Constructing and regenerating

Annual report and accounts 2011

MORGAN SINDALL

Constructing and regenerating

Morgan Sindall Group is a leading UK construction and regeneration group employing around 7,000 people. The construction, infrastructure and design services of the Group provide clients with innovative and cost-effective solutions throughout the property and infrastructure lifecycle. Working in long-term trusted partnerships, the Group's expertise in mixed-use and housing-led regeneration is creating large-scale economic and social renewal throughout the country.

Construction and Infrastructure
Offers national design, construction and infrastructure services to private and public sector customers. The division works on projects of all sizes across a broad range of sectors including commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport, waste and water.

Fit Out
Specialises in fit out and refurbishment projects in the office, education, retail, technology and leisure sectors through Overbury as a national fit out company operating through multiple procurement routes and Morgan Lovell specialising in the design and build of offices in London and the South.

Affordable Housing
Specialises in the design and build, refurbishment, maintenance, regeneration and repair of homes and communities across the UK. The division operates a full mixed-tenure model creating homes for rent, shared ownership and open market sale.

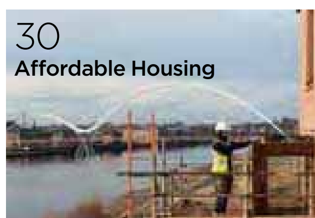
Urban Regeneration
Works with landowners and public sector partners to unlock value from under-developed assets to bring about sustainable regeneration and urban renewal through the delivery of mixed-use projects typically creating commercial, retail, residential, leisure and public realm facilities.

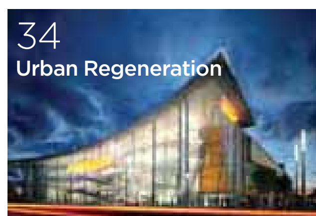
Investments
Facilitates project development, primarily in the public sector, by providing flexible financing solutions and development expertise covering a wide range of markets including urban regeneration, education, healthcare, housing, emergency services, defence and infrastructure.

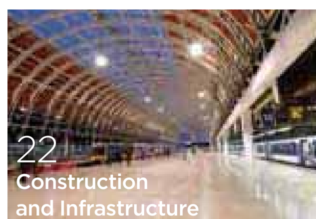
Construction

Regeneration

Contents







Directors' report: business review

All about Morgan Sindall and how we performed in 2011

02 Group highlights
04 The Group's markets
06 Business model
08 Chairman's statement
10 Chief Executive's review
14 Finance review
18 Risk review

Divisions
22 Construction and Infrastructure
26 Fit Out
30 Affordable Housing
34 Urban Regeneration
38 Investments

42 Sustainability review

Directors' report: governance

Information about our Board of directors and corporate governance

46 Board of directors
48 Corporate governance statement
53 Remuneration report
62 Other statutory and regulatory information
66 Directors' responsibilities statement

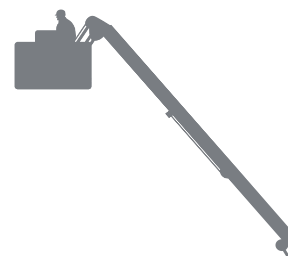
Financial statements

For the financial year ended 31 December 2011

Consolidated
68 Independent auditor's report
69 Income statement
69 Statement of comprehensive income
70 Balance sheet
71 Cash flow statement
72 Statement of changes in equity
73 Significant accounting policies
81 Notes to the financial statements

Company
110 Independent auditor's report
111 Balance sheet
112 Combined statement of movement in reserves and shareholders' funds
113 Significant accounting policies
116 Notes to the financial statements

123 Shareholder information



Directors' report: business review **02–44**
Directors' report: governance **45–66**
Financial statements **67–122**
Shareholder information **123–124**

Group highlights

The Group has delivered a resilient performance in line with expectations against a backdrop of demanding market conditions. The Group's results are testament to its straightforward approach and are underpinned by its relentless focus on quality and the creative and innovative approach it brings to projects.

Revenue £m

£2,227m

Year	£m
2011	2,227
2010	2,102
2009	2,214

Revenue slightly increased by 6% driven by growth across the Group.

Dividend pence

42.0p

Year	pence
2011	42.0
2010	42.0
2009	42.0

Held for the fourth consecutive year. The total dividend is 2.0x covered by adjusted earnings per share.

Construction highlights

The Group is enhancing its market position in construction, having secured key opportunities in growing infrastructure sectors. The Group's breadth of skills will enable it to provide integrated approaches to its clients' most complex projects.

- Secured key projects in growth infrastructure sectors of roads, rail, aviation and energy distribution
- Reducing public sector exposure, although opportunities remain in education and infrastructure
- Grown Fit Out market share to more than 25% in a fiercely competitive market
- Seeing slow and steady recovery of London commercial sector
- Increased level of joined up working and integrated approaches to clients' projects
- Stable forward order book at £3.4bn.

Profit before tax amortisation and non-recurring items £m

£45.3m

Year	£m
2011	45.3
2010	51.3
2009	51.5

Profit has fallen reflecting the challenging market conditions and their impact on margin.

Adjusted EPS pence*

82.5p

Year	pence
2011	82.5
2010	92.9
2009	93.9

The fall in adjusted EPS reflects the fall in absolute adjusted profit before tax offset by a decrease in the effective tax rate.

*Adjusted EPS is basic earnings per share before amortisation of intangible assets, non-recurring items and one-off tax benefit (note 8).

Profit before tax £m

£40.0m

Year	£m
2011	40.0
2010	40.7
2009	44.7

Basic EPS pence

77.5p

Year	pence
2011	77.5
2010	70.5
2009	77.9

Forward order book £bn

£3.4bn

Year	£bn
2011	3.4
2010	3.6
2009	3.2

Stable forward order book underpins confidence in the Group's outlook.

Regeneration pipeline £bn

£1.8bn

Year	£bn
2011	1.8
2010	1.4
2009	1.4

With five new major projects secured in the year, the growing regeneration pipeline is supplemented by £0.6bn of opportunities at preferred developer stage.

Regeneration highlights

The release of land from the public sector will drive mixed-use and housing-led regeneration. The Group is investing in its regeneration business.

- Secured five new major schemes together valued at £0.8bn
- £20m investment in regeneration to underpin medium-term growth
- Affordable Housing expansion driven by full year impact of broadened offering
- Targeting 15% average ROCE on regeneration projects through the cycle
- Investments focus on land-swap opportunities as public sector grants reduce
- Regeneration pipeline expanded significantly to £1.8bn with £0.6bn at preferred developer.

The Group's markets

Construction

The total construction market was forecast to be around £106bn in 2011. The market can be subdivided into three submarkets; public, regulated and private. Within each submarket are key sectors and the Group's revenues in those sectors are as follows:

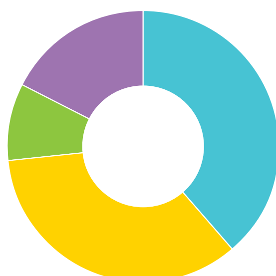
Key sectors

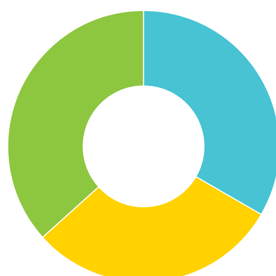
Public		Regulated		Private	
Education	£10.0bn	Energy	£3.5bn	Commercial	£6.2bn
Health	£3.5bn	Water	£3.3bn	Retail	£5.4bn
Roads	£3.8bn	Transport	£5.0bn	Industrial	£3.8bn
Housing	£18.0bn				

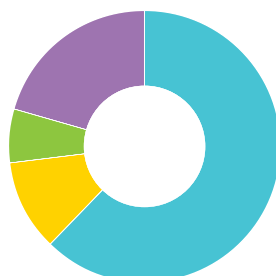
Source: Construction Products Association 2011 winter forecast, ONS and Experian

Group's revenue by sector

Public	£1,075m	Regulated	£453m	Private	£730m
48%		20%		32%	
Social housing	£418m	Water	£151m	Commercial	£455m
Education	£373m	Energy	£137m	Open market housing	£79m
Health	£98m	Rail, air, transport	£165m	Leisure	£47m
Community, defence, roads, other	£186m			Other	£149m







Market dynamics

- Overall market challenging due to macroeconomic backdrop of faltering growth for the economy and the resulting impact on confidence
- Public sector spending will impact from 2012 onwards, leading to reduced construction opportunities in the sector
- Investment in infrastructure is forecast to rise, driven by the Government's £250bn National Infrastructure Plan
- Investment by water companies is peaking in the middle of the current investment cycle
- Private commercial sector is slowly recovering, led by improving conditions in London and the South East
- Housing margin improving, albeit market remains constrained by lack of mortgage availability for first-time buyers.

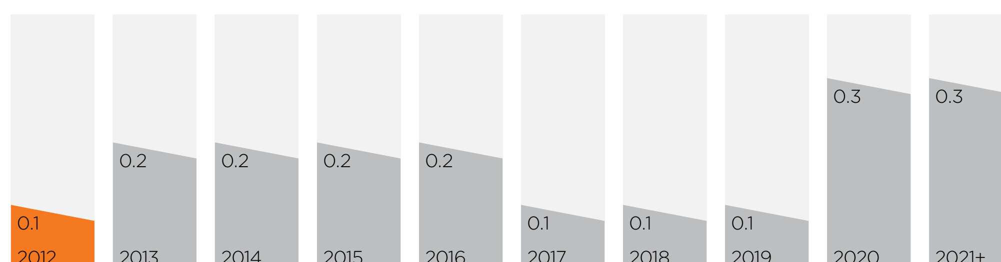
Regeneration

Working in long-term partnerships with clients to use their land assets to achieve large-scale social and economic renewal.

Factors driving regeneration

- Clients seek partners with a track record of successful delivery, financial strength and the ability to source private financing to fund regeneration
- 2011-15 Affordable Homes Programme
  - 4.5m people on national housing lists
  - £4.5bn investment to deliver 150,000 new social houses
- HCA development and land disposal strategy
  - Land key to promoting economic growth, housing delivery and community activity
  - Land disposed to support local plans
  - Deferred payment model; Build Now; Pay Later
- Housing strategy for England
  - Release land with capacity to build up to 100,000 homes
  - 40% land suitable for development sits within public sector land banks
- 21 Enterprise Zones to be established
  - Business rates discount and retention of rates by local area
  - Simplified planning approaches
  - Tax increment finance and other tax incentives
- £2.1bn mixed-use regeneration pipeline
  - 3.4m sq ft commercial
  - 2,800 residential units
  - 1m sq ft retail
  - 3m sq ft light industrial.

The Group's regeneration pipeline £bn



The Group's approach

- Regeneration is driven by the release of public sector land to enable economic and social renewal
- Schemes are usually complex and seek to transform sub-optimised land to improved uses
- The improved uses include commercial offices, residential, retail, leisure and light industrial
- Schemes, whether mixed-use or housing-led, are delivered over a long time frame, usually 10–15 years
- Group invests and recycles working capital on a phase-by-phase basis
- Affordable Housing focuses on housing-led regeneration, particularly mixed-tenure schemes
- Urban Regeneration and Investments focus on mixed-use regeneration in major urban areas.

Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

Business model

Morgan Sindall Group is known as the construction and regeneration group. Construction is offered through a network of local offices to deliver projects of all sizes with skills to provide clients with a complete design, construction, refurbishment and maintenance service for their property and infrastructure assets. Regeneration is working in partnerships with clients to use their land assets to achieve large-scale economic renewal.

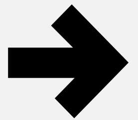
01

The Group's markets

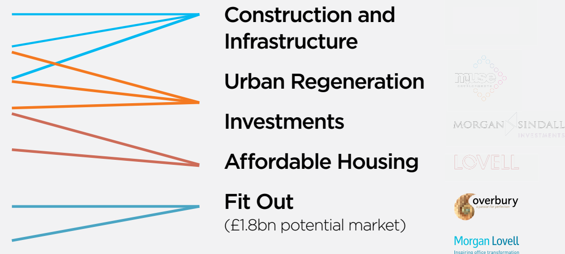
The Group's overall market is over £100bn per annum and includes repairs and maintenance ('R&M') expenditure.

Divisions

The divisions align themselves to particular chosen market sectors.



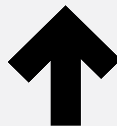
Market sectors	2011 £bn	Trend
Infrastructure	13.4	▲
Private Industrial & Commercial	26.7	▲
Public Non-Residential	12.9	▼
Private Housing	13.7	▲
Public Housing (inc R&M)	10.4	▼
Private Housing R&M	10.4	—
Public Non-Residential R&M	6.7	▼
Private Non-Residential R&M	12.2	—
Total Construction Market	**106.4**	▼



06

Profit return

By managing risks for clients the Group earns a profit which enables it to:

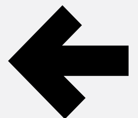


- pay dividends to shareholders; and
- invest in the business and fund acquisitions.

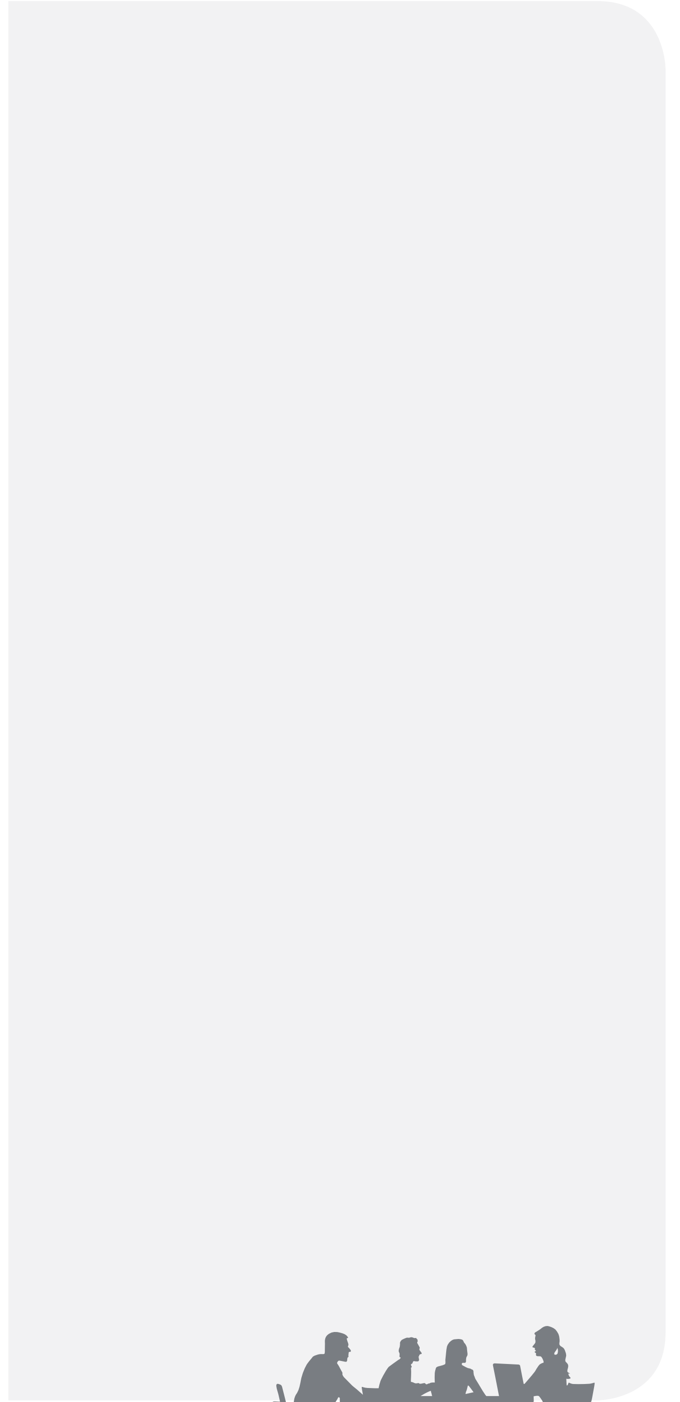
05

Project risk

Some risks are retained or shared with clients such as land value in long-term development agreements.



- Construction risks are primarily passed to and managed by the Group
- Many risks are passed through to the Group's suppliers and subcontractors
- The Group takes construction risk from its clients and ensures it is passed to those best placed to manage it.



Chairman's statement

"Our strategy to maintain our construction market position and grow our regeneration pipeline will allow us to capitalise on the significant opportunities that undoubtedly exist in the UK. We enter the new financial year in a strong position to deliver sustained long-term value for our shareholders and clients."

John Morgan
Executive Chairman

2011 has seen a resilient performance from the Group, delivering results in line with our expectations consistently over the past 12 months despite demanding market conditions.

The Group's results are testament to our straightforward approach to construction and regeneration. This is underpinned by our relentless focus on quality through the rigorous application of our own Perfect Delivery programme and the creative and innovative approach we bring to projects.

Strategy for success

For a number of years the Group's goal has been to create leading positions in our chosen sectors and we continue to make significant progress towards that goal. We measure our performance by the quality of our margin, not necessarily by the size of a project and we achieve a premium margin by providing our clients with an exceptional service.

Achieving success in today's market means staying focused on what we do best within the sectors we know well. We define success in a number of ways, from achieving quality margin and growing the business profitably through to being nominated the partner of choice, selected as the preferred employer and considered a responsible and forward-thinking group.

We have achieved success this year, through winning key construction opportunities in growth areas of the market, namely energy, transport and commercial as well as growing our regeneration pipeline of work by securing five major schemes together valued at £0.8bn.

Looking ahead, our strategic focus is to develop our market position across our construction activities and to use the cash generated from those operations to invest in, and grow, our regeneration-related businesses. We continue to broaden our capability and service to our clients through the Group's ability to deliver large-scale complex projects and believe our chosen markets offer the best prospects for quality margin in our industry and the greatest potential for revenue growth.

Enabling growth

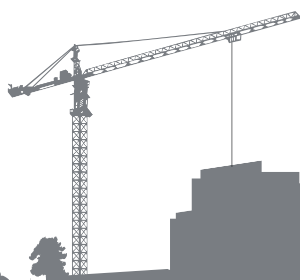
The breadth of our skills extends across a wide range of sectors where we have built leading reputations and this enables us to be flexible in our approach and to target those sectors that offer the most growth potential.

Our extensive capability in Construction and Infrastructure, Fit Out, Affordable Housing and Urban Regeneration, underpinned by Investments' ability to offer financing solutions, allows us to reduce project complexities and optimise opportunities for our clients and partners.

Working in partnership to deliver regeneration

There is an acute need to promote economic improvement and social inclusion alongside regenerating the physical fabric of many of our towns and cities and the Group remains confident in the prospects offered by this market, driven by the release of land by the public sector. Regeneration is all about working in long-term partnerships with our clients, using their land assets to achieve large-scale social and economic renewal.

The public sector owns an estimated £17bn portfolio of surplus land and property assets. In a market with diminishing in-house expertise and an increasing reliance on private sector funding to progress critical regeneration



Dividend pence

42.0p

Year	Dividend
2011	42.0
2010	42.0
2009	42.0

schemes, our ability to provide creative funding solutions, along with our development and construction expertise, positions us as an attractive regeneration partner and provides us with significant investment opportunities in the medium and long term.

Our people

I spend much of my time visiting our offices and projects and I am always impressed with the calibre and integrity of our people across all levels. Their talent, commitment and positive approach are integral to the success of the Group. We remain committed to their well-being at all times and will continue to invest in their personal and professional development and to motivate and incentivise them appropriately.

The Board

I am also grateful to the members of the Board whose stewardship and guidance contribute greatly to the performance of the Group. Gill Barr, one of our independent non-executive directors, is standing down at the forthcoming AGM in 2012. I would like to take this opportunity to thank Gill for her substantial contribution to the Group over the past seven years.

Dividend statement

The Board recommends a final dividend of 30.0p payable on 18 May 2012, giving an unchanged total dividend for the fourth consecutive year of 42.0p for 2011.

Looking forward

We recognise that market challenges and risks remain and will continue to impact the year ahead and we believe that the medium-term outlook is more promising. We have positioned the Group to maximise opportunities in those sectors we believe will offer the most growth and reward. We continue to closely monitor our cost base, shape the divisions and tailor the way we work to respond to changes in the market.

Our decentralised business model and lack of bureaucracy enable us to respond swiftly to shifts in economic and operating conditions, ensuring we remain alive to opportunities.

We entered the new year clear in our vision and our strategic direction. With a stable forward order book of £3.4bn and, importantly, a growing regeneration pipeline of £1.8bn, we are confident that we are in a strong position to capitalise on future opportunities and to deliver sustained long-term value for our shareholders and clients.

John Morgan
Executive Chairman
21 February 2012

Directors' report: business review **02–44**
Directors' report: governance **45–66**
Financial statements **67–122**
Shareholder information **123–124**

Chief Executive's review

"We have strategically positioned the Group to adapt to the challenging business environment. We are confident that our increased investment in regeneration and our focus on growth sectors of the market will lead to higher quality medium-term returns."

Paul Smith
Chief Executive

The Group delivered in 2011 in the face of challenging economic conditions and ongoing constraints in public spending. We remain in a strong financial position and have strategically positioned the Group to take advantage of the significant opportunities that exist in the UK.

