of a director representing each partner.

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12 Investments in equity accounted joint ventures continued

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.

Morgan-Vinci Limited 50% share
Morgan-Vinci Limited is responsible for the construction and operation of the Newport Southern Distributor Road.

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.

Renaissance Miles Platting Limited 33⅓% 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.

Investments in equity accounted joint ventures are as follows:

	2009 £m	2008 £m
At 1 January	53.0	38.1
Equity accounted share of net profits for the year	0.1	2.6
Increase in investment	4.2	12.4
Dividends received	(7.7)	–
Movement on cash flow hedges	0.6	(0.1)
At 31 December	50.2	53.0

The increase in investments in joint ventures during the year was mainly due to loan investment in Access For Wigan (Holdings) Limited and Blue Light Holdings Limited.

Of the dividends received in the year, £2.2m were paid in cash and £5.5m through settlement of amounts owing to joint ventures.

Financial information related to equity accounted joint ventures:

	2009 £m	2008 £m
Non-current assets (100%)	340.7	289.2
Current assets (100%)	306.3	310.0
Current liabilities (100%)	(100.6)	(86.3)
Non-current liabilities (100%)	(436.6)	(354.5)
Net assets reported by equity accounted joint ventures (100%)	109.8	158.4
Revenue (100%)	104.4	184.8
Expenses (100%)	(106.6)	(177.9)
Net profit (100%)	(2.2)	6.9

Results of equity accounted joint ventures:

	2009 £m	2008 £m
Group share of profits before tax	0.2	3.6
Group share of income tax expense	(0.1)	(1.0)
Group share of profits after tax	0.1	2.6

Within non-current assets are financial receivables of £157.7m (2008: £123.1m) which are carried at fair value. The fair values have been determined on the basis of discounting underlying future cash flows using a risk-adjusted discount rate of 7.3%, considered by the directors to reflect the risks attaching to the future cash flows.

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12 Investments in equity accounted joint ventures continued

Commitments in respect of interests in joint ventures:

	2009 £m	2008 £m
Commitment to provide further equity to Urban Regeneration joint ventures	1.6	4.1
Commitment to provide further equity and subordinated debt to PFI/PPP joint ventures	7.1	4.4
	8.7	8.5

13 Shared equity loan receivables

	2009 £m	2008 £m
Balance at 1 January	–	–
Additions arising from the sale of properties	8.9	–
Movement in fair value	0.1	–
Balance at 31 December	9.0	–

Shared equity loan receivables arise on the sale of properties under which certain qualifying home buyers have elected to participate in the Group's shared equity scheme. Under the scheme home buyers can borrow up to 25% of the selling price of the property by way of a non-interest bearing loan contributed by the Group. The loan is repayable over a period of up to 10 years and the Group participates in any gain or loss on the market value of the property at repayment in accordance with the Group's initial equity contribution. Further details of the scheme are discussed in the Group's significant accounting policies on pages 85 to 91 of the consolidated financial statements.

The Group has elected to recognise the shared equity loan receivables at fair value through profit or loss under IAS 39. This is an irrevocable election and results in all movements in the fair value of the loans being recognised in profit or loss.

All of the shared equity loan receivables are secured by way of a second charge over the property. During the year, there were no defaults on any of the shared equity loans (2008: nil) and there were no voluntary part or full repayments of shared equity loan receivables (2008: nil).

The Group's maximum credit exposure is limited to the carrying value of the shared equity loan receivables granted.

Basis of valuation and assumptions made
Because it is impracticable to obtain regular market valuations on a property-by-property basis and there is no directly observable fair value for individual loans arising from the sale of specific properties under the scheme, the Group has developed a model for determining the fair value of the portfolio of loans based on region specific property prices, expected property price increases, expected loan defaults and a discount factor which reflects the interest rate expected on an instrument of similar risk and duration in the market. Details of the key assumptions made in this valuation are as follows:

Assumption	2009	2008
Period over which shared equity loan receivables are discounted	7 years	n/a
Weighted average annual property price increase assumed	3.8%	n/a
Nominal discount rate applied to initial shared equity receivable	6.6%	n/a
Rate of default assumed in valuation of shared equity loan portfolio	0.0%	n/a

At 31 December, a total of 302 (2008: nil) properties had been sold under the shared equity scheme for which a loan was outstanding at the year end.

At 31 December, the weighted average shared equity loan contribution (being the Group's weighted average loan as a proportion of the selling price of a property) was 25% (2008: n/a). The maximum loan contribution by the Group under the shared equity scheme is 25%.

14 Inventories

	2009 £m	2008 £m
Raw materials	3.5	3.9
Work in progress	137.7	167.4
	141.2	171.3

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

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15 Trade and other receivables

	2009 £m	2008 £m
Trade receivables (note 29)	135.8	196.9
Provision for impairment losses (note 29)	(2.9)	(2.7)
	132.9	194.2
Amounts owed by joint ventures (note 28)	3.1	4.2
Deferred tax asset (note 20)	–	1.0
Prepayments and accrued income	8.2	6.0
Other receivables	10.9	3.6
	155.1	209.0

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

The average credit period on revenue is 19 days (2008: 24 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 £32.7m (2008: £51.2m) 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 98 days (2008: 96 days).

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 29, 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 (2008: £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.

16 Construction contracts

	2009 £m	2008 £m
Amounts due from construction contract customers	179.7	189.2
Amounts due to construction contract customers	(49.0)	(78.3)
Carrying amount at the end of the year	130.7	110.9
Contract costs incurred plus recognised profits less recognised losses to date	9,607.7	5,158.5
Less: progress billings	(9,477.0)	(5,047.6)
	130.7	110.9

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. Amounts due to construction contract customers represent amounts received in excess of revenue recognised on construction contracts.

At 31 December 2009 retentions held by customers for contract work amounted to £62.0m (2008: £59.6m).

None of the Group's amounts due from construction contract customers' balances are past due at the reporting date (2008: £nil). The Group does not hold any collateral over these balances.