Revenue was up by 6% to £2,227m (2010: £2,102m) with profit before tax, amortisation and non-recurring items of £45.3m (2010: £51.3m), reflecting the challenging market conditions. £1.4m (2010: £3.2m) of non-recurring items arose, as expected, relating to IT costs following the merger of the Construction and Infrastructure Services divisions in 2010. Profit before tax was £40.0m (2010: £40.7m). An analysis of other prior year non-recurring items is included in note 2. Adjusted earnings per share before amortisation of intangible assets, non-recurring items and one-off tax benefit were 82.5p (2010: 92.9p). The Group's continuing investment in regeneration, increase in investment properties and use of shared equity to support open market house sales has been reflected in our average cash† for 2011 being lower than in 2010 at £23m (2010: £63m).

Success across the board

Each division has achieved wide-ranging success throughout the year, demonstrating not only its specialist skills but also the strength and the value of the Group's integrated capability. 2011 saw higher levels of collaboration between the Group's divisions than ever before. Projects that demonstrate the success and value of divisions working together include the completion, on time and on budget, of the Basildon Sporting Village. Working within a 25-year agreement with Basildon Borough Council, our Investments division provided a funding solution and development expertise, whilst design and construction services were provided by our Construction and Infrastructure division. Another example of our integrated approach is Urban Regeneration's 56-acre, £300m Northshore development in Stockton-on-Tees which will transform Stockton's Riverside by delivering 1.8m sq ft of offices, leisure and retail accommodation in addition to high quality housing. The first phase is currently on site with our Affordable Housing division working with colleagues in Urban Regeneration to build 50 energy-efficient affordable houses.

Construction and Infrastructure has performed in line with our expectations despite operating within a very competitive and challenging market place. With revenue slightly increased at £1,268m (2010: £1,250m) and operating profit* of £21.1m (2010: £26.9m), it has further reinforced its market-leading positions in tunnelling and aviation and substantially strengthened its leading reputation in the rail, highways and energy markets. Notable achievements include securing major contracts in each of these growth infrastructure sectors as well as considerable success in being awarded new and renewed positions on some of the UK's major construction frameworks. An example of which is the division's appointment as preferred bidder, in joint venture, for an electricity transmission overhead line partnership worth up to £500m to deliver National Grid's overhead line construction programme for the next five years. It entered the new financial year with a healthy pipeline of opportunities in key sectors of the infrastructure market.

Fit Out has delivered another consistent performance for the Group. The division has grown market share in tough trading conditions with revenue increasing to £438m (2010: £415m), with work secured via frameworks doubling. Operating profit* was £12.4m (2010: £14.8m). It has responded to market constraints by launching a new technology division to capitalise on existing skill sets and to respond to the needs of clients who are actively seeking an extended service to deliver infrastructure, data centre and technology-led projects. Growth markets identified for the new financial year include retail banking, technology and the education sector where the division continues to work with universities under pressure to improve facilities to attract students.

Revenue £m

£2,227m

Year	£m
2011	2,227
2010	2,102
2009	2,214

Profit before tax amortisation and non-recurring items £m

£45.3m

Year	£m
2011	45.3
2010	51.3
2009	51.5

Profit before tax £m

£40.0m

Year	£m
2011	40.0
2010	40.7
2009	44.7

Affordable Housing has swiftly capitalised on the wider business opportunities resulting from the successful integration of the Connaught business. It has exploited its full service capability with revenue increasing significantly to £462m (2010: £387m) and secured growth in operating profit* to £18.5m (2010: £16.1m). Its strengthened service offering has led to an agreement with Barnet Homes, worth approximately £103m over 10 years, to deliver planned refurbishment and electrical work across the London Borough of Barnet's 15,000-home portfolio. Its increased capability to provide nationwide reactive maintenance services, alongside its planned maintenance and design and build of mixed-tenure affordable housing, has provided a strong platform for continuing success in 2012.

Urban Regeneration has increased its contribution to the Group this year with operating profit* almost doubling to £3.9m (2010: £2.0m), underpinning our confidence in the regeneration market. It has secured five major new schemes, substantially increased its regeneration pipeline to £1.6bn (2010: £1.4bn), with a further £0.6bn at preferred developer stage, and has increased its level of on site activity. The division is successfully positioning schemes to capitalise on opportunities as market conditions improve.

Investments has achieved notable success in 2011 facilitating project development, primarily in the public sector by providing flexible financial solutions and development expertise. Despite limited opportunities the division has been successful in securing a £500m, 20-year development agreement with Bournemouth Borough Council and commenced the second tranche of schools within Hull City Council's Building Schools for the Future programme. The directors' valuation of its investment portfolio has increased significantly to £49m (2010: £41m) providing sustained long-term value for the Group. We will recycle capital from maturing investments from time to time and recently sold our interest in the Dorset Fire & Rescue PFI for £3.8m, which was above our directors' valuation.

An increased focus on regeneration

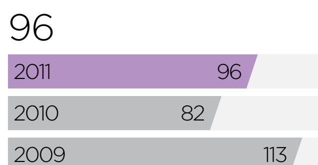
We are already leading a number of complex regeneration programmes across the country through our Investments, Urban Regeneration and Affordable Housing divisions. They are all working in long-term partnerships with the private and public sectors, unlocking land values for our clients and helping to regenerate deprived neighbourhoods across the country.

The ability of the Group to maximise regeneration opportunities today was strengthened by the acquisition of the Amec construction business and developments division in 2007. At the time we stated that the acquisition would open up significant growth opportunities. Having strategically shaped the Group since then and with significant growth achieved in our regeneration pipeline, currently standing at £1.8bn, we are now in a strong position to capitalise on future opportunities and secure organic growth in this market.

We intend to build on successes achieved to date and increase our focus on this market, allowing the Group to benefit from the quality of returns available through medium- to long-term urban and residential regeneration programmes. The continuing reluctance of banks to lend has led to the forced withdrawal of many players from the marketplace, resulting in a less competitive environment. Barriers to entry are high and the skill sets required are a perfect fit with the Group's specialist expertise.

The decision to invest more significantly in regeneration will create opportunities for all Group divisions. It will have an impact on our level of cash reserves but we are confident that our business model, which limits open market site acquisition and uses working capital more efficiently in phased developments, will ensure that the Group and its shareholders will benefit from the opportunity to secure healthy, long-term and sustainable profit streams.

RIDDOR incidents No.



Perfect Delivery scores %

How we differentiate ourselves

Today's challenging environment requires organisations to be insightful and agile. Two distinctive values of the Group are its decentralised structure and its culture of empowerment which permeates each division. This culture is a real strength. It stimulates innovation and creativity, minimises bureaucracy and provides each division with a significant competitive advantage. It requires divisions to acquire a deep understanding of their markets, to develop specialist skills to provide an exact fit with market requirements and allows swift decision making. This means our clients work with empowered local teams, who offer a richness of local knowledge, an awareness of client needs and are able to provide a highly responsive service using local supply chains.

We aim to deliver an exceptional and consistent quality service to our construction clients and regeneration partners. Throughout the Group we continue to differentiate our service offering through our relentless pursuit of Perfect Delivery across all construction activity and through the provision of market-leading client experiences. Clients have demonstrated the value of this investment in quality through long-term relationships and the award of new and renewed framework positions.

Clients are demanding a wider range of skills, increasingly aggregated into larger and more complex contracts, and a more sophisticated service. We have continued to broaden and deepen our range of services to meet these requirements to ensure that we are able to take on the most challenging schemes and reduce complexity for our clients.

Committed to providing a safe working environment

Providing a safe working environment for everyone remains our number one priority. This commitment stretches from the workplace, through to construction sites and beyond into the communities where we operate. We endeavour to ensure that through proper training and education our staff are fully engaged and involved in improving safety and that everyone understands the part they play in their own safety and that of their co-workers, our supply chains and the wider community.

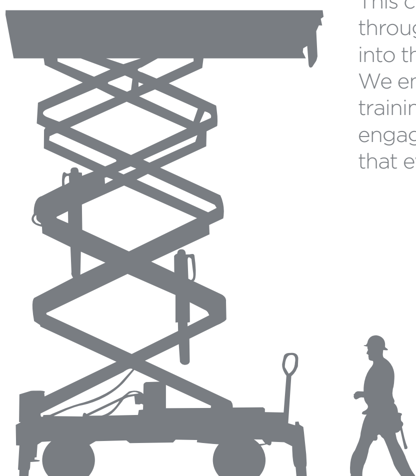
We are disappointed to report that the total number of incidents being reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ('RIDDOR') has risen to 96 from 82 in 2010. These are incidents over three days, which is measured by the time that an injury prevents a person performing their normal work duties. Ten of these incidents related to former Connaught employees. In the past we have experienced similar trends following an acquisition. We expect health and safety to improve as we have made a significant investment in health and safety training for all staff that joined us from Connaught. We have introduced an additional health and safety Key Performance Indicator ('KPI') within our Roadmap for Sustainability, which is all incidents over one day. 2011 has been the first year we have collected this data and there were 81 one-to-three day incidents and we will use this figure as our baseline for future reporting of this KPI.

Defining our business through sustainability

As a leading construction and regeneration Group, we play a significant role in creating and improving the built environment that we live in. With this role comes responsibility. For the people who work with us, the communities we operate within and the impact we have on the environment.

For many years our divisions have entrenched sustainability into their individual operations. 2011 has been marked by the Group further reinforcing our pledge to provide positive and lasting economic, environmental and social gain through the launch of our Roadmap for Sustainability.

The Roadmap outlines key areas of strategic improvement where we believe we can make a real difference and, equally importantly, identifies targets, milestones and long-term objectives together with key performance indicators. The Board and each of the Group's five divisions are fully committed to the Roadmap.



The Roadmap has given us a clear sense of direction and will drive improvement across the Group. With the built environment responsible for over half of the UK's carbon emissions, construction has a unique role to play in combating climate change. Our more strategic approach to sustainability will further strengthen our ability to contribute and innovate in today's fast-changing environment.

Our first dedicated Sustainability report can be viewed at www.morgansindall.com/sustainability and we look forward to sharing our progress over time.

Key risks to success

The Group's ability to successfully implement its strategy and achieve its goals can be affected by a number of key risks. Rigorous risk management processes are in place to continuously identify new risks, to understand their impacts and to implement effective mitigating actions. In particular, we are addressing the following:

An intelligent approach

The market sectors in which the Group operates are affected by general macroeconomic conditions and changes in Government spending policy. We are particularly focused on managing the impact on the Group of the current economic environment and are proactively investing in the long term to ensure the Group is in a position of strength today and for when market conditions improve. With increased competition in many sectors, it is vital in today's market to be selective in the contracts we bid for and to be intelligent in our bidding process. Avoidance of competing on price alone and differentiating the Group's offering on service and quality through our Perfect Delivery standard will help secure higher margins.

A responsible attitude

The Group's health, safety and environmental performance affects our staff, subcontractors and the public as well as our reputation and commercial performance. This area of our business continues to be a priority for the Group and stringent policy frameworks and systems are embedded within each division and are regularly reviewed to minimise risk.

A greater level of scrutiny

We are applying even higher levels of scrutiny to the management of working capital to implement our strategy of investing cash generated from construction activities into regeneration and to ensure the long-term success of the Group. Regular monitoring of cash levels, stress testing longer-term forecasts and closely monitoring overdue work in progress, debtors and retentions are all meticulously undertaken to ensure we continue to grow profitably.

Rigorous credit checks and due diligence are undertaken to assess the financial health of clients to avoid financial loss through bad debt and equal rigour is applied to subcontractors and suppliers. Our approach to supply chain management is based on working with suppliers and subcontractors to build long-term relationships so that together we provide our clients with a superior quality service.

Outlook

Our outlook is sound with a strong balance sheet, a steady forward order book of £3.4bn (2010: £3.6bn), and a significant and growing regeneration pipeline of £1.8bn (2010: £1.4bn), with a further £0.6bn at preferred developer, all providing a level of resilience to economic fluctuations. Whilst we acknowledge the challenges that lie ahead, we are confident that the investment in regeneration and focus on opportunities in growing sectors of the market will lead to higher quality and sustained medium-term returns.

Paul Smith
Chief Executive
21 February 2012

*Operating profit is profit from operations before amortisation of intangible assets and non-recurring items.

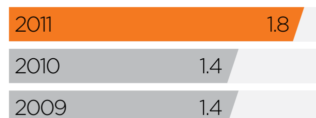
†Average cash is the average of the daily treasury balances for the year.

Forward order book £bn

£3.4bn

Regeneration pipeline £bn

£1.8bn



Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

Finance review

David Mulligan
Finance Director

Overview
The difficult macroeconomic environment has persisted throughout 2011 and looks set to continue through 2012. Nevertheless, the Group has delivered resilient results and has also delivered improved returns from regeneration activities. The Group continues to shape its businesses to address changing markets and, while there have been no material acquisitions in the year, the Connaught and Powerminster acquisitions in 2010 have been fully integrated and the merged Construction and Infrastructure businesses are now operating as one division. The Group continues to address its cost base, and further action will continue to be taken as necessary.

Revenue of £2,227m and operating profit* of £46.1m
Revenue has risen by 6% to £2,227m (2010: £2,102m), with revenue rises across both construction and regeneration activities of £18m in Construction and Infrastructure, £75m in Affordable Housing, £23m in Fit Out and £11m in Urban Regeneration.

Operating profit* has fallen by £6.3m to £46.1m (2010: £52.4m), with decreases in Construction and Infrastructure (£5.8m), and Fit Out (£2.4m) due to market pressure on margin, offset by increases in Affordable Housing (£2.4m) and Urban Regeneration (£1.9m). The Investments division incurred an operating loss of £3.9m (2010: £3.3m) and the cost of Group activities rose by £1.8m to £5.9m due to increased investment in IT and 2010 benefiting from the release of some historic cost accruals that were no longer required.

Margin across our construction activities fell, reflecting continuing strong competition for work and lower returns available in these markets. Margin fell to 1.7% (2010: 2.2%) in Construction and Infrastructure, to 4.0% (2010: 4.2%) in Affordable Housing and to 2.8% (2010: 3.6%) in Fit Out.

Net finance expense of £0.8m
The net finance expense of £0.8m (2010: £1.1m) has reduced due to the release of an unutilised provision for interest payable to HMRC following the resolution of discussions with HMRC over corporation tax matters arising following the Amec acquisition in 2007. This is offset by lower finance income due principally to lower average cash balances in the year of £23m (2010: £63m).

Overall, profit before tax, amortisation and non-recurring items fell by £6.0m to £45.3m (2010: £51.3m). Amortisation of intangible assets in the year was £3.9m (2010: £5.5m) and non-recurring costs of IT integration following the 2010 merger of the Construction and Infrastructure Services divisions were £1.4m (2010: £5.1m).

Tax
The Group's tax charge of £7.2m (2010: £10.9m) represents an effective tax rate of 18.0% (2010: 26.8%), significantly lower than the standard rate of corporation tax. The low effective tax rate arises primarily as a result of non-recurring prior year adjustments of £2.8m (7.0%) reflecting the resolution of discussions with HMRC over corporation tax matters following the Amec acquisition in 2007 as set out in note 6 to the accounts. Adjusting for this effect and other

Resilient 2011 performance	2011	2010
Revenue	**£2,227m**	£2,102m
Operating profit*	**£46.1m**	£52.4m
Profit before tax, amortisation and non-recurring items	**£45.3m**	£51.3m
Profit before tax	**£40.0m**	£40.7m
Year end cash balance	**£109m**	£149m

*Where stated, operating profit is profit from operations before amortisation of intangible assets and non-recurring items.

	31 December 2011			31 December 2010		
	Revenue £m	Profit £m	Margin %	Revenue £m	Profit £m	Margin %
Construction and Infrastructure	1,268	21.1	1.7	1,250	26.9	2.2
Fit Out	438	12.4	2.8	415	14.8	3.6
Affordable Housing	462	18.5	4.0	387	16.1	4.2
Urban Regeneration	57	3.9	–	46	2.0	–
Investments	2	(3.9)	–	4	(3.3)	–
Total revenue	2,227	52.0		2,102	56.5	
Group activities		(5.9)			(4.1)	
Operating profit*		46.1			52.4	
Interest		(0.8)			(1.1)	
Normalised profit before tax, amortisation and non-recurring items		45.3			51.3	
Non-recurring items		(1.4)			(5.1)	
Profit before tax and amortisation		43.9			46.2	

Year end cash £m

£109m

Year	£m
2011	109
2010	149
2009	118

Adjusted EPS pence

82.5p

Year	pence
2011	82.5
2010	92.9
2009	93.9

Basic EPS pence

77.5p

Year	pence
2011	77.5
2010	70.5
2009	77.9

one-off prior year adjustments gives an underlying effective tax rate of 26.3% (2010: 29.0%).

Earnings per share

Adjusted basic earnings per share before amortisation and non-recurring items have fallen by 11% from 92.9p to 82.5p, reflecting the fall in adjusted profit before tax offset by the decrease in the effective tax rate. Basic earnings per share have risen by 10% from 70.5p to 77.5p.

Group has substantial year end cash balances

The cash position of the Group at the year end was robust at £109m (2010: £149m). Average cash during 2010 decreased to £23m (2010: £63m) reflecting increased investment in our regeneration activities and increases in shared equity and investment property balances.

The net cash outflow from operating activities was £11.8m (2010: inflow of £90.6m). This is primarily the result of the working capital outflow of £51.6m (2010: inflow of £53.7m). This mainly reflects the particularly strong cash performance at the 2010 year end, which was expected to unwind in 2011. Additionally, the Group has £17.6m (2010: £13.9m) of shared equity receivables relating to open market sales in the Affordable Housing and Urban Regeneration divisions and £7.0m (2010: £2.5m) of investment properties, rented in order to maintain momentum on a small number of regeneration schemes. There were small net payments of £0.4m (2010: £35.2m) for acquisitions, capital expenditure was £5.4m (2010: £2.8m) and payments to increase interests in joint ventures were £6.0m (2010: £4.3m), all of which reflect ongoing investment in the business. Cash dividends of £0.3m (2010: £0.8m) were received from joint ventures. After tax payments, dividends and servicing of finance, the net decrease in cash and cash equivalents was £39.7m (2010: £30.9m increase).

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.

Capital management

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

Effective tax rate %

18.0%

Year	%
2011	18.0
2010	26.8
2009	26.4

The Group is financed by equity, with committed banking facilities available to draw on to fund shorter-term movements in working capital. The Group is not particularly capital intensive, hence investment in fixed assets is relatively low, and has reduced in the year, as have assets financed by finance leases. The Group is seeking increasingly to invest cash generated by its construction activities in long-term regeneration projects that themselves can lead to construction opportunities for the Group. Some of these regeneration projects will be carried out in joint venture and will be funded in part by Group resources but will largely draw on non-recourse debt finance. The Group has a very small defined benefit pension plan (£1.3m deficit on £9.4m of gross liabilities) that is closed to new members or further accruals.

Banking facilities committed until 2015

In the period, the Group refinanced its banking facilities and now has £100m of committed banking facilities through to September 2015 with a further £25m in place to June 2012. The banking facilities are subject to financial covenants, all of which have been met throughout the year. These committed facilities supplement the cash balances in providing financial security to the Group.

Dividend

The Board recommends a final dividend of 30.0p payable on 18 May 2012 to shareholders on the register at the close of business on 27 April 2012. This will give a total dividend for the year maintained at 42.0p (2010: 42.0p). This is covered by adjusted earnings per share 2.0 times (2010: 2.2 times). 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.

Although the cover has reduced to 2.0 times, the Board is comfortable with this as the dividend is covered by current profits and can be met from existing financial resources. The Group will seek to re-establish the longer-term level of cover as and when profits increase.

Continuing balance sheet strength

Total equity increased to £235.6m (2010: £221.7m). The number of shares in issue at 31 December 2011 was 43.2m (2010: 43.2m). A small increase of 27,019 shares resulted from the exercise of options under employee share option schemes.

In the course of the year, fair values relating to the 2010 acquisition of the business, obligations and certain assets from the administrators of Connaught Partnerships Limited were finalised. This led to further adjustments of £1.1m, with goodwill recognised on acquisition increasing by an equivalent amount. Additionally, the Group acquired the investment of its partner in a joint venture for a consideration of £0.4m, leading to a decrease in goodwill of £0.2m and an increase to intangible assets of £0.2m. During the year the Group signed strategic supply agreements with its general plant and site accommodation suppliers that led to the transfer of existing plant and equipment to them as part of the agreement. This largely contributed to a fall in the overall fixed assets deployed in the business of £6.8m.

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 restricted to 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, but committed foreign exchange exposures are hedged as and when they arise.

Some of the Group's joint venture businesses use interest rate swaps to hedge floating interest rate exposures and Retail Prices Index swaps to hedge inflation exposure. In the course of the year a construction joint venture, in which the Group participates, entered into foreign exchange contracts in order to hedge foreign exchange exposures on the provision of construction services. The Group considers that its exposure to interest rate, foreign exchange and inflation movements is appropriately managed.

In the normal course of its business, the Group arranges for financial institutions to provide customers guarantees ('bonds') to provide some financial protection in the event a contractor fails to meet its commitments under the terms of a contract. The Group pays a fee and provides a counter-indemnity to the financial institutions for issuing the bonds. As at 31 December 2011, contract bonds in issue under uncommitted facilities covered £204.1m (2010: £171.8m) of contract commitments of the Group.

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 capital management policy, 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 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 2011, the Group had cash of £109m and committed banking facilities of £100m extending to September 2015 with a further £25m in place to June 2012.

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

Net assets £m

£236m

Year	£m
2011	236
2010	222
2009	209

Risk review

The Group's strategy is to develop the market position of its construction activities and to use the cash generated from those activities to invest in housing-led and mixed-use regeneration to generate higher levels of return.

The Group has put in place a risk management framework to identify risks to the business achieving its goals and to document controls to manage and mitigate these risks. Risk registers document these risks and controls at different levels within the organisation; Group, Division, Business Unit and Project. These risk registers are reviewed at least every six months to ensure that risks are properly evaluated and that controls remain appropriate. The Internal Audit function audits the control environment to ensure that the risks and controls identified are tested at least every two years, which cover a blend of project and corporate level risks.

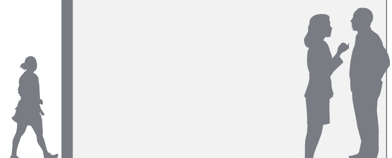
It is the role of the Group's audit committee to monitor and approve the work undertaken by the Internal Audit function and to ensure that the internal audit process remains efficient and effective. This monitoring process has been strengthened by audit committees being established separately for the Construction and Infrastructure and Affordable Housing divisions, which have larger and more complex operations than the other divisions.

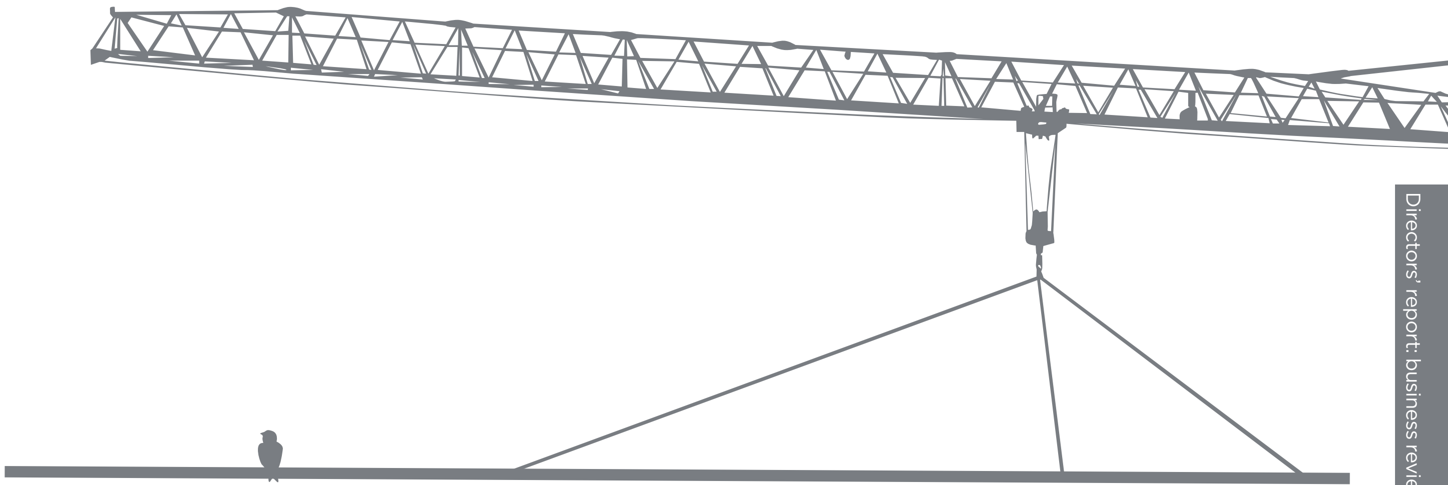
The control environment is underpinned by a clear set of delegated authorities that define processes and procedures for approving key decisions, particularly with regard to project pre-qualifications, tender pricing and bid submission. This ensures that projects are approved at the appropriate level of management, with the largest and most complex projects being approved at Board level.

The following key risks to the Group achieving its strategic goals have been identified by the Board.

Risk description	Impacts	Mitigation
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 the impact of the challenging economic conditions, changes in Government spending and the increasing emphasis on infrastructure investment.	**New opportunities** Shortage of opportunities caused by macroeconomic factors and reduction in Government spending. Fall in construction activities may result in less cash being generated which will reduce the capital available to invest in regeneration.	- Sector spread and diversification offer some protection against decline in individual sectors - Scale also gives some protection by enabling us to compete and work in areas with higher barriers to entry - Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities.
	Overcapacity in market This leads to pricing competition and more onerous terms and conditions being sought by customers. Increased price competition leads to downward pressure on margins and an increased risk profile if onerous terms and conditions are accepted. Ultimately overheads may not be covered by gross margins if project losses are incurred.	- Delegated authorities in place require approval of tenders by appropriate level of management, covering both price and terms and conditions - Seek to differentiate the Group through the quality of the service and consistency of delivery - Regular review of resource levels against anticipated workload.
Sustainability The Group's health, safety and environmental ('HSE') performance and business conduct affects employees, subcontractors and the public and, in turn, can affect its reputation and commercial performance.	**Environmental or safety incident** An accident or incident causes harm to individuals or a community and leads to a major loss of corporate reputation. Consequently the Group fails to pre-qualify for contracts due to poor HSE track record.	- Key executives with specific responsibility for HSE are identified in each division and on the Board - HSE policy frameworks are communicated and senior managers appointed in each division - Established safety systems, site visits, monitoring and reporting (including near miss and potential hazard reporting) are in place across the Group - Investigation and root cause analysis of accidents or incidents and near misses - Regular HSE training and updates including behavioural training.
	Business conduct Failure by employees to observe the appropriate standards of integrity and conduct in dealing with customers, suppliers and other stakeholders. Could expose the Group to significant potential liability and reputational damage that results in it failing to pre-qualify for contracts.	- Independent raising concerns phone line available for all employees - Audit committee reviews incidents log from the raising concerns phone line which includes the outcome of investigations into such incidents and any follow up actions - Ethics policy communicated to all employees - Reviews and risk assessments undertaken by Group to ensure adequate procedures are in place and followed to ensure compliance with competition and anti-bribery legislation.

Risk description	Impacts	Mitigation
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.	**Misprice contract** When pricing a contract, the planned works are not costed correctly or risk is not properly evaluated leading to a contract being mispriced. Leads to loss of profitability on a contract and reduces overall gross margin.	■ System of delegated authorities governs tenders and the acceptance of work ■ A contract tender is reviewed at three key stages: pre-qualification, pre-tender and final tender submission ■ Contract tender approved by appropriate level of management.
	Managing changes to contracts and contract disputes As contracts progress there are inevitably changes to the works being delivered and a risk exists that the Group does not get properly reimbursed for the cost of the changes as a result of disagreement, poor commercial controls or disputes. Leads to costs being incurred that are not recovered and loss of profitability on a contract. Ultimately we may need to resort to legal action to resolve disputes which can prove costly, and the outcomes can be uncertain.	■ Work carried out under standard terms wherever possible ■ Well established systems of measuring and reporting project progress and estimated outturns ■ Contract terms reviewed at tender stage and any variations approved by the appropriate level of management ■ Decision to take legal action based on appropriate legal advice ■ Suitable provision made for legal costs.
	Poor project delivery The quality of workmanship or poor commercial and operational delivery of a contract does not meet clients' expectations. Interim cash payments may be withheld impacting working capital and issues may also impact contract profitability and corporate reputation.	■ Strategic trading arrangements in place with key suppliers and subcontractors to help ensure consistent quality ■ For very significant purchases on large projects, forward orders can be placed on a longer timescale ■ Collation and review of client feedback ■ Lessons learned exercises carried out on projects ■ Staff incentivised on basis of contract performance ■ Cross-regional peer reviews.
	Poor contract selection Risk that the Group accepts a contract outside of its core competencies. This may lead to poor understanding of project risks, poor project delivery and ultimately result in contract losses and reputational damage.	■ Business planning identifies sectors and clients that the Group will target ■ System of delegated authorities governs tenders and the acceptance of work ■ Plans for specific types of work and contract size agreed by individual business unit.





Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

Risk description	Impacts	Mitigation
Counterparty and liquidity risk 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.	**Insolvency of key client, subcontractor or supplier** Risk that insufficient credit checks and due diligence is not undertaken and that a key client, subcontractor or supplier becomes insolvent. Insolvency of a client may result in significant financial loss due to bad debt. Insolvency of a subcontractor or supplier may disrupt a contract's programme of work and lead to increased costs in finding replacements for their services.	- Work only carried out for financially sound clients, established through credit checks - Specific commercial terms, including payment terms, with escrow accounts used as appropriate - Seek and obtain financial security where appropriate - Work with approved suppliers wherever possible - Contracts with clients, subcontractors or suppliers only entered into after review at appropriate level of delegated authority.
	Management of working capital Risk that poor management of working capital leads to inadequate liquidity and funding problems. The lack of liquidity impacts the Group's ability to continue to trade or restricts its ability to invest in regeneration schemes.	- Regular monitoring of cash levels and forecasting of cash balances - Regular stress testing of longer-term cash forecasts - Regular assessment of the level of banking facilities available to the Group - Overdue work in progress, debtors and retentions monitored and actioned as appropriate.
Acquisitions The Group regularly identifies and evaluates potential acquisitions and it is important that acquisitions deliver the planned benefits.	**Integration of acquisition** Group fails to deliver benefits sought at time of the acquisition, through issues with due diligence, strategic assessment, alignment of cultures or other reasons. Unknown liabilities are uncovered subsequent to completion. The impact is potential loss of profitability and reputation and that excessive resources are required to be directed towards the acquisition.	- All acquisitions approved at Board level - Commercial and financial due diligence led by senior teams, with clear roles and responsibilities - Post acquisition integration plans prepared and monitored - KPIs established and monitored post acquisition.

Divisions
Construction and Infrastructure

For more information visit
www.construction.morgansindall.com

"We are confident that we enter 2012 in a position of strength. We believe the combination of our track record, strong local presence and relentless focus on exceptional customer experience will continue to create a compelling offer. The depth and breadth of our skills and our ability to offer a fully integrated service on complex projects will allow us to capitalise on our strong pipeline of opportunities throughout the year."

Graham Shennan
Managing Director

The Group's Construction and Infrastructure division comprises principally Morgan Sindall and the design activities of Morgan Sindall Professional Services. The division employs around 4,000 people delivering public and private sector projects of all sizes. The division has been appointed on some of the UK's most complex construction and engineering projects where it provides specialist tunnelling, utilities, building, civil engineering and mechanical and electrical services. The division is equally adept at smaller projects and repair and maintenance works. Its differentiating design business also operates within its own right, providing expertise in complex environments including the regulated pharmaceutical, nuclear and rail industries.

The division's breadth of expertise has been built up through operating across a broad range of sectors including commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport, waste and water. Either working as sole contractor, or in joint venture, it has continued to make a significant contribution to the Group's strategy and financial performance.

Division delivers in testing market
Revenue was slightly increased at £1,268m (2010: £1,250m) with reduced operating profit* and margin of £21.1m and 1.7% respectively (2010: £26.9m, 2.2%), reflecting extremely challenging and competitive trading conditions. This performance was in line with our expectations. The division has delivered major projects, won awards of national significance and secured and retained long-term framework agreements, enabling the division to enter 2012 with a healthy forward order book. 2011 saw the division appointed to eight new frameworks, renewed four others, bringing its total number of frameworks to 57. Its recently integrated offering has opened up new opportunities, especially

Revenue £m

£1,268m

Year	£m
2011	1,268
2010	1,250
2009	1,513

Operating profit* £m

£21.1m

Year	£m
2011	21.1
2010	26.9
2009	30.1

Margin %

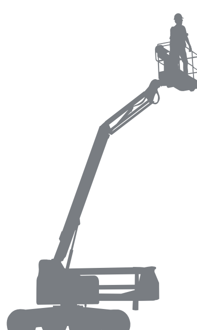
1.7%

Year	%
2011	1.7
2010	2.2
2009	2.0

Order book £bn

£1.6bn

Year	£bn
2011	1.6
2010	2.0
2009	1.6



Project: **Paddington Station**
Client: **Network Rail**

In September 2011 Morgan Sindall successfully completed, to an agreed time and budget, the £43m renewal of the Grade 1 listed Paddington Station Span 4 roof. The project included demolition, structural steel repairs, structural strengthening, cladding, glazing, platform tiling, painting and mechanical and electrical installation. The project was undertaken for customer Network Rail and key stakeholder English Heritage and was carried out above a live public area and railway line.

"As a station development it's an achievement that everyone in the Morgan Sindall team can celebrate and be immensely proud of. The Morgan Sindall team members that interfaced with the shift station manager team on a shift basis were brilliant. The very first morning when the last section of crash deck and scaffolding had been removed, I emerged from the Bakerloo line exit near platform 11 and looked along the new roof-line and simply stopped walking as did a few other passengers."

Terry Baker
Station Interface Manager, Network Rail

within the road, rail and airport sectors where major clients attach significant value to the broader service.

Operating within a testing market, it has focused on driving efficiencies across the business, protecting margins and setting new standards in customer service. Delivering in line with financial expectations in the current economic climate is a notable achievement and the division has been especially successful in securing opportunities in the growing infrastructure sectors of roads, rail, aviation and energy distribution.

Growing reputation in infrastructure
A year ago the division identified a number of growing sectors of the market and set out to secure key opportunities in each. It has been successful in achieving this goal through a mix of securing high profile projects and major framework appointments and renewals.

Project: **Heathrow Airport**
Client: **BAA**

At Heathrow airport the division is working as part of the BAA Value in Partnership Agreement and for 48 months to date (January 2012), the contract has gone 1.4m hours without an incident being reported under RIDDOR.

Within the rail sector, Crossrail continues to be a valued client. The largest construction project in Europe, Crossrail will deliver a 118km rail line linking Maidenhead and Heathrow in the West with Shenfield and Abbey Wood in the East. New awards in 2011, gained through the division working on its own or in joint venture, totalled over £415m and include construction of a new station at Pudding Mill Lane, the Whitechapel and Liverpool Street station tunnels and Whitechapel main station works. Also in the rail sector, the Colas Rail Morgan Sindall joint venture has been selected to carry out works over three years on the £750m Enhancements Multi Asset Framework Agreement, delivering a range of civils, track and signalling projects for Network Rail.

In the energy sector, the division has been appointed preferred bidder, in joint venture, for an electricity transmission overhead line partnership worth up to £500m to deliver National Grid's overhead line construction programme for the next five years. In addition, a Morgan Sindall consortium has been awarded a five-year contract extension by National Grid's Electricity Alliance Central to deliver major enhancements to the UK's electric transmission infrastructure.

Within aviation, the division has reinforced its market-leading position and is currently working at nine of the UK's 15 major airports. Highlights include the delivery of Gatwick Airport's £50m North Terminal extension for owners Global Infrastructure Partners; the award of a place on Gatwick's construction framework for its £1.2bn programme of upgrades and improvements; the construction of the £10m Air Traffic Control Tower at Birmingham Airport and the securing of the £7m Air Traffic Control Tower construction project at Manchester Airport. The division's full service offering is being utilised by BAA in the design and build of a new £30m energy centre at Heathrow Airport.

On the UK's highways, the division completed the £440m M74 project in Scotland working in joint venture and has also been awarded a £136m joint venture construction contract to upgrade the M62 as part of the Highways Agency's four-year, up to £2bn, National Major Projects Framework.

Water remains an important sector with the division supporting some of the UK's leading water authorities. Work continues on the four-mile Lee Tunnel, London's deepest ever tunnel, helping to create a cleaner, healthier River Thames. Undertaken for Thames Water, the £417m project is set for completion in 2015. In joint venture, the division has been appointed to build a pioneering bio-gas plant with a contract value of £25m as part of Yorkshire Water's AMP5 Large Projects framework to which the joint venture was appointed in 2010.

Education continues to be a successful sector for the division, despite cuts in public spending. South Lanarkshire Council appointed the division to a four-year, £150m primary school modernisation programme – the latest phase of the council's new build and refurbishment framework for its primary estate.

Integrated approach
Opportunities were also secured in conjunction with the Investments division. They include working on the 20-year Bournemouth Town Centre Vision, securing contracts to the value of £65m as part of Hull City Council's Building Schools for the Future programme and continuing to deliver the design and build contract for the £95m Tayside Acute Adult Mental Health Developments project in Scotland.

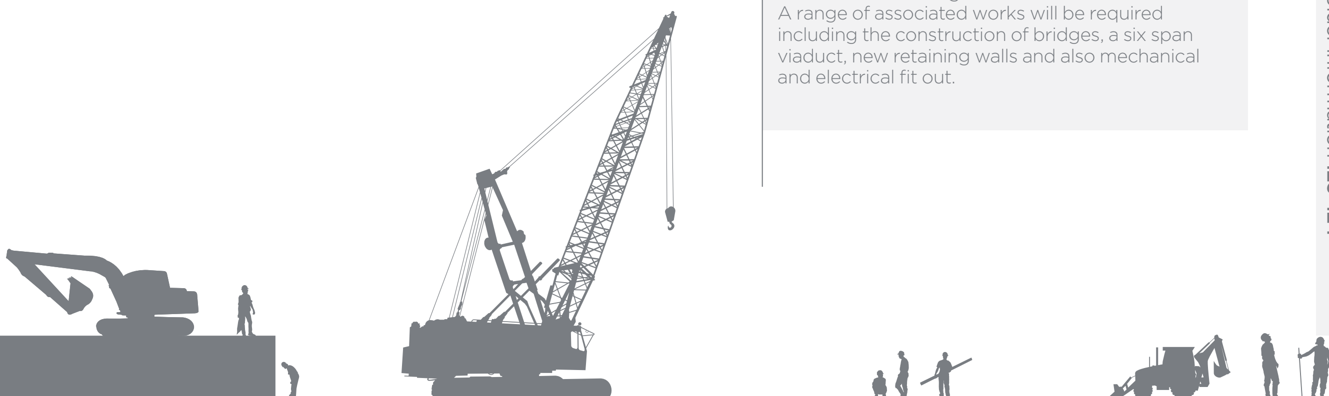
Joint appointment with the Affordable Housing division, Lovell, on the £3bn Constructing West Midlands framework demonstrates the value of divisions working together, as does working on a number of projects as part of the division's reappointment on the £1bn Improvement and Efficiency South East ('iESE') framework with the Group's specialist Fit Out business, Overbury.

Focus on growth sectors
With an encouraging forward order book of £1.6bn (2010: £2.0bn), together with projects at preferred bidder stage valued at £0.3bn, the division's strategy for 2012 focuses on building its market position and continuing to broaden its market offering. At the core of the strategy lies seeking opportunities where the division can add real value through working in open and transparent collaboration, identifying innovative solutions and delivering exceptional customer experience. The focus remains on growth sectors where superior expertise is demanded, where a track record is a requisite and where margins are less constrained. Sectors include road, rail, aviation and energy distribution, which are all areas where the division has an enviable reputation through its delivery record and trusted approach. The commercial sector in London is another market where the integrated offering of construction and fit out being delivered together is considered of value.

The division will continue to respond to its challenging environment through selective bidding for opportunities that best suit its strengths. Identifying innovative best value solutions for clients remains a priority alongside the development and careful management of supply chains.

Project: **C350 Pudding Mill Lane**
Client: **Crossrail**

The C350 Pudding Mill project involves the construction of a tunnel portal and a new elevated Docklands ('DLR') station at Pudding Mill Lane as the Crossrail route runs through the existing station. Following the opening of the new station in 2013, the existing station will be demolished to enable the construction of a cut and cover tunnel and covered ramp to connect the planned Crossrail tunnel to the existing Network Rail infrastructure. A range of associated works will be required including the construction of bridges, a six span viaduct, new retaining walls and also mechanical and electrical fit out.



Divisions
Fit Out

For more information visit
www.overbury.com
www.morganlovell.co.uk

"Whilst the market has been undoubtedly constrained in 2011, we have demonstrated the value our clients attach to our exceptional standards in project delivery and customer experience. Our efforts to reach the 100% recommendation target will continue and we are in no doubt that this focus will differentiate us within the current competitive environment and secure significant high quality opportunities in 2012"

Steve Elliott
Managing Director

Overbury and Morgan Lovell provide the Group's specialist fit out and refurbishment services. Both companies offer a high quality national capability, supporting clients wishing to relocate or refurbish premises through different approaches. Overbury provides fit out and refurbishment services working in close collaboration with clients as a member of their professional team. Morgan Lovell specialises in design and build, working for clients who want to enjoy the benefits of a single source supplier of office design, refurbishment, fit out and relocation services.

Projects of varying sizes and complexity are undertaken by over 600 staff in nine offices, offering a real understanding of local markets combined with national award-winning best practice. The division's client profile demonstrates the breadth of its skills with projects spanning office, retail, technology, education and leisure sectors with 65% of its revenue derived from financial and business services, public and energy sectors. Over 80% of projects are within the sub £1m range yet its depth of skills enables the delivery of projects up to a value of £100m.