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17 Trade and other payables

	2009 £m	2008 £m
Trade payables (note 29)	145.9	173.4
Amounts owed to joint ventures (note 28)	0.8	9.8
Other tax and social security	21.2	25.6
Accruals and deferred income	396.2	446.1
Other payables	12.2	20.3
	576.3	675.2

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 to their fair value. The average credit period taken for trade purchases is 23 days (2008: 24 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 (2008: £0.1m) that fall due between two and five years.

18 Finance lease liabilities

	Minimum lease payments		Capital element of lease payments	
	2009 £m	2008 £m	2009 £m	2008 £m
Amounts payable under finance leases:				
Within one year	2.2	2.4	1.8	1.9
In the second to fifth years inclusive	5.5	5.6	4.6	4.6
After five years	2.8	3.1	2.5	2.8
	10.5	11.1	8.9	9.3
Less: future finance charges	(1.6)	(1.8)	n/a	n/a
Present value of lease obligations	8.9	9.3	8.9	9.3
Current lease liability			1.8	1.9
Non-current lease liability			7.1	7.4
			8.9	9.3

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is five years (2008: five years). For the year ended 31 December 2009, the average effective borrowing rate was 6% (2008: 6%). 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.

19 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 £9.2m (2008: £8.5m) represents contributions payable to the defined contribution section of the Plan by the Group.

As at 31 December 2009, contributions of £0.7m (2008: £0.7m) were due in respect of December'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 compromising 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.

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19 Retirement benefit schemes continued

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was prepared at 31 December 2009. The present value of the defined benefit liabilities, the related current service cost and past service cost were measured using the projected unit credit method.

Key assumptions used:	2009 %	2008 %
Discount rate	5.6	6.1
Expected return on the Plan assets	4.9	4.8
Expected rate of salary increases	4.8	4.0
Future pension increases[i]	3.5	3.5
Inflation increases	3.8	3.0

[i] depending on their date of joining, members receive fixed pension increases of 3.0% or 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 2009 and 31 December 2008, 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:

	2009	2008
Male	87.0	87.0
Female	89.9	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:

	2009	2008
Male	88.1	88.1
Female	90.9	90.9

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 2009, the present value of the Plan liabilities would have increased to £9.2m (2008: increase of 3.0% 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:

	2009 £m	2008 £m
Present value of the Plan liabilities	(8.9)	(8.0)
Fair value of the Plan assets	5.7	5.0
Deficit in the Plan liability recognised in the balance sheet	(3.2)	(3.0)

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

	2009 £m	2008 £m
Interest cost	(0.5)	(0.5)
Expected return on the Plan assets	0.3	0.3
Net periodic cost	(0.2)	(0.2)

The charge for the year has been included in administrative expenses. Actuarial gains and losses have been reported in the statement of comprehensive income. The actual return on the Plan assets was a gain of £0.4m (2008: loss of £0.1m).

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

	2009 £m	2008 £m
Liabilities at 1 January	(8.0)	(8.0)
Interest cost	(0.5)	(0.5)
Actuarial (losses)/gains	(0.8)	0.2
Benefits paid	0.4	0.3
Liabilities at 31 December	(8.9)	(8.0)

The liabilities in respect of pensions in payment account for around 32% of the total liabilities (2008: 16%). The average term to retirement is five 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) (2008: six years) and three years (2008: three years) for deferred members.

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19 Retirement benefit schemes continued

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

	2009 £m	2008 £m
Assets at 1 January	5.0	4.7
Expected return on the Plan assets	0.2	0.3
Actuarial gains/(losses)	0.2	(0.4)
Contributions from sponsoring company	0.7	0.7
Benefits paid	(0.4)	(0.3)
Assets at 31 December	5.7	5.0

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

	Increase of 1% £m	Decrease of 1% £m
Discount rate		
Effect on interest cost	–	–
Effect on the defined benefit obligation	(1.2)	1.4
Inflation rate		
Effect on interest cost	–	–
Effect on the defined benefit obligation	0.3	(0.3)
Expected rate of return on assets		
Effect on the expected return on the Plan assets	0.1	(0.1)

The sensitivities to the interest cost and expected return on assets shown above relate to the calendar year ending 31 December 2010. The sensitivities to the defined benefit obligation relate to the liability as at 31 December 2009.

	2009 £m	2008 £m
Actuarial losses recognised in the statement of comprehensive income	0.6	0.2
Cumulative actuarial losses recognised in the statement of comprehensive income	3.8	3.2

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

	Fair value of assets		Expected return	
	2009 £m	2008 £m	2009 %	2008 %
Fixed interest gilts	3.2	2.8	4.4	3.8
Corporate bonds	2.5	2.2	5.6	6.1
	5.7	5.0		

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:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of the Plan liabilities	(8.9)	(8.0)	(8.0)	(7.3)	(7.7)
Fair value of the Plan assets	5.7	5.0	4.7	4.8	4.4
Deficit in the Plan	(3.2)	(3.0)	(3.3)	(2.5)	(3.3)
Experience adjustments on the Plan liabilities:					
Amount	(0.8)	0.2	(0.4)	0.7	(1.5)
Percentage of the Plan liabilities	8.9%	(1.9%)	4.4%	(9.2%)	18.7%
Experience adjustments on the Plan assets:					
Amount	0.2	(0.3)	(0.5)	–	0.2
Percentage of the Plan assets	2.6%	(6.6%)	(11.0%)	0.4%	3.8%

The amount of contributions expected to be paid to the Plan during 2010 is £0.7m (2009: £0.7m).