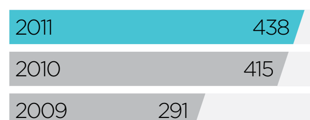
The division has achieved its position as market leader through its unwavering resolve to deliver on excellent client service. Through the rigorous application of the Group's Perfect Delivery standard, it consistently raises the industry bar in terms of achieving perfection in delivery and customer experience, making the most challenging projects as straightforward as possible through clear and consistent engagement at all times and at every level.

2011 robust performance in competitive market
Revenue increased to £438m (2010: £415m) with operating profit* reduced to £12.4m (2010: £14.8m) and margin percentage reduced, as expected, to 2.8% (2010: 3.6%). 2011 saw activity remain robust despite the competitive environment and reduced pipeline of major

Morgan Lovell
Inspiring office transformation

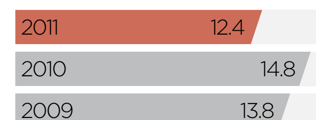
Revenue £m

£438m



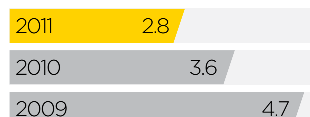
Operating profit* £m

£12.4m



Margin %

2.8%



Order book £m

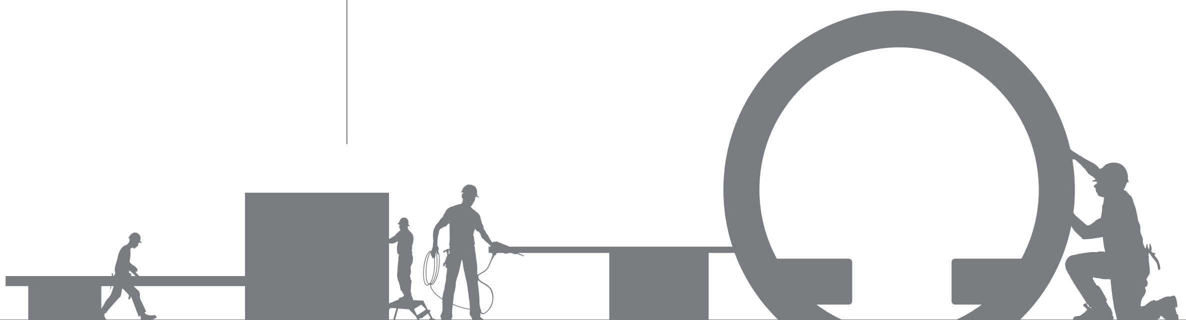
£216m

"Overbury worked as a team with the client and professionals to achieve a successful delivery on time, on budget and managing a significant contribution from UK suppliers, craftsmen and manufacturers."

Alan Bainbridge
Portfolio Director,
BBC Workplace

Project: **BBC Headquarters, MediaCityUK, Salford Quays**
Client: **BBC**

The new BBC HQ office concept embraces collaboration and communication – values that are true to the BBC. The 380,000 sq ft project comprises three buildings, home to 37 departments over 20 floors with two live studio spaces.



projects and we believe that the division has taken further market share, now standing at over 25%.

Despite continuing tight margins and price sensitivity, clients have demonstrated that the division's brand reputation, exceptional standards in delivery and market-leading customer experience are valued at a premium. Work secured via frameworks has doubled with a mix of new awards and renewals. The division's considerable investment in quality has been rewarded with exceptional levels of loyalty from its framework clients including Royal Bank of Scotland, the BBC, Threadneedle and Liverpool Victoria amongst others.

Its track record in successfully delivering complex projects within demanding time scales, whether buildings are vacant or occupied, has positioned the division as the partner of choice in the eyes of owners, occupiers and consultants.

Growth in new sectors
2011 saw the division deliver another consistent performance for the Group. A new technology division was launched in direct response to the needs of clients who seek an extended service to deliver infrastructure, data centre and technology-led projects. The formation of this new business has allowed the division to further develop existing relationships and it has secured opportunities with Northern Trust and has a healthy list of ongoing opportunities in this dynamic market. The division's decentralised structure has allowed the creation of specialised teams with sector specific skills, operating on a wide range of projects from dedicated regional offices with a new office opening in Leeds.

The division has increased its share of retail banking frameworks and is a partner for three of the five major UK banks. It can now offer an integrated service to meet the banks' office, retail and data centre needs. With appointment to the HSBC framework and a widened remit with the Royal Bank of Scotland, retail banking remains a priority growth sector.

Major project wins during the year include the appointment by the Industrial and Commercial Bank of China to fit out its UK headquarters in London. This is the second of China's prominent 'big four' banks to appoint Fit Out, following the successful delivery of the large-scale fit out for Bank of China's London headquarters.

An exemplar project for the division has been the completion of the fit out of prestigious new offices for Macquarie Bank in London under a pioneering best practice alliance contract, encouraging close collaboration between the client and the project team.

At MediaCity UK in Salford Quays, Manchester, the division has completed two major projects. The £18m fit out of the University of Salford's new 100,000 sq ft facility, converting office space into a digital learning, teaching and research centre and the major fit out of the BBC's high profile facilities, delivering one of the UK's first 'activity-based working' concept designs.

Project: **Third floor, 30 Old Broad Street, London EC2**
Client: **F5 Networks**

Morgan Lovell completed a 6,368 sq ft fit out for F5 Networks, the global leader in Application Delivery Networking. Most businesses want their communications room tucked away out of sight. Not F5 Networks. When it came to designing and refurbishing its central London office, Morgan Lovell put the product on show.

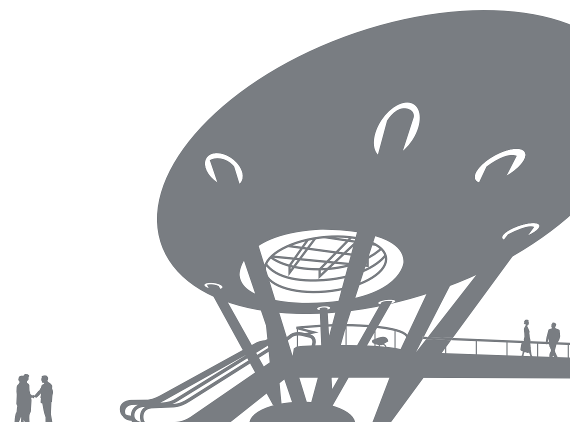
Stable outlook

The London office market is not expected to grow in the short term, constrained by lack of Grade A space, developers unable to access finance and subdued occupier sentiment. Current conditions will be mitigated in part by the division's growth in technology and retail banking projects and its continuing successful focus on the resilient sub £1m market. However, the economic environment is resulting in increasing levels of mergers, demergers and acquisitions which inevitably lead to space rationalisation, generating opportunities for fit out and refurbishment. The market is expected to improve from 2013 due to a substantial increase in lease expiries across the country and preparations are already underway to enable the division to capitalise from this expected wave of new opportunities.

The division's order book currently stands at £216m (2010: £180m) which underpins a stable outlook for 2012. It will continue to focus on the growing technology and retail banking sectors and anticipates expanding its track record within the education sector, working with universities under pressure to improve their facilities to attract students. Another area of anticipated growth is through collaboration with Construction and Infrastructure to offer a fully integrated fit out and construction service.

Project: **PwC More London**
Client: **PricewaterhouseCoopers**

PwC's More London office has achieved the first BREEAM 'Outstanding' accreditation for a fit out project of this scale. Social responsibility was the key driver in PwC's sustainability ambitions and the project included the fit out of the Brigade Restaurant on Tooley Street in London which aims to give work experience, catering skills and the opportunity to gain qualifications to people who are at risk of, or have experienced, homelessness.



Divisions
Affordable Housing

For more information visit
www.lovell.co.uk

"Lovell is well placed to continue its successful performance in 2012 through our market-leading position, flexible partnering approach and our ability to play a pivotal role to help clients overcome funding constraints and meet the national need for quality mixed-tenure affordable housing."

Stewart Davenport
Managing Director

The Group's Affordable Housing division operates under the Lovell brand name and functions through seven regional businesses across the UK and a national responsive repairs service. It is the UK's complete affordable housing solutions specialist with market-leading expertise in designing and building new homes, refurbishing existing accommodation and providing a wide range of maintenance services. Lovell has the technical expertise to take on regeneration projects with a high degree of complexity and, having adopted the Group's decentralised approach and spirit of empowerment, it allows its regional businesses to operate with significant autonomy, offering clients a blend of crucial local understanding and national award-winning expertise.

Since the Connaught acquisition in 2010, Lovell has continued throughout 2011 to consolidate its market-leading position. The increased scope and scale of its response maintenance activities now enables the division to provide local authorities and housing associations with a nationwide service offering, alongside planned maintenance and the design and build of affordable and open market housing.

Identifying and implementing creative solutions with local authority landowners and working in trusted collaboration with housing associations, Lovell helps clients meet their objectives through the provision of its expert skills. Whether injecting new vitality and pride into worn-down neighbourhoods or creating sustainable new communities, Lovell leaves a lasting legacy wherever it operates throughout the country.

2011 growth reflects broader offering
Revenue was significantly increased at £462m (2010: £387m) which reflects a full year of the enlarged business following the Connaught acquisition. Operating profit* increased to £18.5m (2010: £16.1m) with the margin firm at 4.0% (2010: 4.2%).

LOVELL

Revenue £m

£462m

Year	Revenue £m
2011	462
2010	387
2009	374

Operating profit* £m

£18.5m

Year	Operating profit* £m
2011	18.5
2010	16.1
2009	14.9

Margin %

4.0%

Year	Margin %
2011	4.0
2010	4.2
2009	4.0

Order book £bn

£1.5bn

Year	Order book £bn
2011	1.5
2010	1.5
2009	1.3

"In Lovell, we have a partner with the expertise and experience to deliver the contemporary, cutting-edge homes that are key to turning our vision for Northshore into reality. The company has a proven track record in creating stylish, energy-efficient homes that help form communities where people really want to live. Its commitment to the highest standards of customer service is fully borne out by our experience of working with the team on site at Northshore. Lovell has become a respected member of the community through its support for a wide range of local initiatives and we value its dedication to delivering a long-term legacy for the area."

Richard Poundford
Head of Regeneration and Economic Development,
Stockton Council

Project: **Northshore, Stockton-on-Tees**
Partner: **Muse Developments**

Work underway on Phase One of Northshore, a £300m housing and regeneration scheme in Stockton-on-Tees where Lovell is building 50 energy-efficient affordable houses. The 56-acre mixed-use regeneration scheme is set to transform Stockton's riverside by delivering over 1.8m sq ft of offices, leisure and retail accommodation in addition to high quality housing.

House sales are continuing to be constrained by the lack of mortgage availability and the division's shared equity offering is continuing to support sales, in particular to first-time buyers. On a small number of sites Lovell has retained some completed properties for rental in order to maintain momentum and contribute to the success of the overall regeneration project. With the public sector experiencing the impact of the Government's Comprehensive Spending Review, Lovell has honed its business to adapt to market conditions and to respond to opportunities.

The division has achieved an improved result in 2011, further reinforcing its market-leading position. Working under development agreements with local authority landowners enables the division to access land, avoiding the risk associated with acquiring land on the open market and in the majority of cases allowing Lovell to draw down plots of land at optimum times. The division's strategy of working in partnership with housing associations enables it to build affordable housing under contract alongside units for open market sale, providing the business with a stream of income and reducing its reliance on private sales. Lovell's Service First ethos is providing clients with a quality product and a way of working which is setting new standards and achieving high levels of customer satisfaction.

The full year impact of the division's enhanced capability to provide response maintenance services has resulted in significant revenue growth. It has added an extra layer of resilience to the business and provided a substantial revenue stream less directly dependent on Government funding decisions and with considerable growth potential.

Project: **Pershore Road, Balsall Heath**
Client: **Birmingham Municipal Housing Trust ('BMHT'), with additional funding from the Homes and Communities Agency**

Lovell has built the first council houses in Birmingham for 30 years. Working with newly created Birmingham Municipal Housing Trust, Lovell built 33 homes at Pershore Road, Balsall Heath as part of the BMHT's 553-home new build programme. The programme also recently won a national regeneration award.

Major new projects secured
A real highlight for Lovell has been the successful integration of the acquired Connaught business. Investment has been made in a wide range of technical and health and safety training initiatives and installation of new business systems allowing the division to swiftly convert opportunities from its strengthened service offering. Such opportunities include an agreement with Barnet Homes, worth approximately £103m over ten years, to deliver planned refurbishment and electrical work across the London Borough of Barnet's portfolio of 15,000 homes.

At Miles Platting, Manchester, Lovell is successfully completing the transformation of 264 acres of an inner city housing estate into a sustainable mixed-tenure urban environment delivered through a Private Finance Initiative. Over 1,500 homes have been refurbished and over 1,000 new homes are to be built over the next ten years.

Compendium Living, the joint venture between Lovell and one of the UK's largest Registered Providers, the Riverside Group, has recently entered into a £100m agreement with Derby City Council, to regenerate a 30-acre brownfield site with 800 new homes, a new school and community facilities.

The division has been appointed by Birmingham City Council to the £3bn Constructing West Midlands framework working alongside the Construction and Infrastructure division, under the name Community Solutions West Midlands, demonstrating the synergy and value produced by the Group's divisions working together. An additional framework win has been the selection of Lovell by Efficiency North on its £975m framework for 15 social housing providers to improve the homes and communities across Yorkshire and the Humber region.

Housing-led regeneration

The division is also working alongside its Urban Regeneration colleagues on the £300m Northshore project in Stockton-on-Tees, and in the first phase of the project, Lovell is delivering 50 energy-efficient affordable houses for open market sale.

In London, 63 high quality homes have been delivered by the division as part of a £17m mixed-use regeneration development in Clapham, working with Morgan Sindall for Cathedral Group and Notting Hill Housing Group. Lovell has also won repeat business with the London Borough of Hackney with the award of a £25m contract to build two new sustainable housing schemes through a groundbreaking land swap scheme. This award follows extensive work on the Borough's housing modernisation programme over the past six years.

Public sector land driving mixed-tenure opportunities

Lovell's forward order book is steady at £1.5bn (2010: £1.5bn). Despite the ongoing economic uncertainty, there is still strong market demand for the services that Lovell offers. The requirement for new mixed-tenure affordable housing, an extensive ageing local authority and housing association stock in need of refurbishment and a requirement for responsive and emergency maintenance of public sector-owned homes all lie within the division's proven areas of expertise. In addition the release of public sector land for housing will help drive mixed-tenure regeneration opportunities.

The tendering market is expected to remain competitive but it expects its full service offering will continue to give the business a distinct competitive advantage with the increasing number of packaged work tenders which require the full service capability.

The nationwide Lovell apprenticeship scheme sees an average of 60 craftsmen and women graduate each year with recognised trade qualifications and recently took on its 500th apprentice.

Divisions
Urban Regeneration

For more information visit
www.musedevelopments.com

"Our objective for 2012 will be to further grow the business and become a greater contributor to the Group. Our innovative and successful approach to unlocking land values, and the Group's commitment to regeneration, will place us in a strong position to further increase our regeneration pipeline and make a major contribution to urban renewal throughout the country."

Matt Crompton
Nigel Franklin
Joint Managing Directors

The Group's Urban Regeneration division, Muse Developments, is one of the country's most trusted names in commercial development and urban regeneration. Acquired in 2007, the division has been working in long-term collaborative partnerships to successfully deliver complex mixed-use regeneration schemes for over 25 years.

Operating out of four regional offices across the country and with approximately 50 staff, Muse specialises in working with landowners and public sector partners to unlock value from under-developed assets to bring about sustainable regeneration and urban renewal. Its project portfolio currently comprising over 30 development projects at various stages of development, stretches across five major sectors: offices, residential, retail, leisure and industrial/distribution.

Over the years the division has developed a resilient business model. It creates and implements innovative development agreements in partnership with landowners who require the division's complete understanding of the regeneration process and its full service skill set to realise the potential of complex projects. This business model allows for clients to retain land which is drawn down in phases when construction commences. This reduces the amount of working capital required by the division.

In addition to scheme-specific partnerships, Muse is also an integral partner in two strategic partnerships: ISIS Waterside Regeneration, a partnership with British Waterways and Aviva, created to unlock the development potential of British Waterways non-operational waterside portfolio; and English Cities Fund, a Government-backed development vehicle with Legal and General and the Homes and Communities Agency, created to deliver sustainable regeneration in inner city locations.

Revenue £m

£57m

Year	£m
2011	57
2010	46
2009	32

Operating profit* £m

£3.9m

Year	£m
2011	3.9
2010	2.0
2009	0.7

Pipeline £bn

£1.6bn

Year	£bn
2011	1.6
2010	1.4
2009	1.4

“Since being appointed our development partner Muse has been very professional and has demonstrated how an innovative approach and determination can overcome barriers to success. The loss of regional funding for the Talbot Gateway scheme could have been a fatal blow but it did not discourage Muse, and its team has shown great tenacity in progressing the project, one of our major regeneration programmes. We are delighted that Sainsbury’s shares our confidence in the scheme and we are now looking forward to a long-term and productive partnership with Muse.”

Neil Jack
Chief Executive,
Blackpool Council

Project: **Talbot Gateway – Blackpool Central Business District**
Partner: **Blackpool Council**

Work has commenced on this new 1.1m sq ft, £220m mixed-use development. A detailed planning application has been submitted for a new office building and the refurbishment of a 650 space multi-storey car park, both pre-sold to the council. A pre-sale agreement has been exchanged with Sainsbury’s for a large format store. This first phase will involve significant highway works and high quality public realm.

Computer generated image shown.

2011 profit almost doubles

Despite tough market conditions, Muse had a successful year with a growing operating profit* and marked increase in on site activity. New construction contracts with a value of £36m were let during 2011 and by the end of the year, construction contracts with a total value of £97m were on site. The division has contributed significantly to the Group's results delivering an increased operating profit* of £3.9m (2010: £2.0m) on revenue of £57m (2010: £46m). It has also grown its regeneration pipeline substantially, with its share standing at £1.6bn with a further £0.6bn of opportunities currently at preferred developer status.

Muse's profit comes from a range of sources including active development, value-enhancing land trading and development management fees. Spread across the country, this mix avoids reliance on one particular source of income and provides a level of resilience to shifting market and economic conditions.

Project: **No 4 St Paul's Square, Liverpool**
Partner: **English Cities Fund**

As primary investor and development manager of English Cities Fund, Muse has recently completed the final phase of its £150m office-led mixed-use quarter. The BREEAM-rated 'Excellent' building comprises 109,000 sq ft of high quality Grade A office space and is the focal point for Liverpool's Central Business District. No 4 St Paul's Square is already attracting prestigious occupiers.

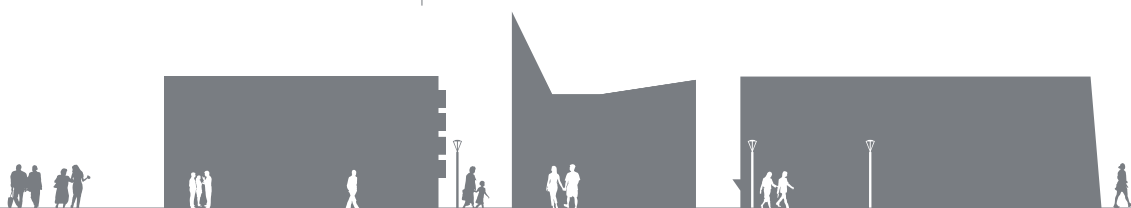
£0.8bn of major new schemes secured

Current market conditions have enabled Muse to work to its strengths. Namely its strong partnership record, proven expertise and its determination to identify solutions to overcome barriers to success. This reputation is further enhanced by the strong financial backing of the Group and its commitment to regeneration.

With many competitors less active in the market, the division has capitalised on opportunities throughout 2011. Significant achievements include being appointed by Rolls Royce as its development partner for a mixed-use development worth up to £250m on 150 acres of surplus land adjacent to one of its production facilities in the Midlands. In Chester a new development agreement was concluded with Lloyds Banking Group and Muse achieved preferred developer status on three schemes in Warrington, Basingstoke and Stockport. Development agreements are expected to be reached on these schemes within the first half of 2012. Other critical project milestones have been reached, including securing outline and detailed planning approvals on phases within eight major schemes throughout the country.

Warrington Borough Council selected Muse as preferred developer for the £130m Bridge Street Quarter regeneration scheme. One of the largest regeneration projects in the region, the scheme is the first phase of the council's 25-year strategic masterplan for the town centre and waterfront area and will provide retail, leisure and new offices for the council.

Stockport Metropolitan Borough Council has chosen the division as its preferred development partner for Grand Central, a £140m key gateway site. The project will deliver a high quality office quarter with quality public realm and easy access to the town centre, supported by a hotel and improved car parking.



Muse has also been named as Basingstoke and Deane Borough Council's partner for a £200m regeneration project, working with the council to develop in excess of 700,000 sq ft on council-owned sites. The scheme will include a mix of office space, a hotel and other supporting facilities.

In Chester the division acquired a 3.5 acre site from Lloyds Banking Group in order to unlock the plans for a new Business Quarter scheme providing 500,000 sq ft of prime office space in the city centre.

Progressing existing schemes
Despite withdrawal of regional development agency funding, Muse is taking forward the £220m Talbot Gateway scheme in Blackpool. The scheme will create 1.1m sq ft of new retail, commercial, community and residential space as well as parking and a new transport interchange. A detailed planning application has been submitted for the first phase and a pre-sale agreement has been exchanged with Sainsbury's for a large format store.

Project: **Doncaster Commercial and Cultural Quarter**
Partner: **Doncaster Metropolitan Borough Council**

Phase One of this long-term development partnership has created a new 190,000 sq ft BREEAM-rated 'Excellent' office for the council, a new performance venue and refurbished multi-storey car park fronting onto a major new public square. Muse is now master planning further phases of residential, leisure, retail and offices for future development.

Computer generated image shown.

In Doncaster work is progressing on the £300m Civil and Cultural Quarter, set to breathe new life into the town centre. Working within an innovative asset backed vehicle with Doncaster Council, the latest phase of construction has commenced to deliver a £20m theatre.

The English Cities Fund, a Muse joint venture, celebrated the completion of the final phase of the St Paul's Square scheme in Liverpool with the opening of No 4 St Paul's Square. The £32m building provides a total of 109,000 sq ft of high quality Grade A office space over eight floors and is the focal point for Liverpool's central business district.

In Scotland, at the 650-acre Eurocentral business park development, the division took advantage of positive investor demand to forward sell over 200,000 sq ft of speculative distribution units for £33m.

Muse continues to provide opportunities for other Group divisions, working with Construction and Infrastructure in Doncaster and Wakefield. At its Northshore development in Stockton-on-Tees, the first phase of the £300m housing and regeneration scheme is underway with Lovell providing 50 energy-efficient affordable houses for open market sale.

Further progress expected in 2012
Despite the regeneration market's ongoing challenges, Muse's significant development pipeline and its successful track record allows the division to be confident that it has good visibility of where it will be able to extend its level of contribution to the Group's financial results.

Muse is confident that its business model will continue to allow it to capitalise on its regeneration expertise working within development agreements, partnering with landowners and its existing strategic vehicles and to maximise public sector, residential, retail and leisure opportunities.

Divisions
Investments

For more information visit
www.msinvestments.co.uk

"Our track record in identifying barriers to success and responding with bespoke financing solutions places us in a strong position to maximise market opportunities in 2012."

Ernie Battey
Managing Director

The Group's Investments division, operating as Morgan Sindall Investments, facilitates project development, primarily in the public sector, by providing flexible financing solutions and development expertise. Its scope of business covers a wide range of markets including urban regeneration, education, healthcare, housing, emergency services, defence and infrastructure.

Its strategy is to unlock prime public sector construction opportunities that require the skill of other Group divisions. Successful implementation of this strategy creates revenue for the Group, provides a portfolio that delivers a sustainable return on capital investment, delivers profits in the longer term when investments are realised, and contributes to the Group's mission to build leading positions in all its markets.

The division is involved in a wide range of joint ventures, working with private and public sector partners. It specialises in Private Finance Initiatives and property partnerships, particularly Local Asset Backed Vehicles ('LABVs') and its expertise includes complex land swap arrangements. An LABV is a long-term joint venture between the public and private sectors covering several sites within a geographic area. The public sector signs up to an exclusive arrangement with the private sector to develop a series of sites in line with their development vision, contributing the land as equity in the partnership against the private sector's cash and expertise with profits shared equally. Committed to optimising opportunities through partnerships, the Investments division shapes and regenerates communities through the delivery of affordable housing, schools, health and leisure facilities, emergency services and infrastructure.

Directors' portfolio valuation £m

£49m

Year	£m
2011	49
2010	41
2009	31

Investments carrying value £m

£23.2m

Year	£m
2011	23.2
2010	17.7
2009	14.9

Project: **Basildon Sporting Village, Essex**
Partner: **Basildon Borough Council**

The largest sports project in the Thames Gateway, the £38m Basildon Sporting Village was delivered on time and on budget through a 25-year agreement between Community Solutions for Leisure (a Morgan Sindall Investments consortium) and Basildon Borough Council. The world class facilities will act as a community hub, a county and regional sporting venue and an international training venue for the 2012 Olympics and Paralympics.

"Community Solutions for Leisure has proved to be a very successful partnership of highly experienced companies that were able to get things done, fully understanding the needs of the client. Morgan Sindall Investments, the Construction and Infrastructure division, Sport and Leisure Management Ltd and S&P Architects have delivered something very special in Basildon. The Basildon Sporting Village is testament to what the private sector and the public sector can do when they work together. Excellent project management and communication throughout the project enabled the centre to be delivered without any surprises and more importantly, without any significant additional costs."

Paul Brace
Manager of Leisure Services,
Basildon Borough Council

2011 growth in portfolio value

The directors' valuation of the investment portfolio has increased to £49m (2010: £41m). 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% to 9% (post tax). The valuation of this portfolio is based on discounting expected future cash flows but does not include potential refinancing gains or projects at preferred bidder stage or profit made by Investments from providing services or profit made by other parts of the Group that perform the construction, maintenance or facilities management work.

Project: **Hull Building Schools for the Future**
Partner: **Hull City Council**

2011 not only marked the opening of the first three brand new schools (including the Archbishop Semantu Academy pictured) delivered by Hull Esteem Consortium, which includes the Group's Investments division, it also saw the launch of The Exchange, a hub designed to help young people with employability and skills issues.

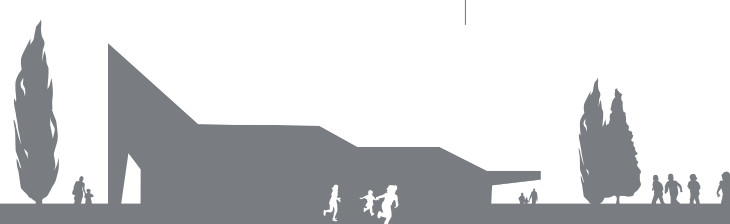
The Exchange will create a lasting legacy in terms of assisting various agencies that support local young people, whether that is through work experience, enterprise opportunities, gaining life skills or supporting a route into education, employment or training.

Against the backdrop of a challenging economic environment, 2011 has seen Investments achieve considerable success. The operating result* was a net cost after joint venture income of £3.9m (2010: £3.3m) which reflects the costs associated with public sector procurement, managing the portfolio and also the creation of vehicles required for funding initiatives. This is mitigated by the division's success in creating value for the Group through enabling other divisions to access a broad range of work and through its investment portfolio which increased in value significantly during the year.

Major schemes progress

Highlights include reaching agreement on significant urban regeneration schemes, securing financial closure and delivering landmark community projects. Formal contracts have been signed on the Bournemouth Town Centre Vision LABV scheme, a 20-year project with a development value in excess of £500m. The scheme is a 50/50 joint venture public private partnership between Bournemouth Borough Council and Investments. The scheme is a prime example of public sector land being released to drive regeneration. It will deliver a range of residential and mixed-use development and the regeneration of under-utilised council assets will enable significant investment in the public realm. The Group's Construction and Infrastructure and Affordable Housing divisions will provide construction services once planning is secured and work commences on the first site in early 2012.

Three additional contracts, totalling £65m, were awarded to Construction and Infrastructure as part of Hull City Council's Building Schools for the Future ('BSF') programme. The contracts were awarded following financial closure by an Investments' consortium that has formed a Local Education Partnership with Hull City Council and Partnerships for Schools to deliver the BSF programme.



The opening of the £38m Basildon Sporting Village demonstrates the Group's integrated expertise in funding, designing and building community leisure facilities through public private partnerships. The largest sports project in the Thames Gateway was delivered on time and on budget through a 25-year agreement between Investments and Basildon Borough Council. The world class facilities will act as a community hub, a county and regional sporting venue and an international training venue for the 2012 Olympics and Paralympics.

Wigan Life Centre, a £50m national award-winning leisure, health, learning and information complex was completed and is fully operational, delivered via a 25-year public private agreement between Wigan Metropolitan Borough Council, Community Solutions for Leisure and Hochtief PPP Solutions (UK). Construction and Infrastructure provided a wide range of construction services.

Project: **Bournemouth Town Centre Vision**
Partner: **Bournemouth Borough Council**

Bournemouth Town Centre Vision, a Local Asset Backed Vehicle 20-year project with a development value in excess of £500m. The scheme is a 50/50 joint venture public private partnership between Bournemouth Borough Council and Investments. It will deliver a range of residential and mixed-use development and the regeneration of under-utilised council assets will enable significant investment in the public realm.

Computer generated image shown.

Community Solutions, the health and social care joint venture with Barclays Infrastructure Funds, further strengthened its presence in the NHS Local Improvement Finance Trust ('LIFT') market this year through the acquisition of Primary Plus Limited. This acquisition, in addition to its investment activity, makes Community Solutions one of the largest management services providers in the LIFT market. It creates new partnerships with NHS and public sector organisations and will help secure new activity across the health and social care markets.

Partnership with the public sector

2012 will see Investments maintaining its strategy of identifying projects that offer the most potential to the Group and increase the value of its investment portfolio. With ongoing constraints on the public purse, local authorities will continue to seek viable public/private vehicles that facilitate development, secure efficiencies and boost economic growth. Investment options are also being explored around the infrastructure needs of the renewable energy industry where the Group's integrated offering and experience can add significant value.

Subsequent to the year end the division sold its investment in Dorset Fire & Rescue PFI for £3.8m, which was above the directors' valuation at 31 December 2011. This represents a discount rate on the directors' valuation cashflows of 7%. This is consistent with the policy to realise investments from time to time in order to recycle capital into new opportunities.

Sustainability review

For more information visit **morgansindall.com/sustainability**

Client: **RWE npower**
Location: **130 Wood Street, London EC2**

In 2011 Fit Out achieved the highest Gold Ska rating in the UK, within the client's budget, with its design and build of energy company RWE npower's new 8,000 sq ft London office. The Ska rating method is an assessment tool for sustainable office fit out and is applied from the design stage through to the construction of a project. The scheme recognises best practice across energy and CO_2, waste, water, pollution, transport, materials and well-being.

"I have a target of Ska Gold for each major project we start. This project achieved the highest scoring Ska ever and I'm really proud of the whole team."

Dave Horton
Property Sustainability and Capital Investment Manager, RWE npower

The Roadmap for Sustainability that the Board and each of the Group's five divisions committed to in 2011 includes a detailed action plan for 22 priority sustainability objectives. Six commitments, critical to drive sustainability into the Group's culture, have been agreed and these commitments are based on the People: Planet: Profit model.

- Total commitment to a safe workplace
- Total commitment to developing talented employees
- Total commitment to reducing energy consumption and carbon emissions
- Total commitment to reducing waste
- Total commitment to improving sustainable procurement
- Total commitment to supporting local employment.

The Sustainability report

An important part of the Group's renewed pledge to sustainability is the Morgan Sindall Group's first dedicated Sustainability report which will be released online at the same time as the Group's annual report and accounts. It explains how the Roadmap for Sustainability is being implemented and provides a review of the Group's performance over the past 12 months. Key Performance Indicators ('KPIs') are reported for each of the six Total Commitments. There are also reports on many of the other initiatives undertaken across all 22 priority objectives. 2011 is the base year for reporting data within the Roadmap and therefore no prior data is included in the first Sustainability report as new systems and processes have been installed during the year to capture key information. The Group's commitment to sustainability can be seen in the projects, performance figures and case studies highlighted in the report and a dedicated sustainability website has also been created to ensure that all stakeholders, employees, suppliers and customers are kept up to date throughout the year.

Visitors to www.morgansindall.com/sustainability can view the 2011 Sustainability report, the latest case studies and news items, updated KPI data and information on our 2011 performance on each Total Commitment as well as the challenges identified for 2012.

Management of the Roadmap

Senior personnel play a vital part in delivering the Group's Roadmap. A Group Sustainability Forum has been established and meets four times a year to review progress and agree future actions. The Forum includes representatives from the Board, the head of each division's own sustainability forum and the chairperson from each of the following Group forums: Health and Safety, Environment, Human Resources and Procurement. Where appropriate, the Group also engages external advisors. These divisional and task-specific forums all meet regularly to manage relevant business issues and report progress to the Group Sustainability Forum. The Group Sustainability Forum is ultimately responsible for the implementation and delivery of the Roadmap.

The Total Commitments

1. Total commitment to a safe workplace

To ensure, through proper training and education, that staff are fully engaged and involved in improving safety in the workplace, at home and on their journeys to and from work. The Group will ensure that everyone understands the part they play in their own safety and that of their co-workers, as well as the wider community. Providing a safe working environment for employees, subcontractors and suppliers is vital to the continued success of the Group, and is a number one priority.

Objective: No lost time incidents

KPI	2011
RIDDOR incidents (No.)	96

The Construction and Infrastructure division launched its 100% Safe programme in April 2011, a new approach to safe working that is centred on five pillars of Safe places, Safe by choice, Safe relationships, Safe by design and Safe lives. It has enabled the division to pull together the strongest elements of its historical behavioural programmes to ensure that a consistent message about 100% Safe is communicated to all its stakeholders.

2. Total commitment to developing talented employees

To help develop talent, the Group undertakes to provide all new staff with clear induction, appraisal and appropriate development programmes.

Recruiting, empowering and training talented individuals are central to the Group's business activities. Staff are encouraged to develop and use innovative means of delivering projects and be proactive in their dealings with clients, and the Group is committed to training and developing them to achieve this.

Objective: To attract and retain talented people

KPI	2011
Average number of training days per employee	5.8

All professional staff in the Urban Regeneration division have undertaken and passed the College of Estate Management's accredited programme on Introduction to Sustainability in the Built Environment. As part of its commitment to offering professional development opportunities to employees, this qualification is considered to be of high value in the increasing number of European Union (OJEU) contract opportunities in which the division is now involved.

3. Total commitment to reducing energy consumption and carbon emissions

To play a part in reducing emissions, by achieving, as a minimum, a 5% year-on-year reduction in energy consumption. By building more efficiently, more resource and energy-efficient workplaces, housing, schools and offices will be created, helping clients at the same time to reduce their own emissions.

Climate change and the prospect of peak oil are potentially two of the biggest challenges facing society in the twenty first century. The built environment accounts for over half of energy use and greenhouse gas emissions in the UK. As a leader in construction and regeneration, the Group recognises the important role it has to play in designing and delivering buildings and infrastructure that are more energy-efficient and incorporate new energy technologies.

Objective: To demonstrate net reduction in carbon emissions across the Group

KPI	2011
Group carbon emissions *tonnes*	70,800

This figure is a provisional result and may change subject to the Group's CEMARS (Certified Emissions Management and Reduction Scheme) audit which will be undertaken in May 2012. The final result will be published on the Group's website following the completion of the audit.

During 2011, the Group achieved certification under CEMARS. This internationally-recognised scheme recognises the actions of businesses and organisations that measure their greenhouse gas emissions, understand their liabilities and put in place strategies to reduce emissions in their organisation and more widely through their supply chain.

4. Total commitment to reducing waste

To improve resource efficiency, reduce the total amount of waste sent to landfill by 10% year-on-year and undertake to commit to recognised waste reduction schemes, as well as encouraging individual initiatives.

The UK construction industry is responsible for over 100m tonnes of construction, demolition and excavation waste every year, which accounts for around one third of all waste arising in the UK. With recognition that the UK is running out of landfill capacity, improved understanding of negative environmental impacts associated with land filled waste and increasing awareness of the need to use raw materials more efficiently, the Group believes that reducing the volume of construction waste is a priority.

Objective: To minimise waste generated throughout the Group

KPI	2011
Group waste production and recycling rates	
Total waste produced *tonnes*	1,311,800
Percentage of waste diverted from landfill %	86

Please note the data shown above does not include figures for the Affordable Housing division's response maintenance business following its acquisition at the end of 2010. During 2011, systems have been put in place to enable this data to be collected and reported in the 2012 report and accounts.

On a Fit Out contract in London, 100% of waste was reused, recycled or recovered diverting 114.5 tonnes of waste from landfill. This required effective planning and communication with the client and supply chain to explore alternative management of waste material. Product recovery was a critical element in Fit Out achieving its targets. Working with the client, the division reused existing material wherever possible either on this or other projects.

5. Total commitment to improving sustainable procurement

To ensure the Group's supply chain plays its role in helping the Group meet its sustainability objectives. The divisions will actively support the Construction Industry Research and Information Association ('CIRIA') guidance on sustainable procurement in construction, and expect suppliers to source and provide sustainable materials. The performance of suppliers, origin of key materials and compliance with recognised certified schemes will be monitored and reported as part of the Group's sustainable procurement policy.

The Group requires a high level of quality, competitiveness and sustainability from its suppliers and subcontractors to ensure that it can continue to bid projects competitively and secure long-term revenue.

Objective: To ensure that the Group supply chain conforms to its minimum standards for sustainability.

KPI	2011
Percentage of total spend that is covered by Group-wide agreements	85

Currently over 94% by value of timber the Group purchases is certified or declared as from a sustainable source, compared to 88% in 2010, and directly purchased timber with full chain of custody stands at almost 50% by value. The Group has been measuring the average number of road miles travelled by bricks used in its projects for the past six years. By 2011 it was down to 80.5 miles per 1,000 bricks, compared to 83.0 miles in 2010 and over 120 miles in 2005.

6. Total commitment to supporting local employment

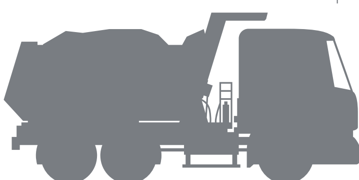
To aim to provide sustainable employment opportunities based on local communities, schemes to recruit and train people locally will be monitored and measured.

Construction is a major contributor to the UK economy and historically a driver of GDP growth. Training and full-time jobs offered during Group projects have the potential to make a real difference to the local communities. The Group always endeavours to leave a positive legacy following completion of a project.

Objective: To be the employer of choice in the construction industry.

KPI
Distance travelled by workforce which will be reported for the first time in our 2012 Sustainability report

The Group's Affordable Housing division is committed to apprenticeships as an important way of bringing a diverse range of talented people into the division and the construction industry as a whole. The division established its national apprenticeship programme in 2003, which sees an average of 60 men and women graduate each year, and has taken on its 500th apprentice.



Constructing and regenerating

Directors' report: governance

Information about our Board of directors and corporate governance

46 Board of directors
48 Corporate governance statement
53 Remuneration report
62 Other statutory and regulatory information
66 Directors' responsibilities statement

Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

Board of directors

John Morgan
Executive Chairman
Appointed: April 2000

John is the executive chairman, taking overall responsibility for the Group's strategy and ensuring that the Board functions effectively. He co-founded Morgan Lovell in 1977 which then reversed into William Sindall plc in 1994 to form Morgan Sindall Group plc. He was chief executive from 1994 to 2000 and has been executive chairman since 2000.

Paul Smith
Chief Executive
Appointed: March 2003

Paul is the Group's chief executive and takes responsibility for developing and implementing the Group's strategy and for managing the business. 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.

David Mulligan
Finance Director
Appointed: April 2004

David, as the Group's finance director, has Board responsibility for the Group's financing, financial reporting and information systems. Appointed finance director in April 2004 having been with the Group in finance roles since 1997, he had previously worked at Smiths Group plc and Ernst & Young where he qualified as a chartered accountant.

Paul Whitmore
Commercial Director
Appointed: April 2000

Paul, as commercial director, is the Group's senior executive for commercial operations. In addition, he has Board responsibility for health, safety and sustainability. Appointed a director in April 2000, he is a chartered surveyor and had previously held the position of chief executive of Laing Construction plc during his 27 years with John Laing plc.

Adrian Martin
Senior Independent
Non-Executive Director
Appointed: December 2008

Adrian assumed the role of senior independent director in May 2010 after two years with the Group. His career includes 30 years audit and corporate finance experience with BDO Stoy Hayward, the last eight as managing partner, before becoming chief executive and then consultant at Reynolds Porter Chamberlain LLP until 2009. Adrian holds non-executive directorships with H R Owen plc, M&C Saatchi plc and Safestore Holdings plc and is non-executive chairman of RSM Tenon Group PLC.

Geraldine Gallacher
Independent
Non-Executive Director
Appointed: August 2007

Geraldine is managing director of The Executive Coaching Consultancy, which she founded in 1994 to provide specialist coaching to executives and boards. Previously, she was head of group management development for The Burton Group plc (now Arcadia plc) and with the Ford Motor Company.

Patrick De Smedt
Independent
Non-Executive Director
Appointed: December 2009

Patrick's career includes 23 years with Microsoft, culminating in the role of chairman for Europe, Middle East and Africa from 2003. Since leaving Microsoft in 2006, he has served on the boards of a number of European public and private companies. He is currently a non-executive director of Victrex plc, CPP Group plc and a number of private companies as well as serving on the advisory board to a division of ING Bank NV.