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20 Deferred tax

	Non-current asset amortisation £m	Short-term timing differences £m	Retirement benefit obligation £m	Share-based payments £m	Total £m
At 1 January 2008	1.3	1.8	0.9	1.3	5.3
Credit/(charge) to income	0.2	(0.8)	(0.1)	–	(0.7)
Credit/(charge) to equity	–	–	–	(0.9)	(0.9)
At 31 December 2008	1.5	1.0	0.8	0.4	3.7
At 1 January 2009	**1.5**	**1.0**	**0.8**	**0.4**	**3.7**
Credit/(charge) to income	0.2	(0.4)	0.1	(0.6)	(0.7)
Credit/(charge) to equity	–	–	–	0.8	0.8
At 31 December 2009	**1.7**	**0.6**	**0.9**	**0.6**	**3.8**

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:

	2009 £m	2008 £m
Deferred tax within trade and other receivables	–	1.0
Deferred tax within non-current assets	3.8	2.7

At 31 December 2009, the Group had unused tax losses of £0.6m (2008: £0.6m) available for offset against future profits. 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.

21 Provisions

	Employee provisions £m	Insurance provisions £m	Other £m	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
At 31 December 2008	1.8	8.8	7.7	18.3
At 1 January 2009	**1.8**	**8.8**	**7.7**	**18.3**
Utilised	(0.1)	(2.4)	(2.6)	(5.1)
Additions	–	3.6	–	3.6
At 31 December 2009	**1.7**	**10.0**	**5.1**	**16.8**

Employee provisions comprise obligations to former employees other than retirement or post-retirement obligations. Insurance provisions include £1.8m (2008: £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.

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

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22 Operating lease commitments

	2009 £m	2008 £m
Minimum lease payments under operating leases recognised as an expense for the year	17.5	20.7

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

	2009			2008		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	8.1	3.7	11.8	8.2	1.7	9.9
Within two to five years	18.3	4.9	23.2	21.9	5.1	27.0
After five years	4.6	–	4.6	7.8	5.7	13.5
At 31 December 2009	31.0	8.6	39.6	37.9	12.5	50.4

Operating lease payments represent rentals payable by the Group for certain properties and other items. Leases are negotiated for an average term of five years (2008: five years) and rentals are fixed for an average of four years (2008: three years).

23 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 surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business.

24 Share capital

	2009		2008	
	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	43,004	2,150	42,802	2,140
Exercise of share options	156	8	202	10
At the end of the year	43,160	2,158	43,004	2,150

The Company has one class of ordinary shares of 5p each ('shares') which carries no rights to fixed income. All ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

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 Act 2006.

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 27.

156,561 shares were issued in respect of options exercised under the Company's 1995 Scheme for a total consideration of £74,078 (2008: 202,007 shares for a total consideration of £249,200). Some options exercised under the 1995 Scheme were settled on a net basis.

No shares were issued in respect of the ESOP 2007, the Save As You Earn scheme or the 2005 Plan (2008: nil).

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24 Share capital continued

Share options

The Company has four 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 pages 68 to 74.

The Morgan Sindall Savings Related Share Option scheme ('the SAYE scheme'). The SAYE scheme was approved by shareholders on 22 April 2008 and by HMRC on 9 May 2008. No options were granted during the year (2008: 1,674,119 options granted on 1 July 2008). The options are exercisable after three years (for six 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 27.

Own shares

Own shares at cost represent 797,034 (2008: 840,864) 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 remuneration report on pages 68 to 74. 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 797,034 (2008: 840,864) 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 2009 of £6.00 (2008: £5.42), the market value of the shares was £4,782,204 (2008: £4,557,483).

25 Acquisitions

On 31 March 2009 the Group acquired 100% of the share capital of BMS Property Care Limited. The company subsequently changed its name to Lovell Respond Limited. Details of the net assets acquired and goodwill arising are as follows:

	£m
Purchase consideration:	
Cash paid	0.9
Costs directly attributable to the acquisition	0.2
Total purchase consideration	1.1
Net assets acquired	–
Goodwill (note 9)	**1.1**

Goodwill represents the value of people, track record and expertise acquired within acquisitions that are not capable of being individually identified and separately recognised.

	Acquiree's carrying amount £m	Fair value adjustments £m	Fair value £m
Fixed assets	0.1	(0.1)	–
Working capital	0.3	(0.3)	–
Net assets acquired	**0.4**	**(0.4)**	**–**
Purchase consideration settled in cash			0.9
Directly attributable acquisition costs			0.2
Cash and cash equivalents acquired			–
Cash outflow on acquisition			**1.1**

The acquired business contributed £4.0m of revenue and an operating loss of £0.1m before tax in the period from 1 April 2009 to 31 December 2009. If the acquisition had been completed on 1 January 2009, the total revenue from the acquired company for the year would have been £5.2m, and the loss for the year would have been £0.8m.

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26 Cash flows from operating activities

	2009 £m	2008 £m
Profit from operations for the year	43.7	58.0
Adjusted for:		
Amortisation of fixed life intangible assets	6.8	9.1
Share of net profit of equity accounted joint ventures	(0.1)	(2.6)
Depreciation of property, plant and equipment	9.3	8.1
Expense in respect of share options	1.0	2.3
Defined benefit plan payment	(0.7)	(0.7)
Defined benefit plan charge	0.3	0.2
Gain on disposal of property, plant and equipment	(0.4)	(0.2)
Increase in shared equity loan receivables	(9.0)	–
Write downs in work in progress recognised as an expense	1.0	–
Decrease in provisions	(1.5)	(1.0)
Operating cash flows before movements in working capital	50.4	73.2
Decrease/(increase) in inventories	29.1	(41.2)
Decrease in receivables	62.3	48.8
Decrease in payables	(122.7)	(122.9)
Movements in working capital	(31.3)	(115.3)
Cash generated/(utilised) from operations	19.1	(42.1)
Income taxes received/(paid)	7.7	(18.9)
Interest paid	(1.8)	(4.5)
Net cash inflow/(outflow) from operating activities	25.0	(65.5)

Additions to leased property, plant and equipment during the year amounting to £2.0m (2008: £6.3m) and additions to leasehold property amounting to £0.2m (2008: £nil) were financed by new finance leases. Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

27 Share-based payments

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 24 and the vesting periods for options and share awards granted under the 2005 Plan are given in the remuneration report on pages 68 to 74.