Simon Gulliford
Independent
Non-Executive Director
Appointed: March 2010

Simon is chief executive officer of Gulliford Consulting, the marketing consultancy which he founded in 1992 and which is now part of Chime Communications. Before setting up his own consultancy, he was head of the marketing faculty at Ashridge College and he has previously held marketing roles at companies including Sears plc, EMAP plc and Barclays plc. He recently stepped down as chief marketing officer at Standard Life, remaining as a consultant to the executive team.

Corporate governance statement

The Board recognises the importance of maintaining a high standard of corporate governance in its management of the Group's affairs and its dealings with all its stakeholders. At Morgan Sindall good governance involves establishing appropriate policies, procedures and guidelines to ensure that the Company's core values and standards are embedded within the Group, whilst allowing each division to operate within a decentralised, empowering environment. The Board's stewardship of these matters and its role in providing guidance is critical. The Group's internal standards are established having regard to external governance codes, the applicable code being the UK Corporate Governance Code ('the Code').

Statement of compliance

The Code introduced by the Financial Reporting Council in 2010 has applied to the Company since 1 January 2011. The Company is committed to managing its affairs in compliance with the principles and provisions of the Code, including those provisions only applicable to FTSE 350 companies, and is reporting here on this basis. A copy of the Code is available from the Financial Reporting Council's website (www.frc.org.uk).

The Board has complied with the provisions of the Code throughout the year ended 31 December 2011 and up to the date of this report. A summary of how the Company has applied the main principles of the Code is set out below.

Strategy and risk management

During the continued challenging economic and market conditions in which the Group has been operating, the Board has reviewed and challenged its strategy to ensure that the Group is positioned to take advantage of opportunities in those sectors of the construction and regeneration markets offering the greatest potential for growth and reward. At the same time, the Board has devoted considerable time to assessing the nature and extent of the risks it is willing to take to achieve its strategy and to ensuring that an appropriate risk management structure is in place.

Despite the challenges facing the construction and regeneration markets, the Board remains committed to delivering strong performance and shareholder value.

John Morgan
Executive Chairman

Directors

Changes to the Board

The Board currently comprises an executive chairman, three further executive directors and five non-executive directors. Gill Barr has indicated her intention not to seek re-election when she retires at the forthcoming annual general meeting ('AGM') to be held on 3 May 2012, and this will leave four non-executive directors. 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.

Roles of the chairman, chief executive and senior independent director

The division of responsibility between the executive chairman and the chief executive is clearly defined in a written schedule agreed by the Board. 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. He sets the agenda for Board meetings and ensures that adequate time is devoted to discussion of all agenda items, facilitating the effective contribution of all directors. Paul Smith, as chief executive, is responsible for critically assessing the Group's strategy and for the day to day management of the operational activities of the Group in accordance with the strategy and policies determined by the Board.

Adrian Martin, as the senior independent director, is available to shareholders if they have concerns which have not been resolved through the chairman or chief executive or for which contact through those channels is not appropriate. He also has specific responsibility for evaluating the performance of the executive chairman and meets with the other non-executive directors without the chairman being present at least once a year.

The Board considers that the composition of the Board and the balance between executive and non-executive directors is appropriate to the size of the Group and the need to maintain cost control; it also believes that the balance of relevant experience amongst its members, having regard in particular to the diverse backgrounds of the non-executive directors, 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.

Procedures for managing conflicts of interest operating satisfactorily

The directors are aware of their duties under the Companies Act 2006 provisions relating to the management of conflicts of interest. The Company's articles of association ('the Articles') were amended in 2008 to give the Board a general power to authorise potential conflicts of interest. 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. This process was carried out satisfactorily during the year.

All directors to stand 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. The Board has agreed, however, that in accordance with the Code all of its continuing directors should submit themselves for re-election on an annual basis. Their biographies are set out on pages 46 and 47. The Board has

considered the recommendation of the nominations committee on the composition of the Board. It has also considered the formal performance evaluation described below of the Board's performance and that of individual directors. Following such performance evaluation, the Board believes in particular that the performance of all of the non-executive directors continues to be effective and that they continue to show commitment to their respective roles.

Description of Board activities

The role of the Board is to set the strategic direction of the Group, to review all significant aspects of the Group's activities, to supervise the executive management and to review the overall system of internal control and risk management. There is a formal schedule of matters that are specifically reserved to the Board, which includes the approval of the Group's strategic plans, the annual budget, significant capital expenditure and investment proposals, major projects, acquisitions and disposals, internal control arrangements and the annual and half year 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 2011 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 number of meetings	10	2	3	1
John Morgan	10	–	–	1
Paul Smith	10	–	–	–
David Mulligan	10	–	–	–
Paul Whitmore	10	–	–	–
Gill Barr	10	2	3	1
Patrick De Smedt	10	1	2	1
Geraldine Gallacher	10	2	–	1
Adrian Martin	10	2	3	1
Simon Gulliford	10	–	–	1

Non-attendance by directors at committee meetings was due to conflicting commitments. Where possible, papers were read in advance and comments passed to the chairman prior to the meeting.

In addition to the formal meetings, the Board met on several occasions to consider and debate specific strategic issues affecting the Group and potential investment proposals, with input where relevant from senior management. The Board meeting at which the annual Group budget was approved was preceded by meetings with divisional management.

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. Other training needs for the directors are kept under review during the year, with briefings on new legislation affecting them, such as the Bribery Act 2010, being provided by the General Counsel and Company Secretary.

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 General Counsel and Company Secretary, who attends all Board and committee meetings.

Board evaluated its performance

The Board has noted the Code requirement for external facilitation of evaluations for FTSE 350 companies at least every three years. It decided this year, however, to continue to adopt an internal process to evaluate the Board's performance and that of the committees and individual directors. During the year, this process took the form of an assessment form requiring each director to provide a rating against a series of statements designed to provoke consideration of the effectiveness of the Board in terms of its behaviours, both those of the Board as a whole and the individual contribution of directors, and the outcomes of its behaviours on the Group's performance.

Following receipt of each director's response to the assessment form, one to one meetings were held 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 were collated by the General Counsel and Company Secretary and presented at a subsequent Board meeting for discussion, 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
Adrian Martin (chair) Gill Barr Patrick De Smedt

All committee members are independent non-executive directors in accordance with the Code. Biographical details of each member of the committee are set out on page 47. The Board is satisfied that the chair of the committee, Adrian Martin, who is a fellow of the Institute of Chartered Accountants in England and Wales and formerly a partner in BDO Stoy Hayward, has the recent and relevant financial experience required to fulfil the role. Simon Gulliford will take Gill Barr's place on the committee after the forthcoming AGM.

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, reappointment 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
- to review the Company's procedures for detecting fraud and the adequacy of its systems and controls for the prevention of bribery
- to review the Company's procedures for raising concerns.

Activities

The committee held three scheduled meetings during the year. The first took place prior to the announcement of the Company's results for 2010 and approval of the annual report, the second prior to the announcement of its half year results and the third before commencement of the audit for 2011. Senior representatives from the external auditors, the finance director and the Group head of audit and assurance were invited to attend each of these meetings. The committee 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 year financial statements and to discuss with the external auditors their overall work plan for the forthcoming audit. 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.

In addition, during the year the committee considered the impact of the Bribery Act 2010 and monitored the risk assessments carried out by the Group and the adequacy of procedures in place to ensure compliance.

At each meeting, the committee also reviewed a summary of calls received by the external call line introduced in 2010 for raising concerns, together with the results of investigations into such calls and any follow up actions. Any significant matter arising from a call would be brought to the attention of the committee without delay, however, no significant matters arose during the year.

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 to ensure that the objectivity of the audit engagement partner and audit staff had not been impaired. This included details of changes in external audit partners in the audit plan in accordance with the external auditors' policy on rotating audit executives, in particular the appointment of a new lead audit engagement partner to take effect in 2012. 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.

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 2011 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 83. These represented approximately 14% of the audit fee and comprised advice to one of the divisions on its finance and reporting function. 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 auditors each year and makes a recommendation to the Board. The committee has satisfied itself that Deloitte LLP, the external auditors, remains independent and effective. The committee has recommended to the Board that Deloitte LLP be reappointed. There are no contractual obligations which restrict the committee's choice of external auditors.

Remuneration committee

Members
Gill Barr (chair) Patrick De Smedt Geraldine Gallacher Adrian Martin

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
- 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 53 to 61.

Nominations committee

Members
John Morgan (chair) Gill Barr Patrick De Smedt Geraldine Gallacher Adrian Martin Simon Gulliford

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
- to ensure suitable candidates are identified, having due regard for the benefits of diversity on the Board, including gender, 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, having regard to Gill Barr's decision to step down from the Board at the 2012 AGM. Its recommendation to the Board was that no further changes were required at this time, however, the matter would be kept under review.

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 activities. In particular, presentations are made to institutional investors and analysts following the announcements of the preliminary and half year 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 AGM as an opportunity for effective communication with the Company. All of the directors attended the AGM held in 2011. Details of proxy votes submitted for each resolution at general meetings, including proxy directions to withhold votes, are published on the Company's website.

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, each with its own management board which is given authority and responsibility for managing its division within a framework of overarching Group policies, reporting lines and detailed delegated authorities, which ensure that decisions and approvals are made at the appropriate level. Whilst responsibility for managing each division is delegated to the individual divisional management board as far as practicable, responsibility for certain of the Group's key functions, including treasury, internal audit, pensions and insurance, is retained at the Company 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 Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. The Group has a comprehensive budgeting and forecasting system 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 corporate transactions, 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 and/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 from the commercial director on the Group's performance in relation to health and safety matters and environmental compliance. Further details are included in the chief executive's review on page 10 and in the sustainability review on pages 42 to 44.

Risk management
The Board has reserved for 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 controls and actions required. This process includes the identification and assessment of the key sustainability risks facing the business, which include environmental, social and governance risks. 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, is compiled in a Group risk register, which is updated and reviewed by the Board twice yearly. This process ensures that adequate information in relation to risk management matters, including environmental, social and governance matters, is available to the Board and the Board is fully aware of the significance of these matters to the business of the Group. The principal risks identified as facing the Group are highlighted in the business review on pages 18 to 21. In addition to the standing risk register review process, the Board devotes time during some of the scheduled Board meetings to considering the commercial issues which at the time represent the greatest risks to the achievement of the Group's objectives and the mitigating actions in place to address these risks.

Internal audit
The Group head of audit and assurance 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 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 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. He also meets separately with the chair of the audit committee at least once a year.

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 each division. 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 2011 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.

Remuneration report

Executive pay is an area of continual development, reflecting the challenges of the current economic climate. The remuneration committee stays fully abreast of the latest developments and issues and takes an increasingly broad perspective when looking at how we pay our most senior executives. We remain committed to ensuring that we have highly talented senior management to maximise shareholder value and that we do not pay more than is necessary to attract and retain those executives to lead the Company. We believe it is critical that good performance delivered with a view to long-term sustainable growth is rewarded fairly and that there is no scope to reward failure.

2011 was a year of continued challenges for the UK construction market in the face of difficult economic conditions and ongoing constraints in public spending. Against this background, the Group has delivered a very resilient financial performance for the year ended 31 December 2011. Revenue increased in 2011 and, although profit before tax, amortisation and non-recurring items was lower than in 2010, this was anticipated given the competitive market environment in which the Group has been operating and in fact exceeded the Board's and market consensus expectations and this is reflected in the annual bonus outturn for the executive directors being 85.15% of maximum. However, the adjusted earnings per share targets under the long term incentive awards made in 2009, measuring performance in 2011, were not met and no awards will vest this year.

Turning to our policy for 2012, with the challenging market conditions expected to continue, we remain committed to restraining our fixed costs. To achieve this we have frozen the salary rate for the chairman and chief executive (for the third time in four years) and, for the finance director and commercial director, determined that any increases should be no higher than the broad average of the workforce generally. The annual bonus will operate on similar terms to 2011, based on stretching profit performance targets for the 2012 financial year.

The main focus of the committee's attention during 2011 has been a review of our future policy for long-term incentives. This has changed as follows:

- we have simplified the policy by removing the choice given to the executive to receive their award in the form of share options or performance shares, so that the award structure will be performance shares only
- subject to achieving shareholders' approval to an amendment to the individual limit in the Executive Remuneration Plan, the normal annual grant level will be increased from 75% to 100% of salary, which is in line, but no higher than, mid-market levels
- instead of an award being determined solely by adjusted EPS performance, a total shareholder return performance condition has been added for one half of the award, comparing our long-term stock market returns to other UK construction businesses
- the remaining one half of the award is based on a stretching range of EPS performance conditions, which have been made more challenging at the top end of the range, reflecting the higher award potential.

To improve the risk profile of the policy further we have made two further amendments.

- an incentive recovery provision has been added both to the annual bonus and Executive Remuneration Plan. This provides the Company with the power to recover erroneous payments of annual bonus or long-term incentive awards
- a shareholding guideline policy has been introduced, which requires all executive directors to build and maintain a shareholding worth no less than 100% of their base salary. This policy has the additional benefit of improving alignment of interest between executives and shareholders.

We have consulted with our major institutional shareholders on the revised policy and made certain changes in response.

Finally, having completed seven years service as a non-executive director, I have announced my intention to retire from the Board at this year's AGM. Between now and the AGM there will be an orderly hand-over to Patrick De Smedt, who has served on this Committee for two years and has experience of chairing remuneration committees at other UK listed companies.

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 UK Corporate Governance Code ('the Code'). A resolution to approve the report will be proposed at the AGM to be held on 3 May 2012.

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 and activities of the committee

The members of the committee during 2011 were Gill Barr (chair), Geraldine Gallacher, Adrian Martin and Patrick De Smedt. All members during the year were independent non-executive directors. Patrick De Smedt will chair the committee after Gill Barr retires from the Board at the forthcoming AGM.

The committee met on two occasions during the year and attendance at meetings is disclosed in the corporate governance statement on page 49. Additional consultation between committee members and between the chair of the committee and the chief executive were held as necessary to refine the changes to the long-term incentive arrangements discussed below.

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, and it sets their salaries and remuneration packages. In addition, the committee monitors the structure and level of remuneration for other senior executives in the Group and is aware of pay and conditions in the workforce generally.

External advice received

During the year, the committee received advice from New Bridge Street ('NBS') in relation to its consideration of the structure of the executive directors' remuneration for 2012. The committee also consulted the chief executive and the finance director but, in each case, not in relation to their own remuneration. NBS provided advice to the Company on accounting for share awards 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, should be 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 balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance, with financial performance creating a clear line of sight for individuals between performance and reward and providing a focus on sustained improvements in profitability, whilst total shareholder return ('TSR') compared with that of our competitors provides a more direct alignment between the interests of executives and shareholders
- to calibrate carefully all financial and total shareholder return performance metrics and associated sliding scale ranges carefully to ensure that performance is incrementally rewarded and that executives are not inadvertently incentivised to take inappropriate business risks (including environmental, social and governance risks)
- 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, subject to performance
- to align the interests of executives with those of the Company's shareholders.

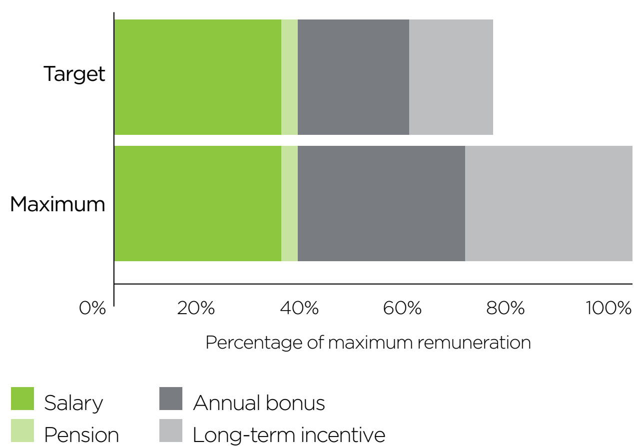
The committee considers pay and employment conditions of employees elsewhere in the Group when determining executive directors' remuneration

The committee takes account of remuneration levels offered to other senior executives within the Group as well as pay awards affecting Group employees when determining policy in relation to executive directors. At the meeting to determine the executive directors' remuneration structure and levels for 2012, the committee reviewed a detailed breakdown of the compensation received by senior executives below Board level and at divisional board and business unit level, to ensure that there is a coherent approach at all senior management levels. It also reviewed general employee pay awards for 2012 operating throughout the Group.

Fixed versus performance related remuneration

A significant proportion of the package is subject to performance related elements and this proportion will increase if the changes to the long-term incentive arrangements described below are approved by shareholders.

The chart following shows that, assuming the changes are approved by shareholders, just under half of the value of the package at a broadly target level of performance will comprise performance related elements, whilst at a maximum level of reward (assuming a maximum bonus and full vesting of the Plan awards) more than 60% of the total remuneration will comprise performance related elements.



Addition of incentive recovery provision

To improve the risk profile of the remuneration policy further, the committee has added an incentive recovery provision to the policy. This provides the Company with the power to reclaim overpayments to executive directors under future annual bonus or long-term incentive awards in the event of financial misstatement or error in the calculation of an annual bonus or long-term incentive performance condition.

Continued restraint in setting base salary levels

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 November 2011, the committee considered the budgeted level of increases in base salary for senior executives below Board level and the workforce generally. Whilst the average budgeted increase across the Group was c.3%, not all divisional management has received an increase in base salary for 2012. Having regard to the above and to the challenging market conditions expected to continue in 2012, the committee determined that David Mulligan and Paul Whitmore should each receive an increase in their base salaries of c.3.6% but that the salaries of John Morgan and Paul Smith should not be increased. Accordingly base salaries for the executive directors for 2012 will be as follows:

	From 1.01.2012	From 1.01.2011	Increase
John Morgan	£438,000	£438,000	+0%
Paul Smith	£515,000	£515,000	+0%
David Mulligan	£315,000	£304,000	+3.62%
Paul Whitmore	£311,000	£300,000	+3.67%

Pension arrangements

The Company makes contributions equivalent to 10% of base salary, in the case of David Mulligan, to The Morgan Sindall Retirement Benefits Plan ('the Plan') and, in the case of John Morgan and Paul Whitmore, to their individual personal pension plans.

The Company ceased contributing to the Plan in respect of Paul Smith with effect from 31 March 2011 and, as disclosed in last year's report, since 1 April 2011 it has paid Paul Smith a cash allowance equal to 10% of his base salary in lieu of any pension contribution less half of the consequent additional National Insurance Contribution ('NIC') cost to the Company.

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 NIC.

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

For the 2012 annual bonus plan, the committee has retained a performance condition based on a profit before tax and amortisation ('PBTA') target range, set relative to the Group's budget. This has the benefit of transparency and simplicity and encourages the executive directors to focus on the overall financial performance of the Group. Other performance measures have been considered by the committee but, as most of the Company's annual financial performance is reflected in its PBTA, the use of other financial and non-financial measures was considered inappropriate due to the additional complexity and, in the case of the latter, the potential lack of objectivity around target measurement.

The committee has sought to structure the bonus with an appropriate sliding scale range around a challenging target for executives recognising, however, that the target has to be realistic in order to serve as a proper incentive and needs to take into account the difficult economic environment in which the Company continues to operate.

The maximum potential annual cash bonus for executive directors for 2012 is unchanged from 2011 at 100% of base salary.

Long-term incentives

The Group's current long-term incentive arrangement for senior executives is the Morgan Sindall Executive Remuneration Plan 2005 ('the Plan'). The Plan was approved by shareholders in April 2005. During the year the committee reviewed the policy under the Plan and has made a number of changes. These are highlighted in the description of our policy overleaf.

Structure of Plan awards reviewed and simplified
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 four share options for every one performance share. To simplify the policy the committee has determined that the choice of taking the award in share options should be removed. Accordingly awards will take the form of performance shares only, i.e. a conditional award of shares vesting after three years subject to continued employment and the achievement of challenging performance conditions.

Award levels reviewed and increased for 2012
Since 2005 when the Plan was introduced, executive directors have been given the choice of receiving awards up to a maximum limit of 75% of salary for performance shares or 300% of salary for market price share options. The committee has now determined that the normal award level for performance shares should be increased to 100% of base salary.

This increase is subject to shareholder approval at the forthcoming AGM. A resolution will be proposed to increase the maximum limit to 150% of base salary. For the foreseeable future at executive director level the committee plans to make awards at a 100% of base salary level, but this higher limit has been included for future flexibility in exceptional circumstances, such as recruitment or acute retention.

This increase is considered appropriate so as to ensure that the overall package remains competitive with our peers and to ensure that there is an appropriate focus on the achievement of long-term performance metrics, upon which long-term incentive awards are based.

Performance conditions for 2012 awards reviewed and a new approach proposed
The committee continues to believe that long-term incentives should provide a focus on maximising sustainable long-term profitability by the use of a performance condition based on earnings per share before amortisation of intangible assets and non-recurring items ('adjusted EPS'). The Company's adjusted EPS performance for each annual award is measured over a single three year period.

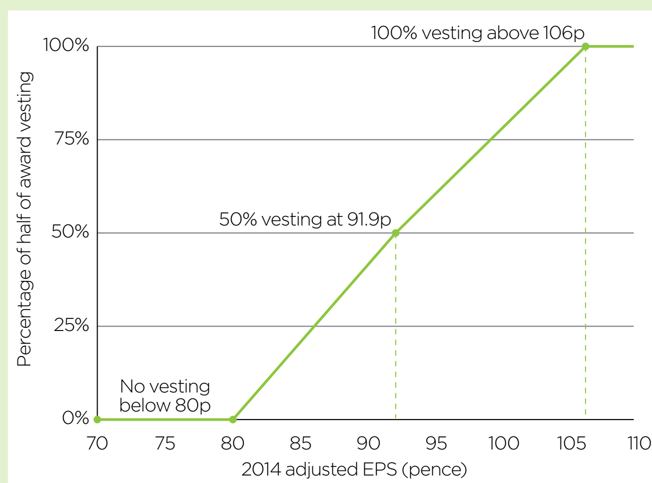
The committee has, however, determined that a more rounded assessment of long-term performance would be provided if, in addition to adjusted EPS, there is a performance condition based directly on the level of shareholder value created. Accordingly, for the 2012 awards, 50% of an award will be based on an adjusted EPS performance condition and the remaining 50% will be based on a condition measuring the Company's total shareholder return compared with eight of our UK listed peers, over a three year period. Total shareholder return measures the level of return made by an investor in Morgan Sindall Group plc shares, based on share price and dividend. Accordingly this provides a direct measure of our stock market performance.

EPS performance condition
Performance will be assessed by reference to the adjusted EPS performance in 2014 and all points in the target range have been increased in comparison to last year's award. In addition, the entire adjusted EPS range represents growth from the 31 December 2011 year end figure, at a time when little or no growth is forecast in the UK construction industry. In what remain highly challenging and uncertain market conditions, these targets are considered an appropriate incentive to preserve and maximise long-term profitability within an appropriate risk framework, thereby providing a good link with the strategy of the business. In setting this range, the committee also recognises that zero vesting at the EPS performance threshold is tougher than market norms and that there is a significant upside stretch.

The EPS performance targets will be as follows:

Adjusted EPS performance for the year ending 31 December 2014	Vesting percentage for 50% of the award
Less than 80p	0%
At 91.9p	50%
Between 80p and 91.9p	Pro rata on a straight-line basis
106p or more	100%
Between 91.9p and 106p	Pro rata on a straight-line basis

This vesting range is shown graphically below:



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 business risks (including environmental, social and governance risks).

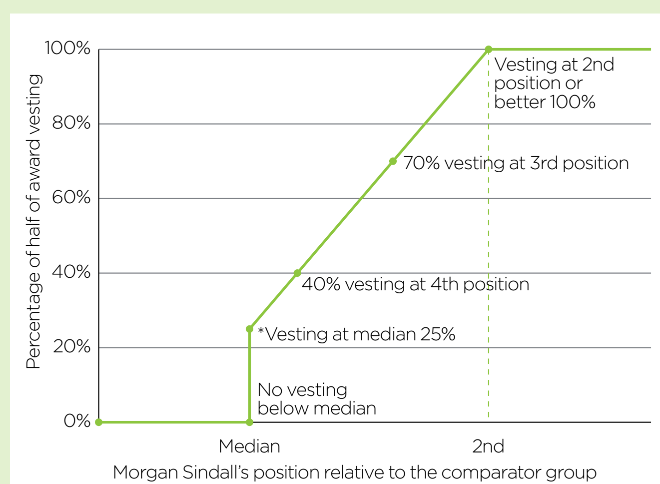
TSR performance condition

The target range for the total shareholder return performance condition will be as follows:

TSR performance compared with comparator group	Vesting percentage for 50% of the award
Lower than median	0%
Median	25%
Between median and 2nd position	Pro rata on a straight-line basis
2nd position or higher	100%

The TSR comparator group comprises Balfour Beatty plc, Carillion plc, Costain Group plc, Galliford Try plc, Interior Services Group plc, Interserve Plc, Keller Group plc and Kier Group plc

This vesting range is shown graphically below:



*For this purpose median out of eight companies is defined as the TSR value half way between the companies ranked at four and five.

In addition to the vesting being determined by the sliding scale of TSR performance shown above, there will be two additional conditions governing the level of vesting. Specifically, the result indicated by the TSR performance condition may be scaled back (potentially to zero) in the event that the committee considers that:

- financial performance has been unsatisfactory and/or
- the outcome has been distorted due to the TSR for Morgan Sindall or any comparator company being considered abnormal.

Introduction of formal shareholding guidelines

Through participation in performance linked share-based plans, there is strong encouragement for senior executives to build and maintain a significant shareholding in the business.

However, the committee considers that the policy could be improved further if this policy is operated on a more formalised basis. Accordingly, the committee has adopted a formal policy requiring all executive directors to build and maintain a shareholding in the Company equivalent to 100% of base salary. Until such time as this threshold is achieved there is a requirement for executives to retain no less than 50% of the net of tax value of vested Plan awards.

Other share plans

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

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

Dilution and share usage under employee share plans

Shares required for the 2007 Scheme are satisfied by shares purchased in the market via the Company's employee benefit trust and shares for the 2005 Plan may be satisfied using either new issue shares or market purchased shares. The Company's present intention is to use market purchase shares to satisfy awards under the Plan. However, it retains the ability to use new issue shares instead and may decide to do so up to the dilution limits recommended by the Association of British Insurers (10% of issued ordinary share capital for all employee share plans over a 10 year period and, within this limit, no more than 5% of issued ordinary share capital for executive or discretionary share plans). The outstanding level of dilution against these limits equates to 6.8% of the current issued ordinary share capital under all employee share plans, of which 1.9% relates to discretionary share plans.

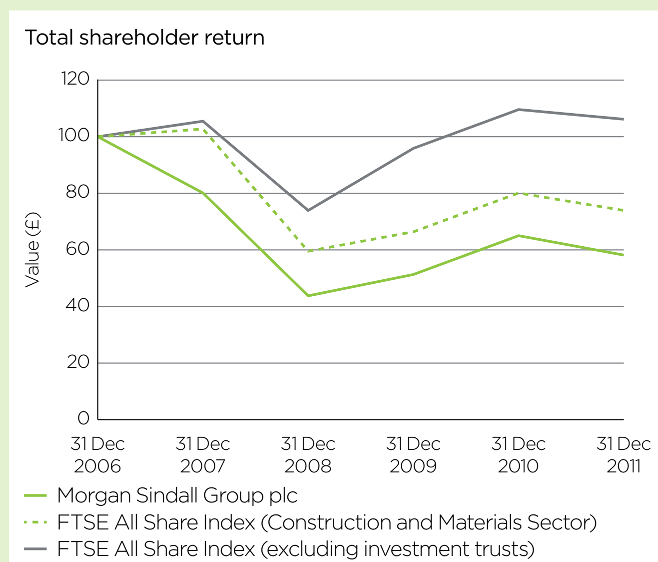
Separately, the employee benefit trust currently holds 766,714 shares which may be used to satisfy awards.

Remuneration report

continued

Five year performance graph

The graph below shows the TSR for the Company's shares over the last five financial years. It shows the value to 31 December 2011 of £100 invested in Morgan Sindall Group plc on 1 January 2007 compared with the value of £100 invested in the FTSE All Share (excluding investment trusts) Total Return Index and the FTSE All Share (Construction and Materials Sector) Total Return Index. The other points plotted are the values at intervening financial year ends.



Source: Thomson Reuters

Service contracts

John Morgan, Paul Smith and David Mulligan have all entered into new service agreements, updated to bring them into line with current best practice and to reflect more closely the terms in place for Paul Whitmore. All executive directors' service agreements are terminable on 12 months' notice. In circumstances of termination on notice (except in cases of removal for cause) the approach taken by the committee will be to determine, having regard to the particular circumstances of the case, an equitable compensation package which takes into account the departing director's obligations to mitigate his loss and avoids rewarding poor performance. The committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the director on garden leave for the notice period.

In case of payment in lieu or garden leave, base salary, employer pension contributions and employee benefits other than bonus will be paid for the period of notice served on garden leave or paid in lieu. Bonus will be paid in accordance with the rules of the scheme for the period of the bonus scheme year actually worked by the director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. Entitlement to shares or share options under the long-term incentive schemes will be determined in accordance with the rules of the scheme (which comply with ABI guidelines). There is no specific provision for compensation on early termination or loss of office due to a takeover bid.

The dates of the executive directors' contracts are:

John Morgan	20 February 2012
Paul Smith	20 February 2012
David Mulligan	20 February 2012
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. None of the executive directors is currently receiving fees for non-executive positions with other companies.

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
Simon Gulliford	24 February 2010

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 Act. 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. Having been increased last year, the fees for non-executive directors for 2012 will remain unchanged. The basic fee will therefore be £41,200 per annum whilst the chair of the audit committee will receive an additional £7,500 per annum and the chair of the remuneration committee an additional £6,000 per annum. Non-executive directors receive no other benefits and do not participate in short-term or long-term reward schemes.

Audited information

Directors' emoluments

Name of director	Fees/basic salary £'000s	Benefits £'000s	Money purchase pension contributions £'000s	Annual cash bonuses[1] £'000s	**Total 2011 £'000s**	Total 2010[3] £'000s	**2011 gains on amounts vesting under long-term incentive schemes £'000s**	2010 gains on amounts vesting under long-term incentive schemes £'000s
Executive								
John Morgan	438	22	42	373	**875**	913	**–**	–
Paul Smith	515	22	49[2]	439	**1,025**	1,073	**–**	23
David Mulligan	304	20	33	259	**616**	638	**–**	11
Paul Whitmore	300	20	30	255	**605**	585	**–**	24
	1,557	84	154	1,326	**3,121**	3,209	**–**	58
Non-executive								
Gill Barr	47	–	–	–	**47**	45	**–**	–
Patrick De Smedt	41	–	–	–	**41**	40	**–**	–
Geraldine Gallacher	41	–	–	–	**41**	40	**–**	–
Adrian Martin	49	–	–	–	**49**	45	**–**	–
Simon Gulliford	41	–	–	–	**41**	33	**–**	–
Jon Walden[4]	–	–	–	–	**–**	16	**–**	–
	219	–	–	–	**219**	219	**–**	–
Total	1,776	84	154	1,326	**3,340**	3,428	**–**	58

[1] Group PBTA in 2011 of £43.9m resulted in the executive directors becoming entitled to 85.15% of the maximum cash bonus. The maximum cash bonus required PBTA of £44.8m and the threshold PBTA was £37.8m.

[2] The cash allowance paid to Paul Smith in lieu of pension contribution since April 2011 is shown in the column headed money purchase pension contributions.

[3] The 2010 total figures have been restated to include the pension contributions that were reported separately last year.

[4] Jon Walden ceased to be a director on 6 May 2010.

Directors' interests in shares

The interests of the directors, all of which are beneficial, in the shares of the Company are given below. There have been no changes in the interests of the directors between 31 December 2011 and 21 February 2012.

	2011 No. of shares	2010 No. of shares
John Morgan	**4,497,508**	4,497,508
Paul Smith	**217,915**	217,915
David Mulligan	**24,544**	24,544
Paul Whitmore	**62,840**	62,840
Gill Barr	**1,013**	1,013
Geraldine Gallacher	**7,772**	7,772
Adrian Martin	**2,000**	2,000
Patrick De Smedt	**–**	–
Simon Gulliford	**–**	–

The 2005 Plan

Details of the executive directors' interests in long-term incentive awards under the 2005 Plan as at 31 December 2011 and movements during the year are as follows:

Performance shares

	Date of award	No. of awards outstanding as at 1 Jan 2011	No. of shares awarded	No. of shares vested	No. of shares lapsed March 2011[1]	No. of awards outstanding as at 31 Dec 2011	Date awards vest	Market price on award
Paul Smith	9.04.2008	18,046	–	–	(18,046)	–	–	£10.34
	30.03.2009[2]	32,328	–	–	–	32,328	30.03.2012	£5.61
	17.03.2010	33,784	–	–	–	33,784	17.03.2013	£5.52
	30.03.2011	–	58,790	–	–	58,790	30.03.2014	£6.57
Total		84,158	58,790	–	(18,046)	124,902		
David Mulligan	9.04.2008	9,745	–	–	(9,745)	–	–	£10.34
	30.03.2009[2]	19,073	–	–	–	19,073	30.03.2012	£5.61
	17.03.2010	19,932	–	–	–	19,932	17.03.2013	£5.52
	30.03.2011	–	34,703	–	–	34,703	30.03.2014	£6.57
Total		48,750	34,703	–	(9,745)	73,708		
Paul Whitmore	9.04.2008	18,046	–	–	(18,046)	–	–	£10.34
	30.03.2009[2]	34,914	–	–	–	34,914	30.03.2012	£5.61
	17.03.2010	36,486	–	–	–	36,486	17.03.2013	£5.52
	30.03.2011	–	34,247	–	–	34,247	30.03.2014	£6.57
Total		89,446	34,247	–	(18,046)	105,647		

Notes

[1] The threshold performance condition for the performance shares awarded on 9 April 2008 was not met and the awards have lapsed.

[2] The performance condition for the performance shares awarded on 30 March 2009 was tested after the year end and, as the threshold was not met, the awards have lapsed.

Share options

	Date of grant	No. of options outstanding as at 1 Jan 2011	No. of options granted 30 Mar 2011	No. of options lapsed 9 Apr 2011	No. of options outstanding as at 31 Dec 2011	Exercise price	Date from which exercisable
John Morgan	20.05.2005	107,736	–	–	107,736	£7.24	20.05.2008
	5.04.2006	81,016	–	–	81,016	£12.59	5.04.2009
	9.04.2008	122,716	–	(122,716)	–	–	–
	30.03.2009	219,828	–	–	219,828	£5.80	30.03.2012
	17.03.2010	229,728	–	–	229,728	£5.55	17.03.2013
	30.03.2011	–	200,000	–	200,000	£6.57	30.03.2014
Total		761,024	200,000	(122,716)	838,308		
Paul Smith	20.05.2005	68,370	–	–	68,370	£7.24	20.05.2008
	5.04.2006	47,656	–	–	47,656	£12.59	5.04.2009
	9.04.2008	72,814	–	(72,814)	–	–	–
	30.03.2009	129,310	–	–	129,310	£5.80	30.03.2012
	17.03.2010	135,136	–	–	135,136	£5.55	17.03.2013
Total		453,286	–	(72,814)	380,472		
David Mulligan	20.05.2005	35,220	–	–	35,220	£7.24	20.05.2008
	5.04.2006	28,594	–	–	28,594	£12.59	5.04.2009
	9.04.2008	38,980	–	(38,980)	–	–	–
	30.03.2009	76,294	–	–	76,294	£5.80	30.03.2012
	17.03.2010	79,730	–	–	79,730	£5.55	17.03.2013
Total		258,818	–	(38,980)	219,838		

Notes
No options were exercised during the year.

The maximum performance condition for the options granted in 2005 and 2006 was satisfied and the options are, therefore, fully exercisable.

The threshold performance condition for the options granted on 9 April 2008 was not met and the options lapsed.

The performance condition for options granted on 30 March 2009 was tested after the year end and, as the threshold was not met, the options have lapsed.

The awards of performance shares and share options made in 2010 are subject to an absolute adjusted EPS performance target with full vesting of awards for achieving adjusted EPS of 101.2p or more for the year ending 31 December 2012, reducing on a sliding scale to 50% vesting for achieving 81.0p and reducing on a sliding scale to 0% vesting for achieving 68.9p (performance shares) or 77.0p (share options). The awards of performance shares and share options made in 2011 are subject to an absolute adjusted EPS performance target with full vesting of awards for achieving adjusted EPS of 102.2p or more for the year ending 31 December 2013, reducing on a sliding scale to 50% vesting for achieving 81.7p and reducing on a sliding scale to 0% vesting for achieving 69.5p (performance shares) or 77.6p (share options).

The outstanding options detailed above will, if not lapsed or exercised earlier, lapse ten years from the date of grant.

The mid-market price of a share on 31 December 2011 was £5.94 and the range during the year was £5.10 to £7.30.

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 page 98.

	Date of grant	Outstanding as at 1 Jan 2011	Granted during the year	Lapsed during the year	Outstanding as at 31 Dec 2011	Option exercise price	Dates within which exercisable
John Morgan	27.09.2011	–	1,814	–	1,814	£4.96	1.11.2014–1.05.2015
Total					1,814		
Paul Smith	1.07.2008	1,338	–	–	1,338	£7.02	1.09.2011– 28.02.2012
	27.09.2011	–	1,814	–	1,814	£4.96	1.11.2014–1.05.2015
Total					3,152		
David Mulligan	1.07.2008	1,338	–	–	1,338	£7.02	1.09.2011–28.02.2012
	27.09.2011	–	1,814	–	1,814	£4.96	1.11.2014–1.05.2015
Total					3,152		
Paul Whitmore	1.07.2008	1,338	–	–	1,338	£7.02	1.09.2011–28.02.2012
	27.09.2011	–	1,814	–	1,814	£4.96	1.11.2014–1.05.2015
Total					3,152		

Note
No options were exercised during the year.

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

Gill Barr
Chair of the remuneration committee
21 February 2012

Other statutory and regulatory information

Enhanced 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 2011 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 on pages 45 to 66 and in the business review section of the directors' report on pages 2 to 44, each of which is incorporated by reference into (and is deemed to form part of) the directors' report. The liabilities of the directors in connection with this report shall be limited as provided by applicable English law.

Principal activities
Morgan Sindall is a construction and regeneration group with five divisions: Construction and Infrastructure, Affordable Housing, Fit Out, Urban Regeneration and Investments. The principal subsidiary companies and joint ventures operating within this divisional structure are listed in note 14 of the Company financial statements on page 122.

Results and dividends
The Group's profit before tax for the year amounted to £40.0m (2010: £40.7m).

An interim dividend of 12.0p (2010: 12.0p) per share amounting to £5.1m (2010: £5.1m) was paid on 16 September 2011. The directors recommend a final dividend for the year of 30.0p (2010: second interim dividend 30.0p) per share amounting to £12.8m (2010: £12.8m) payable on 18 May 2012 to shareholders on the register at close of business on 27 April 2012. Together with the interim dividend, this makes a total dividend of 42.0p for the year (2010: 42.0p).

Capital structure
Details of the Company's issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 8 of the Company financial statements. The Company's issued share capital comprises a single class of ordinary shares of 5p each ('shares').

At each AGM the Board seeks authorisation from its shareholders to allot shares. The directors were granted authority at the AGM on 5 May 2011 to allot relevant securities up to a nominal amount of £107,981. That authority will apply until the conclusion of this year's AGM and a resolution to renew the authority will be proposed at the forthcoming AGM, as explained further in the circular to shareholders accompanying this report.

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 report.

Rights and obligations attaching to shares
Subject to applicable statutes, 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 Company's articles of association (the 'Articles') may decide. Subject to the Articles, the Act and other shareholders' rights, unissued shares are at the disposal of the Board.

Subject to the Act, 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.

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 or her if any call or other sum then payable by him or her 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 Act.

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 on voting rights.

Transfer of shares
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)
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require its approval 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.

Purchase of own shares
At the AGM on 5 May 2011, a resolution was passed giving the directors authority to make market purchases of its shares up to 4,319,247 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 5 August 2012 and a resolution to renew the authority will be proposed at the forthcoming AGM, as explained further in the circular to shareholders accompanying this report.

Dividends and distributions
The Company may, by ordinary resolution, from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Act, 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 Act.

Rights under employee share schemes
The Legis Trust Limited as trustee of The Morgan Sindall Employee Benefit Trust ('the Trust'), held 1.8% of the issued share capital of the Company as at 31 December 2011 on trust for the benefit of the employees and former employees of the Group and their dependents. The voting rights in relation to these shares are exercised by the Trustee and there are no restrictions on the exercise of the voting of, or the acceptance of any offer relating to, the shares. Further details of the shares held by the Trust may be found in note 24 to the consolidated financial statements on page 98.

Appointment and replacement of directors
The directors shall be not less than two and not more than twelve 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 AGM of the Company and is then eligible for reappointment.

At every AGM of the Company, any director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs 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 resolves 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 law from being a director; (vii) he ceases to be a director by virtue of the Act; or (viii) he is removed from office pursuant to the Articles.

However, at the forthcoming AGM of the Company to be held on 3 May 2012, notwithstanding the provisions of the Articles, each of the directors (except Gill Barr who has indicated her intention not to seek re-election) will offer themselves for re-election in accordance with the UK Corporate Governance Code.

Powers of directors
Subject to the Articles, the Act 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.

Directors
Biographical details of the directors of the Company as at 21 February 2012 are set out on pages 46 and 47.

Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on pages 53 to 61.

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.

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.

Substantial shareholdings
As at 21 February 2012, the Company had been notified of the following interests in voting rights attaching to the Company's shares in accordance with chapter 5 of the Disclosure and Transparency Rules:

Name of holder	No. of shares	% of total
Aviva plc	4,680,684	10.83
John Morgan	4,497,508	10.41
Standard Life Group	3,463,660	8.01
John James Clifford Lovell	2,415,273	5.59
Aberdeen Asset Management plc	2,234,219	5.17
JPMorgan Chase & Co	2,123,287	4.91
Barclays Global Investors	1,303,861	3.02

Research and development
The Group undertakes research and development activity in creating innovative construction techniques and designs integral to the delivery of its projects. The direct spending incurred is generally not separately identifiable as the investment is usually contained within project work performed for customers.