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 £5.82 (2008: £9.87). The options outstanding at 31 December 2009 had a weighted average exercise price of £7.76 (2008: £6.04), and a weighted average remaining contractual life of 1.6 years (2008: 2.1 years). In 2009 options under the ESOP 2007 were granted on 3 March and 28 May and the estimated fair value of the options granted on those dates was £0.2m (2008: £0.3m). Options and share awards under the 2005 Plan were granted on 30 March 2009. The estimated fair value of the options granted on those dates was £0.5m (2008: £1.0m) and the estimated fair value of the share awards granted on those dates was £1.1m (2008: £0.8m). There were no options granted under the SAYE scheme in 2009 (2008: fair value of £1.2m).

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27 Share-based payments continued

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.

2007 ESOP options	Mar 09	May 09
Number of options/shares granted	94,000	90,000
Weighted average fair value at date of grant (per option)	£0.90	£1.33
Weighted average share price at date of grant	£5.40	£6.52
Weighted average exercise price	£5.35	£6.36
Expected term (from date of grant)(ii)	6 years	6 years
Expected volatility(iii)	38.00%	38.00%
Expected dividend yield(iv)	7.80%	6.50%
Risk-free rate	2.60%	2.80%

2005 plan shares and options	Options Mar 09	Share awards Mar 09(v)
Number of options/shares granted(i)	503,018	198,402
Weighted average fair value at date of grant (per option/share)	£0.93	£5.61
Weighted average share price at date of grant	£5.61	£5.61
Weighted average exercise price	£5.80	n/a
Expected term (from date of grant)(ii)	6 years	3 years
Expected volatility(iii)	38.00%	48.00%
Expected dividend yield(iv)	7.50%	0.00%
Risk-free rate	2.50%	1.60%

(i) In March 2009, 503,018 options and 198,402 share awards were granted to executives of the Group under the 2005 Plan.

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

(iii) 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.

(iv) Set as equal to dividend yield prevailing at date of grant with the exception of share awards granted to executives of the Group, which are subject to performance conditions.

(v) 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 £1.0m and £2.3m related to equity-settled share-based payment transactions in 2009 and 2008 respectively.

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27 Share-based payments 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.

2009

										Balance at end of year		
	Grant date	Exercise date on or after	Expiry date	Exercise price £	Balance at the beginning of year No.	Options granted No.	Options lapsed No.	Options forfeited No.	Options exercised No.	In issue No.	Exercisable No.	Proceeds received £ (net of settlements)
1995 Scheme												
	29 Oct 02	29 Oct 07	28 Oct 09	2.70	246,000	–	93,354	–	152,646	–	–	73,882
	25 Feb 04	25 Feb 09	24 Feb 11	4.20	100,000	–	6,085	–	3,915	90,000	90,000	196
	14 Sep 04	14 Sep 09	13 Sep 11	4.38	60,000	–	–	–	–	60,000	60,000	–
2007 Scheme												
	13 Aug 07	13 Aug 10	12 Aug 17	16.76	23,000	–	–	–	–	23,000	–	–
	24 Sep 07	24 Sep 10	23 Sep 17	15.81	41,000	–	–	4,000	–	37,000	–	–
	20 Dec 07	20 Dec 10	19 Dec 17	10.51	100,000	–	–	–	–	100,000	–	–
	15 Apr 08	20 Apr 11	19 Apr 18	10.03	55,000	–	–	5,000	–	50,000	–	–
	27 May 08	27 May 11	26 May 18	9.92	55,000	–	–	5,000	–	50,000	–	–
	28 Oct 08	28 Oct 11	27 Oct 18	4.36	42,500	–	–	–	–	42,500	–	–
	26 Nov 08	26 Nov 11	25 Nov 18	4.75	25,000	–	–	–	–	25,000	–	–
	3 Mar 09	3 Mar 12	2 Mar 19	5.35	–	94,000	–	–	–	94,000	–	–
	28 May 09	28 May 12	27 May 19	6.36	–	90,000	–	–	–	90,000	–	–
2005 Plan												
	20 May 05	20 May 08	20 May 15	7.24	318,024	–	–	–	–	318,024	318,024	–
	5 Apr 06	5 Apr 09	5 Apr 16	12.59	258,532	–	–	11,914	–	246,618	246,624	–
	6 Mar 07	6 Mar 10	6 Mar 17	12.15	271,357	–	–	13,333	–	258,024	–	–
	9 Apr 08	9 Apr 11	8 Apr 18	10.39	342,066	–	–	–	–	342,066	–	–
	16 Jun 08	16 Jun 11	15 Jun 18	7.42	25,048	–	–	–	–	25,048	–	–
	30 Mar 09	30 Mar 12	29 Jun 18	5.80	–	503,018	–	–	–	503,018	–	–
2008 SAYE Scheme												
	1 Jul 08	1 Sep 11	28 Feb 12	7.02	1,549,831	–	–	269,451	–	1,280,380	20,726	–
Total					3,512,358	687,018	99,439	308,698	156,561	3,634,678	735,374	74,078

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27 Share-based payments continued

2008

	Grant date	Exercise date on or after	Expiry date	Exercise price £	Balance at the beginning of year No.	Options granted No.	Options lapsed No.	Options forfeited No.	Options exercised No.	Balance at end of year: In issue No.	Balance at end of year: Exercisable No.	Proceeds received £ (net of settlements)
1995 Scheme												
	29 Oct 02	29 Oct 07	28 Oct 09	2.70	380,000	–	31,993	–	102,007	246,000	246,000	42,200
	10 Mar 03	10 Mar 08	9 Mar 10	2.07	100,000	–	–	–	100,000	–	–	207,000
	25 Feb 04	25 Feb 09	24 Feb 11	4.20	100,000	–	–	–	–	100,000	–	–
	14 Sep 04	14 Sep 09	13 Sep 11	4.38	60,000	–	–	–	–	60,000	–	–
2007 Scheme												
	13 Aug 07	13 Aug 10	12 Aug 17	16.76	23,000	–	–	–	–	23,000	–	–
	24 Sep 07	24 Sep 10	23 Sep 17	15.81	41,000	–	–	–	–	41,000	–	–
	20 Dec 07	20 Dec 10	19 Dec 17	10.51	100,000	–	–	–	–	100,000	–	–
	15 Apr 08	20 Apr 11	19 Apr 18	10.03	–	55,000	–	–	–	55,000	–	–
	27 May 08	27 May 11	26 May 18	9.92	–	55,000	–	–	–	55,000	–	–
	28 Oct 08	28 Oct 11	27 Oct 18	4.36	–	42,500	–	–	–	42,500	–	–
	26 Nov 08	26 Nov 11	25 Nov 18	4.75	–	25,000	–	–	–	25,000	–	–
2005 Plan												
	20 May 05	20 May 08	20 May 15	7.24	318,024	–	–	–	–	318,024	318,024	–
	5 Apr 06	5 Apr 09	5 Apr 16	12.59	258,532	–	–	–	–	258,532	–	–
	6 Mar 07	6 Mar 10	6 Mar 17	12.15	271,357	–	–	–	–	271,357	–	–
	9 Apr 08	9 Apr 11	8 Apr 18	10.39	–	342,066	–	–	–	342,066	–	–
	16 Jun 08	16 Jun 11	15 Jun 18	7.42	–	25,048	–	–	–	25,048	–	–
2008 SAYE Scheme												
	1 Jul 08	1 Sep 11	28 Feb 12	7.02	–	1,674,119	–	124,288	–	1,549,831	11,339	–
Total					1,651,913	2,218,733	31,993	124,288	202,007	3,512,358	575,363	249,200

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 year. There were no phantoms granted during the year (2008: nil). Phantoms are exercisable between three and eight years from the date of grant of the phantom. The total intrinsic value at 31 December 2009 was £nil (2008: £0.2m). The Group had recorded liabilities of £0.1m at 31 December 2009 in respect of phantoms (2008: £0.2m).

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 Aug 2005	6.65	68,000	–	–	68,000	0.79
11 Oct 2005	8.49	51,000	–	–	51,000	0.52
5 Dec 2005	8.31	60,000	–	–	60,000	0.54
5 Apr 2006	12.59	50,000	–	–	50,000	0.25
5 April 2006[(i)]	12.59	50,000	–	–	50,000	0.25
18 May 2006	11.09	30,000	–	–	30,000	0.33
10 Aug 2006	10.86	10,000	–	–	10,000	0.35
	9.67[(ii)]	319,000	–	–	319,000	0.48[(ii)]

(i) 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.

(ii) Weighted average.

The market price of a share on 31 December 2009 was £6.00 (2008: £5.42).

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27 Share-based payments continued

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 Dec 2009	31 Dec 2008
Expected term (from date of grant)[i]	4.6–5.6 years	4.6–5.6 years
Share price at valuation date	£6.00	£5.42
Expected volatility of return[ii]	43%–60%	38%–41%
Expected dividend yield[iii]	7.0%	7.4%
Risk-free rate	2.2%	2.5%

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

[ii] Assumed to be equal to historic volatility of the Company's share price over the year prior to grant equal in length to the expected term.

[iii] Set as equal to dividend yield prevailing at date of grant.

The Group recorded a credit to profit of £nil during the year in respect of phantoms (2008: £0.6m credit).

28 Related parties

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 jointly controlled entities 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	
	2009 £m	2008 £m	2009 £m	2008 £m
Claymore Roads (Holdings) Limited	–	0.1	–	0.1
Morgan-Vinci Limited	0.1	–	–	0.1
Community Solutions for Primary Care (Holdings) Limited	12.9	41.0	1.4	2.2
Renaissance Miles Platting Limited	0.1	–	–	–
Blue Light Holdings Limited	15.0	20.3	0.2	1.3
Ashton Moss Developments Limited	–	–	(0.2)	(0.2)
Bromley Park Limited	–	–	(0.6)	(6.1)
Chatham Place (Building 1) Limited	0.4	0.3	–	0.1
ECf (General Partner) Limited	1.4	1.5	0.6	–
Eurocentral Partnership Limited	–	1.4	0.2	0.2
Lewisham Gateway Developments Limited	–	–	0.2	0.1
Lingley Mere Business Park Development Company Limited	0.3	2.3	–	(3.5)
North Shore Development Partnership Limited	–	–	0.1	0.1
Ician Developments Limited	–	–	0.4	–
The Compendium Group Limited	1.4	2.2	–	–
	31.6	69.1	2.3	(5.6)

	Amounts owed by/(to) related parties	
	2009 £m	2008 £m
Amounts owed by related parties	3.1	4.2
Amounts owed to related parties	(0.8)	(9.8)
	2.3	(5.6)

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

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28 Related parties continued

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 remuneration report on pages 72 to 74.

	2009 £m	2008 £m
Short-term employee benefits	2.2	2.2
Other long-term benefits	0.2	1.5
Share option exercises	–	0.8
Post-employment benefits	0.4	0.1
	2.8	4.6

Directors' transactions

There were no transactions between the Group and the directors during the year or in the subsequent period to 22 February 2010 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 22 February 2010.

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 22 February 2010.

29 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.

Included within cash and cash equivalents is £23.8m (2008: £18.5m) which is the Group's share of cash held within jointly controlled operations.

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 28 to 31 and the corporate governance statement on page 67.

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 management. 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.

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29 Financial instruments continued

(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 due from construction contract customers.

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 UK. The Group does not have any significant concentration risk in respect of amounts due from construction contract customers or trade receivable 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 2009 were £62.0m (2008: £59.6m).

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.

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 receivable 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:

	2009		2008	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	101.7	1.5	143.6	0.6
Past due 1 to 30 days	13.1	–	24.7	0.1
Past due 31 to 120 days	10.4	–	12.2	–
Past due 121 to 365 days	4.4	0.2	14.5	0.3
Greater than one year	6.2	1.2	1.9	1.7
	135.8	2.9	196.9	2.7

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

	2009 £m	2008 £m
Balance at beginning of the year	2.7	4.9
Amounts written off during the year	(0.2)	(1.9)
Amounts recovered during the year	(0.2)	(0.3)
Increase in provision recognised in the income statement	0.6	–
Balance at 31 December	2.9	2.7

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29 Financial instruments continued

(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 whilst ensuring that the return achieved on cash and investments is maximised. The Group had no drawn down debt facilities as at 31 December 2009 (2008: £nil).

As discussed below under capital management, the Group does not have any derivative or non-derivative financial liabilities with the exception of finance lease liabilities, trade and other payables, current tax liabilities and retirement benefit obligations. Current tax liabilities and trade and other payables are non-interest bearing and therefore have no weighted average effective interest rates. Retirement benefit obligations are measured at the net of the present value of retirement benefit obligations and the fair value of the Plan assets. Finance lease liabilities are carried at the present value of the minimum lease payments. An analysis of the maturity profile for finance lease liabilities is contained in note 18.

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 £100m of committed loan facilities available until mid-2012.

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:

	2009 £m	2008 £m
Not past due	128.4	109.9
Past due 1 to 30 days	6.6	32.8
Past due 31 to 120 days	7.5	17.9
Past due 121 to 365 days	3.4	12.8
Greater than one year	0.1	0.1
	146.0	173.5

(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 £80.8m (2008: £75.6m) have fixed interest payments at an average rate of 5.01% (2008: 5.11%) for periods up until 2040.

The Group's share of the fair value of swaps entered into at 31 December 2009 by joint ventures is estimated at a £1.7m liability (2008: £2.3m 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.

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Currency risk
The majority of the Group's operations are carried out in the UK 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 note 24 and the consolidated statement of changes in equity. The cash and cash equivalents are supplemented by the £100m of bank facilities which are committed until mid-2012.

The Group dividend policy is stated in the business review on page 33.

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.

30 Subsequent events

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

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Company financial statements

The Company's financial statements for the financial year ended 31 December 2009

Company financial statements

Independent auditors' report

Independent auditors' report to the members of Morgan Sindall plc
We have audited the parent company financial statements of Morgan Sindall plc for the year ended 31 December 2009 which comprise the balance sheet, the combined statement of movements in reserves and shareholders' funds, the statement of significant accounting policies and related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of Morgan Sindall plc for the year ended 31 December 2009.

Ian Krieger
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
23 February 2010

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Company balance sheet
at 31 December 2009

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	Notes	2009 £m	2008 £m
Fixed assets			
Tangible assets	4	1.2	1.2
Investments	5	322.2	282.7
		323.4	283.9
Current assets			
Trade debtors		0.1	0.1
Amounts owed by subsidiary undertakings		88.6	81.3
Other debtors		0.1	0.3
Prepayments and accrued income		1.6	0.5
Corporation tax recoverable		–	0.9
Deferred tax asset	6	1.0	1.2
Cash at bank and in hand		85.2	76.5
		176.6	160.8
Creditors: amounts falling due within one year			
Bank overdraft		(122.3)	(107.8)
Trade creditors		(2.6)	(2.7)
Amounts owed to subsidiary undertakings		(170.4)	(153.5)
Other tax and social security		(0.2)	(0.7)
Corporation tax payable		(19.1)	–
Other creditors		(0.8)	(0.7)
Accruals and deferred income		(3.5)	(3.7)
		(318.9)	(269.1)
Net current liabilities		(142.3)	(108.3)
Total assets less current liabilities		181.1	175.6
Provisions for liabilities	10	(10.0)	(9.2)
Net assets excluding retirement benefit obligation		171.1	166.4
Retirement benefit obligation	7	(2.3)	(2.2)
Net assets including retirement benefit obligation		168.8	164.2
Shareholders' funds			
Share capital	8	2.2	2.2
Share premium account		26.7	26.6
Capital redemption reserve		0.6	0.6
Own shares		(6.0)	(6.4)
Special reserve		13.7	13.6
Retained earnings		131.6	127.6
Total shareholders' funds		168.8	164.2

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 23 February 2010 and signed on its behalf by:

Paul Smith
Chief Executive

David Mulligan
Finance Director

Company financial statements
Company combined statement of movements in reserves and shareholders' funds
for the year ended 31 December 2009

	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2009	2.2	26.6	(6.4)	0.6	13.6	127.6	164.2
Profit for the year	–	–	–	–	–	21.0	21.0
Recognition of share based payments	–	–	–	–	–	1.0	1.0
2009 interim dividend declared and paid	–	–	–	–	–	(5.0)	(5.0)
2008 final dividend declared and paid	–	–	–	–	–	(12.7)	(12.7)
Own shares acquired in the period	–	–	(0.1)	–	–	–	(0.1)
Own shares vested	–	–	0.5	–	–	(0.5)	–
Arising on striking-off of dormant subsidiaries	–	–	–	–	0.1	–	0.1
Options exercised	–	0.1	–	–	–	–	0.1
Deferred tax arising on recognition of share-based payments	–	–	–	–	–	0.8	0.8
Actuarial loss on defined benefit obligation	–	–	–	–	–	(0.6)	(0.6)
Balance at 31 December 2009	2.2	26.7	(6.0)	0.6	13.7	131.6	168.8

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Significant accounting policies

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Basis of accounting
These financial statements have been prepared on a going concern basis as discussed in the business review on page 33, 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 2006 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 to the current year's presentation which has had the effect of increasing investments by £1.0m and decreasing amounts owed by subsidiary undertakings by £1.0m. This has had no impact on net assets or earnings.

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 revisions 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 2009 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) Tax
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.

Fixed asset investments
Investments held as fixed assets are stated at cost less provision for any impairment in value. Investments are reviewed for impairment at the earlier of the Company's reporting date or where an indicator of impairment is identified.

Amounts owed by subsidiary undertakings
Included within amounts owed by subsidiary undertakings of £88.6m (2008: £81.3m) is £20.0m (2008: £nil) which is not repayable within one year.

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

Tax
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.

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Significant accounting policies

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.

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.

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1 Employees

The average number of people employed by the Company including directors during the year was 22 (2008: 21).

2 Staff costs

	2009 £m	2008 £m
Wages and salaries	3.8	4.9
Social security costs[i]	0.6	0.2
Pension costs	0.6	0.5
	5.0	5.6

[i] Included within this amount is £nil (2008: credit of £0.6m) relating to the release of the National Insurance accrual recognised on share-based payments. The accrual is remeasured at each reporting period on the basis of the intrinsic value of share-based payments.

3 Profit of the parent company

The Company has taken advantage of section 408 of the Companies Act 2006 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 £21.0m (2008: £50.5m).

4 Tangible assets

	Owned plant, machinery and equipment £m	Freehold property £m	Total £m
Cost or valuation			
Balance at 1 January 2009	2.8	0.1	2.9
Additions in the year	0.4	–	0.4
Balance at 31 December 2009	3.2	0.1	3.3
Accumulated depreciation			
Balance at 1 January 2009	(1.7)	–	(1.7)
Depreciation charge for the year	(0.4)	–	(0.4)
Balance at 31 December 2009	(2.1)	–	(2.1)
Net book value			
Net book value at 31 December 2009	1.1	0.1	1.2
Net book value at 31 December 2008	1.1	0.1	1.2

5 Investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
Cost			
Balance at 1 January 2009	287.0	1.0	288.0
Additions in the year	39.5	–	39.5
Disposals during the year	(0.8)	(1.0)	(1.8)
Balance at 31 December 2009	325.7	–	325.7
Provisions			
Balance at 1 January 2009	(4.3)	(1.0)	(5.3)
Disposals during the year	0.8	1.0	1.8
Balance at 31 December 2009	(3.5)	–	(3.5)
Net book value			
Net book value at 31 December 2009	322.2	–	322.2
Net book value at 31 December 2008	282.7	–	282.7

On 17 December 2009, the Company increased its investment in its wholly owned subsidiary, Morgan Ashurst plc, by £14.0m through the purchase of 14.0m fully paid ordinary shares of £1.00 each.

On 17 December 2009, the Company increased its investment in its wholly owned subsidiary, Lovell Partnerships Limited, by £20.0m through the purchase of 20.0m fully paid ordinary shares of £1.00 each.

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5 Investments continued

On 17 December 2009, the Company increased its investment in its wholly owned subsidiary, Morgan Professional Services Limited, by £1.0m through the purchase of 1.0m fully paid ordinary shares of £1.00 each.

On 17 December 2009, the Company increased its investment in its wholly owned subsidiary, Morgan Sindall Investments Limited, by £4.5m through the purchase of 4.5m fully paid ordinary shares of £1.00 each.

The disposals during the year relate to a dissolution pursuant to section 625A of the Companies Act 1985 of two dormant companies, Sindall Joinery Limited (in which the Company had an investment of £0.3m and a loan receivable of £1.0m (which was fully provided against)) and Noel Street Properties Limited (in which the Company had an investment of £0.5m). A loss of £0.1m was recognised on the dissolution of these two companies.

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
Balance at 1 January 2009	0.8	0.8	0.4	2.0
(Debit)/credit to the profit and loss account	(0.4)	0.1	(0.6)	(0.9)
Credit to equity	–	–	0.8	0.8
Balance at 31 December 2009	0.4	0.9	0.6	1.9

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:

	2009 £m	2008 £m
Current assets	1.0	1.2
Retirement benefit obligations	0.9	0.8
	1.9	2.0

At the balance sheet date, the Company has unused tax losses of £0.6m (2008: £0.6m) available for offset against future profits. No deferred tax asset has been recognised in respect of £0.2m (2008: £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 £0.4m (2008: £0.3m) 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 2009, contributions of £0.1m (2008: £0.1m) were due in respect of December'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 (2008: £0.7m) in respect of the Plan.

Defined benefit 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 reappraised.

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7 Retirement benefit schemes continued

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was prepared as at 31 December 2009. The present value of the defined benefit liabilities, the related current service cost and past service cost were measured using the projected unit method.

Key assumptions used:	2009 %	2008 %	2007 %
Discount rate	5.6	6.1	6.0
Expected rate of salary increases	4.8	4.0	4.5
Expected return on plan assets	4.9	4.8	5.3
Future pension increases – members who left before 1 June 1995[i]	3.5	3.5	3.5
Future pension increases – members who left after 31 May 1995	3.0	3.0	3.0
Future pension increases – non-guaranteed deferred pensions	3.5	3.5	3.5

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

	2009 £m	2008 £m	2007 £m
Present value of the Plan liabilities[ii]	(8.9)	(8.0)	(8.0)
Fair value of the Plan assets [ii]	5.7	5.0	4.7
Deficit in the Plan	(3.2)	(3.0)	(3.3)
Related deferred taxation at 28%	0.9	0.8	0.9
Liability recognised in the balance sheet	(2.3)	(2.2)	(2.4)

The total pension costs of the Company in respect of:

	2009 £m	2008 £m	2007 £m
Defined benefit section of the Plan[iii]	0.4	0.2	0.2
Defined contribution section of the Plan[iii]	0.4	0.3	0.3

There are no amounts to be included within the operating profit for current or past service costs in 2009, 2008 or 2007.

Notes:

[i] 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.

[ii] 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.

[iii] In view of the funding position of the defined benefit section of the Plan there is a requirement for an employer's contribution in 2010 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.

Amounts recognised in administrative expenses in respect of the Plan:

	2009 £m	2008 £m	2007 £m
Interest cost	(0.5)	(0.5)	(0.4)
Expected return on the Plan assets	0.2	0.3	0.3
Net periodic cost	(0.3)	(0.2)	(0.1)

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

	2009 £m	2008 £m	2007 £m
Deficit at 1 January	(3.0)	(3.3)	(2.5)
Interest cost	(0.5)	(0.5)	(0.4)
Actuarial losses	(0.6)	(0.2)	(0.9)
Expected return on the Plan assets	0.2	0.3	0.3
Contributions from sponsoring Company	0.7	0.7	0.2
Deficit at 31 December	(3.2)	(3.0)	(3.3)

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7 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		
	2009 £m	2008 £m	2007 £m	2009 %	2008 %	2007 %
Equity instruments	–	–	0.5	n/a	n/a	7.4
Fixed interest gilts	3.2	2.8	2.4	4.4	3.8	4.4
Corporate bonds	2.5	2.2	1.8	5.6	6.1	6.0
Other assets	–	–	–	2.0	2.0	5.5
	5.7	5.0	4.7			

History of experience adjustments is as follows:

	2009		2008		2007		2006		2005	
	£m	% asset or liability value	£m	% asset or liability value	£m	% asset or liability value	£m	% asset or liability value	£m	% asset or liability value
Difference between the expected and actual return on the Plan assets	0.2	3.5	(0.4)	(6.6)	(0.5)	(11.0)	–	0.4	0.2	3.8
Experience (loss)/gain arising on the Plan liabilities	(0.8)	(9.0)	0.2	1.9	(0.4)	(4.4)	0.7	9.2	(1.5)	(18.6)
Total actuarial (loss)/gain	(0.6)		(0.2)		(0.9)		0.7		(1.3)	

8 Share capital

	2009		2008	
	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	43,004	2,150	42,802	2,140
Exercise of share options	156	8	202	10
At the end of the year	43,160	2,158	43,004	2,150

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 Act 2006.

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 24 of the consolidated financial statements.

156,561 shares were issued in respect of options exercised under the Company's 1995 Scheme for a total consideration of £74,078 (2008: 202,007 shares for a total consideration of £249,200). 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 (2008: nil).

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8 Share capital continued

Share options

The weighted average share price at the date of exercise for share options exercised during the year was £5.82 (2008: £9.87). The options outstanding at 31 December 2009 had a weighted average exercise price of £7.76 (2008: £6.04) and a weighted average remaining contractual life of 1.6 years (2008: 2.1 years). The total equity-settled share-based payments expense recognised by the Company during the year was £1.0m (2008: £2.3m) and the expense recognised for cash-settled share-based payments was a credit of £nil (2008: credit of £0.3m).

Own shares

Own shares at cost represent 797,034 (2008: 840,864) 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 remuneration report on pages 68 to 74. 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 797,034 (2008: 840,864) 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 2009 of £6.00 (2008: £5.42), the market value of the shares was £4,782,204 (2008: £4,557,483).

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 2009	1.7	7.5	9.2
Utilised	(0.1)	(2.3)	(2.4)
Additions	–	3.2	3.2
At 31 December 2009	1.6	8.4	10.0

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 two and five years for £0.2m (2008: £0.2m). Lease payments recognised as an expense in the year amounted to £0.2m (2008: £0.2m).

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 surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business.

13 Subsequent events

Following the balance sheet date, the Company agreed to purchase investments in dormant companies held by its subsidiary, Morgan Ashurst plc, at their net book value of £21.9m.

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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
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	
Access for Wigan (Holdings) Limited (50%)*	Investment in public services centre
Ashton Moss Developments Limited (50%)*	Inner city regeneration
Blue Light 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 (33⅓%)*	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 12. With the exception of Newman Insurance Company Limited registered and operating in Guernsey, all undertakings are registered in England and Wales and the principal place of business is the UK. Newman Insurance Company Limited has a year end of 30 November coterminous with the renewal date for the insurance arrangements in which it participates.

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This brochure is printed on HannoArt Silk and Skye Uncoated Brilliant White, comprising of fibres sourced from well managed sustainable forests, (incorporating FSC certified fibre) and bleached without the use of chlorine. The production mill for this paper operates to EMAS, ISO 14001 environmental and ISO 9001 quality standards.
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Financial calendar 2010

Financial year end	31 December 2009
Preliminary results announcement	23 February 2010
Annual general meeting	6 May 2010
Interim management statement	6 May 2010
Second interim dividend:	
Ex-dividend date	10 March 2010
Record date	12 March 2010
Payment date	1 April 2010
Half-yearly results announcement	August 2010
Interim dividend payable	September 2010
Interim management statement	November 2010

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 ('Registrars') and clearly state the shareholder's registered address and, if available, the full shareholder reference number.

By post
Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0GA.

By telephone
0871 664 0300 (calls cost 10p per minute plus network extras). Lines are open Monday to Friday 8am to 5.30pm. If calling from overseas please call +44 20 8639 3399.

By email
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 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 Registrars on request or at 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 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 ten day settlement basis with purchases on a five 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.

Website and electronic communications

The 2009 annual report and other information about the Company are available on its website, www.morgansindall.com. 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.com/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 shareholder documents by contacting the Registrars.

If you have not already registered your current email address, you can do so at www.capitashareportal.com.

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

Unsolicited mail

The Company is obliged by law to make its share register publicly available and as a consequence some shareholders may receive unsolicited mail, including from unauthorised investment firms. For more information on unauthorised investment firms targeting UK investors, visit the website of the Financial Services Authority at www.moneymadeclear.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.

Analysis of shareholdings at 31 December 2009

	No. of accounts	% of total accounts	No. of shares	% of total shares
Holding of shares				
Up to 1,000	835	52.5	407,727	0.9
1,001 to 5,000	428	26.9	1,042,859	2.4
5,001 to 100,000	253	15.9	6,592,433	15.3
100,001 to 1,000,000	68	4.3	20,201,080	46.8
Over 1,000,000	7	0.4	14,916,317	34.6
	1,591	100	43,160,416	100

Shareholder communication

Email: enquiries@morgansindall.com
Telephone: 020 7307 9200

Registered office

Kent House, 14–17 Market Place, London W1W 8AJ

Registered in England and Wales, No: 00521970

Advisers

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

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MORGAN SINDALL