Change of control
The Group's banking facilities which are described in the finance review on page 14 require repayment in the event of a change in control. The Group's facilities for surety bonding require provision of cash collateral for outstanding bonds upon a change of control of the Company. In addition, the Company's employee share incentive schemes contain provisions whereby, upon a change of control of the Company, outstanding options and awards would vest and become exercisable, subject to the rules of the relevant schemes.

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.

Sustainability
The Group is publishing its first separate 2011 Sustainability Report this year to coincide with the publication of this report which is displayed on the Company's website www.morgansindall.com/sustainability. Details of the Group's Sustainability Roadmap which was launched in 2011 and its six Total Commitments to drive improvement are set out on page 12 of the chief executive's review and in the sustainability review on pages 42 to 44. The 2011 Sustainability Report will provide further details of the Group's approach and its performance against the Total Commitments.

The Group has a robust series of sustainability, compliance and business ethics policies together with a range of mechanisms that help deliver the Group's sustainability programme including health and safety, environmental impact, employees, customers and supply chain and community engagement.

The average number of employees in the Group during the year is given in note 3 to the consolidated financial statements on page 83.

The Group has a policy of equal opportunities, which applies in relation to recruitment of all new employees and to the management of existing personnel. The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by such persons. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. Investment and resources continue to be provided to support, train and motivate all employees.

The Group places considerable value on the involvement of its employees and ensures that all significant events, economic factors and financial updates and the impact of these on the performance of the Group are communicated to employees through email alerts and regular newsletters. In addition, the divisions use a variety of methods to encourage employee involvement in the Group's performance and communicate key business goals and issues to employees. The divisions also consult and involve their employees through local publications, briefing groups, consultative meetings, training programmes, employee surveys and working groups to assist the process of continuous improvement in the way the business is conducted.

Details of the Company's Savings Related Share Option Scheme (the 'SAYE Scheme'), which is open to all employees, is set out in notes 24 and 27 of the consolidated financial statements on pages 98 to 101 respectively.

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 2011, the Group's number of creditor days outstanding was equivalent to 28 days' purchases (2010: 25 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 £47,134 (2010: £60,314), 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 separate 2011 Sustainability Report at www.morgansindall.com/sustainability.

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.

Post balance sheet events
On 15 February 2012 the Group disposed of its 33% interest in the Dorset Fire & Rescue PFI for cash consideration of £3.8m. Further details may be found in note 30 of the consolidated financial statements.

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 auditor is 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 auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

External auditor
Deloitte LLP has expressed its willingness to continue in office as external auditor and a resolution to reappoint it will be proposed at the forthcoming AGM.

Annual general meeting
The AGM of the Company will be held at the offices of RBS, 250 Bishopsgate, London EC2M 4AA on 3 May 2012 at 12.00 noon. The formal notice convening the AGM, 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 2 to 66 inclusive was approved by the Board and signed on its behalf by:

Mary Nettleship
Company Secretary
21 February 2012

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws 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 ('IFRSs') 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 (UK 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
- 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- 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

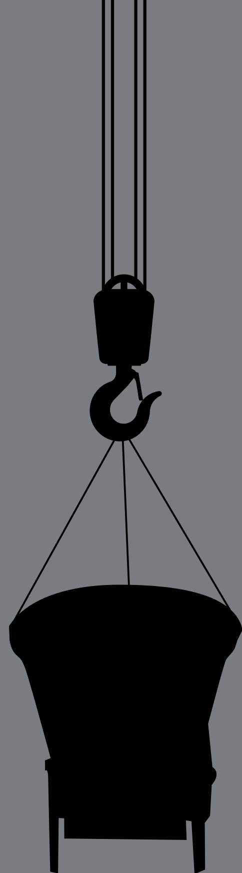
Each of the directors, whose names are set out on pages 46 and 47, confirms that to the best of his or her knowledge:

- 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
- 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
21 February 2012

David Mulligan
Finance Director
21 February 2012



Constructing and regenerating

Financial statements

For the financial year ended 31 December 2011

Consolidated

68 Independent auditor's report
69 Income statement
69 Statement of comprehensive income
70 Balance sheet
71 Cash flow statement
72 Statement of changes in equity
73 Significant accounting policies
81 Notes to the financial statements

Company

110 Independent auditor's report
111 Balance sheet
112 Combined statement of movement in reserves and shareholders' funds
113 Significant accounting policies
116 Notes to the financial statements

Independent auditor's report

to the members of Morgan Sindall Group plc

We have audited the Group financial statements of Morgan Sindall Group plc for the year ended 31 December 2011 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, 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 ('IFRSs') 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 auditor's 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 auditor

As explained more fully in the directors' responsibilities statement, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its profit for the year then ended;

- have been properly prepared in accordance with IFRSs 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 matter prescribed by the Companies Act 2006

In our opinion, the information given in the directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group 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 UK Corporate Governance Code specified for our review;

- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Morgan Sindall Group plc for the year ended 31 December 2011 and on the information in the directors' 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 Auditor
London, United Kingdom
21 February 2012

Consolidated income statement

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Continuing operations			
Revenue	1	**2,226.6**	2,101.9
Cost of sales		**(2,010.9)**	(1,884.7)
Gross profit		**215.7**	217.2
Amortisation of intangible assets	1, 2, 9	**(3.9)**	(5.5)
Non-recurring items	2	**(1.4)**	(5.1)
Other administrative expenses		**(170.3)**	(165.2)
Total administrative expenses		**(175.6)**	(175.8)
Share of net profit of equity accounted joint ventures	1, 12	**0.3**	0.1
Other gains and losses		**0.4**	0.3
Profit from operations	1	**40.8**	41.8
Finance income	5	**1.6**	1.7
Finance costs	5	**(2.4)**	(2.8)
Net finance expense		**(0.8)**	(1.1)
Profit before income tax expense	1	**40.0**	40.7
Income tax expense	6	**(7.2)**	(10.9)
Profit for the year	2	**32.8**	29.8
Attributable to:			
Owners of the Company		**32.9**	29.9
Non-controlling interests		**(0.1)**	(0.1)
		32.8	29.8
Earnings per share			
From continuing operations			
Basic	8	**77.5p**	70.5p
Diluted	8	**76.5p**	69.7p

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

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Profit for the year		**32.8**	29.8
Other comprehensive income/(expense):			
Actuarial gain arising on defined benefit obligation	19	**–**	0.8
Deferred tax on defined benefit obligation	20	**(0.1)**	(0.3)
Movement on cash flow hedges in equity accounted joint ventures	12	**(0.7)**	(1.4)
Other movement on cash flow hedges		**(0.2)**	–
Other comprehensive expense for the year, net of income tax		**(1.0)**	(0.9)
Total comprehensive income for the year		**31.8**	28.9
Attributable to:			
Owners of the Company		**31.9**	29.0
Non-controlling interests		**(0.1)**	(0.1)
		31.8	28.9

Consolidated balance sheet

at 31 December 2011

	Notes	2011 £m	Restated 2010 £m
Non-current assets			
Goodwill	9	**214.1**	214.3
Other intangible assets	9	**12.5**	16.6
Property, plant and equipment	10	**21.6**	27.8
Investment property	11	**11.1**	4.3
Investments in equity accounted joint ventures	1, 12	**49.8**	45.4
Investments		**0.4**	0.1
Shared equity loan receivables	13	**17.6**	13.9
Deferred tax assets	20	**–**	3.2
		327.1	325.6
Current assets			
Inventories	14	**146.0**	141.1
Amounts due from construction contract customers	16	**228.6**	178.4
Trade and other receivables	15	**186.5**	229.2
Cash and cash equivalents	29	**108.9**	148.6
		670.0	697.3
Total assets	1	**997.1**	1,022.9
Current liabilities			
Trade and other payables	17	**(620.9)**	(667.2)
Amounts due to construction contract customers	16	**(78.8)**	(70.7)
Current tax liabilities		**(8.7)**	(30.6)
Finance lease liabilities	18	**(0.8)**	(1.7)
Provisions	21	**(4.6)**	(7.7)
		(713.8)	(777.9)
Net current liabilities		**(43.8)**	(80.6)
Non-current liabilities			
Trade and other payables	17	**(0.3)**	–
Finance lease liabilities	18	**(4.3)**	(6.0)
Retirement benefit obligation	19	**(1.3)**	(1.9)
Deferred tax liabilities	20	**(19.8)**	–
Provisions	21	**(22.0)**	(15.4)
		(47.7)	(23.3)
Total liabilities		**(761.5)**	(801.2)
Net assets		**235.6**	221.7
Equity			
Share capital	24	**2.2**	2.2
Share premium account		**26.7**	26.7
Capital redemption reserve		**0.6**	0.6
Own shares		**(5.8)**	(5.9)
Hedging reserve		**(4.0)**	(3.1)
Retained earnings		**216.2**	201.4
Equity attributable to owners of the Company		**235.9**	221.9
Non-controlling interests		**(0.3)**	(0.2)
Total equity		**235.6**	221.7

In the course of the year, fair values on an acquisition in 2010 were finalised, leading to a restatement of the 2010 comparative balance sheet. Details are included in note 25.

The consolidated financial statements of Morgan Sindall Group plc (company number 00521970) were approved by the Board and authorised for issue on 21 February 2012 and signed on its behalf by:

Paul Smith
Chief Executive

David Mulligan
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Net cash (outflow)/inflow from operating activities	26	**(11.8)**	90.6
Cash flows from investing activities			
Interest received		**1.4**	1.9
Dividend from joint ventures	12	**0.3**	0.8
Proceeds on disposal of property, plant and equipment		**4.6**	1.1
Purchases of property, plant and equipment		**(5.4)**	(2.8)
Payments to acquire interests in joint ventures		**(6.0)**	(4.3)
Payment to acquire other investment		**(0.3)**	–
Payments for the acquisition of subsidiaries and other businesses	25	**(0.4)**	(35.2)
Net cash outflow from investing activities		**(5.8)**	(38.5)
Cash flows from financing activities			
Dividends paid		**(17.8)**	(17.8)
Repayments of obligations under finance leases		**(4.3)**	(3.4)
Net cash outflow from financing activities		**(22.1)**	(21.2)
Net (decrease)/increase in cash and cash equivalents		**(39.7)**	30.9
Cash and cash equivalents at the beginning of the year		**148.6**	117.7
Cash and cash equivalents at the end of the year			
Bank balances and cash		**108.9**	148.6

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Attributable to owners of the Company								
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Reserve for own shares held £m	Hedging reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2010	2.2	26.7	0.6	(6.0)	(1.7)	187.6	209.4	(0.1)	209.3
Total comprehensive income for the year:									
Net profit	–	–	–	–	–	29.9	29.9	(0.1)	29.8
Other comprehensive income:									
Actuarial gain arising on defined benefit obligation (note 19)	–	–	–	–	–	0.8	0.8	–	0.8
Deferred tax on defined benefit obligation (note 20)	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Movement on cash flow hedges in equity accounted joint ventures (note 12)	–	–	–	–	(1.4)	–	(1.4)	–	(1.4)
Total comprehensive income for the year, net of income tax	–	–	–	–	(1.4)	30.4	29.0	(0.1)	28.9
Share-based payments	–	–	–	–	–	0.7	0.7	–	0.7
Exercise of share options	–	–	–	0.1	–	(0.1)	–	–	–
Movement on deferred tax asset on share-based payments	–	–	–	–	–	0.6	0.6	–	0.6
Dividends paid:									
Second interim dividend for 2009	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Interim dividend for 2010	–	–	–	–	–	(5.1)	(5.1)	–	(5.1)
Balance at 31 December 2010	2.2	26.7	0.6	(5.9)	(3.1)	201.4	221.9	(0.2)	221.7
Balance at 1 January 2011	**2.2**	**26.7**	**0.6**	**(5.9)**	**(3.1)**	**201.4**	**221.9**	**(0.2)**	**221.7**
Total comprehensive income for the year:									
Net profit	–	–	–	–	–	32.9	32.9	(0.1)	32.8
Other comprehensive income:									
Actuarial gain arising on defined benefit obligation (note 19)	–	–	–	–	–	–	–	–	–
Deferred tax on defined benefit obligation (note 20)	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Movement on cash flow hedges in equity accounted joint ventures (note 12)	–	–	–	–	(0.7)	–	(0.7)	–	(0.7)
Other movement on cash flow hedges	–	–	–	–	(0.2)	–	(0.2)	–	(0.2)
Total comprehensive income for the year, net of income tax	**–**	**–**	**–**	**–**	**(0.9)**	**32.8**	**31.9**	**(0.1)**	**31.8**
Share-based payments	–	–	–	–	–	0.5	0.5	–	0.5
Exercise of share options	–	–	–	0.1	–	(0.1)	–	–	–
Movement on deferred tax asset on share-based payments	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Dividends paid:									
Second interim dividend for 2010	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Interim dividend for 2011	–	–	–	–	–	(5.1)	(5.1)	–	(5.1)
Balance at 31 December 2011	**2.2**	**26.7**	**0.6**	**(5.8)**	**(4.0)**	**216.2**	**235.9**	**(0.3)**	**235.6**

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

The number of shares held by the Trust at 31 December 2011 was 776,714 (2010: 781,444).

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.

Significant accounting policies

for the year ended 31 December 2011

Reporting entity
Morgan Sindall Group plc (the 'Company') is domiciled and incorporated in the UK. 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 interests in joint ventures and separate financial statements for the Company. The nature of the Group's operations and its principal activities are set out in note 1 and in the directors' report: business review on pages 2 to 44.

Basis of preparation
(a) Statement of compliance
The consolidated financial statements have been prepared on a going concern basis as discussed in the finance review on page 14 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.

(b) Basis of accounting
The consolidated financial statements have been prepared under the historical cost convention, except where otherwise indicated.

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

(d) Restatement of comparative balances
As was stated in note 25 on pages 104 to 105 of the 2010 annual report and accounts, the fair value of adjustments arising on the acquisition of the business, obligations and certain assets from the administrators of Connaught Partnerships Limited were provisional and subject to finalisation in accordance with IFRS 3 'Business Combinations'.

The fair value exercise has now been completed and the final acquisition balance sheet and related fair value adjustments are disclosed in note 25. In accordance with IFRS 3 'Business Combinations' the affected financial statements balances have been restated. None of the restatements have had an impact on gross profit, profit from operations or net assets. There was no impact on recognised income or expense as previously stated.

(e) Changes in accounting policy and disclosures
(i) New and revised accounting standards adopted by the Group
During the year, the Group has adopted the following standards, amendments and interpretations. They have either had no material impact on the Group's consolidated financial statements or are not currently relevant to the Group (but may affect future transactions and events):

- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'. The Interpretation provides guidance on the accounting for 'debt for equity swaps' from the perspective of the borrower

- Amendment to IFRS 3 'Business Combinations'. IFRS 3 has been amended such that only those non-controlling interests which are current ownership interests and which entitle their holders to a proportionate share of net assets upon liquidation can be measured at fair value or the proportionate share of net identifiable assets. Other non-controlling interests are measured at fair value, unless another measurement basis is required by IFRSs

- IAS 24 (2009) 'Related Party Disclosures'. The revised Standard has a new, clearer definition of a related party, with inconsistencies under the previous definition having been removed

- Amendment to IAS 32 'Classification of Rights Issues'. Under the amendment, rights issues of instruments issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency and which otherwise meet the definition of equity are classified as equity

- Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement'. The amendments now enable recognition of an asset in the form of prepaid minimum funding contributions

- 'Improvements to IFRSs 2010'. The amendments made to standards under the 2010 improvements to IFRSs have had no impact on the Group.

(ii) Accounting standards, amendments and interpretations to existing standards not yet effective, endorsed by the EU 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 2012 and have not been adopted early by the Group:

- IFRS 1 (amended) 'Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters'
- IFRS 7 (amended) 'Transfers of Financial Assets'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12' Disclosures of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 1 (amended) 'Presentation of Items of Other Comprehensive Income'
- IAS 12 (amended) 'Deferred Tax: Recovery of Underlying Assets'
- IAS 19 (revised) 'Employee Benefits'
- IAS 27 (revised) 'Separate Financial Statements'
- IAS 28 (revised) 'Investments in Associates and Joint Ventures'.

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 11 will impact both the measurement and disclosure of joint arrangements
- IFRS 12 will impact the disclosure of the interests the Group has in other entities
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures

- IAS 12 (amended) will impact the measurement of deferred tax on the Group's investment properties, by introducing the rebuttable presumption that the carrying value will be recovered entirely through sale

- IAS 19 (revised) will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation.

(f) Critical accounting judgments, key assumptions and sources of estimation uncertainty
The preparation of financial statements under IFRS requires management to make judgments, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Assumptions and estimates are reviewed on an ongoing basis and any revisions to them 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.

- *Determination of cash-generating units for goodwill impairment testing*
For the purposes of performing the Group's annual impairment testing, in allocating goodwill to the cash-generating unit or groups of cash-generating units, judgement is required to establish the lowest level at which goodwill is monitored for management purposes and which are expected to benefit from the business combination giving rise to the goodwill.

- *Disclosure of non-recurring items*
The Group has presented certain items of a one-off and material nature as non-recurring items in the income statement and notes to the consolidated financial statements. These items have been disclosed because the directors view their presentation as relevant to the understanding of the Group's underlying financial performance. Inclusion within this category is restrictive and is applied consistently to one-off costs and one-off gains.

- *Disclosure of sensitivities*
Judgment is required in establishing whether it is necessary to disclose the sensitivity of the results of impairment testing to changes in estimates in arriving at value-in-use of the cash-generating units. Additionally, judgement is required in establishing which, if any, sensitivities in the fair value of shared equity loans arise from changes to inputs used in determining fair value.

- *Fair value adjustments in business combinations*
The Group has made certain final fair value adjustments in respect of the acquisition of the business, obligations and certain assets from the administrators of Connaught Partnerships Limited and fair value adjustments in respect of acquiring full control of North Shore Development Partnership Limited, in which the Group previously had a 50% shareholding.

(ii) Key assumptions and 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, including the recoverability of any unagreed income from variations and the likely outcome of discussions on claims, 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.

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

- *Recognition and measurement of intangible assets*
The Group recognises certain intangible assets in respect of secured customer contracts, other contracts and related relationships, software, non-compete agreements and goodwill. Recognition and subsequent measurement 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.

- *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 a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset to calculate the present value of the cash flows. Details of the estimates used are set out in note 9.

- *Investment properties*
In assessing the fair value of investment properties, estimates are made of the value of properties with reference to market evidence of transaction proceeds for similar properties.

- *Recognition and measurement of the fair value of 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 below).

Because it is impracticable to obtain regular market valuations on a property-by-property basis, except as required at repayment, the Group makes estimates of fair value of the loans on a portfolio basis. Key assumptions used by management in making these estimates include market value growth, the discount rate, the anticipated loan duration and the expected rate of debtor default. Assumptions made in relation to these inputs are set out in note 13 and 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.

- *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. Details of the assumptions made are set out in note 19.

- *Provisions*
  In valuing the provision for the Group's retained insurance risks, assumptions are made on the rate of occurrence and severity of events for which the Group will bear liability and external valuations are used where appropriate. When valuing provisions for known legal claims, assessment of the likely success and value of any claim is based on internal and external advice.

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.

Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. Consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed in administrative expenses as incurred. All identifiable assets and liabilities acquired and contingent liabilities assumed are initially measured at their fair values at the acquisition date. As permitted, on an acquisition-by-acquisition basis, a non-controlling interest in the acquiree is recognised at fair value or at the acquiree's share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest and the acquisition date fair value of any previously held equity interest in the acquiree as compared with the Group's share of the identifiable net assets are recognised as goodwill. Where the Group's share of identifiable net assets acquired exceeds the total consideration transferred, a gain from a bargain purchase is recognised immediately in the income statement after the fair values initially determined have been reassessed.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Subsequent to acquisition, non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest'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 is obtained to the date that control ceases. The accounting policies of new subsidiaries are changed where necessary to align them with those of the Group.

Non-controlling interests in the net assets of the acquiree are initially measured at the non-controlling interests' share of the net fair value of the assets and liabilities recognised or at fair value, as determined on an acquisition-by-acquisition basis.

(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 consolidated statement of comprehensive income.

Where the Group's share of losses exceeds its equity accounted investment in a joint venture, the carrying amount of the equity interest 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 a joint venture's accounting policies and those of the Group.

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

(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 the 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. 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 the outcome of variations is uncertain, the Group only recognises revenue and associated margin where it is probable that the client will approve the variation. Where the outcome of claims is uncertain, the Group only recognises revenue when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

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 at fair value 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.

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

(e) Pre-contract costs
Costs incurred prior to the award of a contract are expensed until the point where it becomes probable that the contract will be obtained. Only after it is probable that the contract is forecast to be profitable, costs that were directly related to obtaining the contract and which are separately identifiable and can be measured reliably are recognised as contract assets. Pre-contract costs are expensed in the income statement over the period of the contract.

In the case of PPP/PFI contracts, all costs incurred before the appointment as preferred bidder are expensed.

Where pre-contract costs are reimbursable, the amount received is applied against amounts expensed with any surplus over this amount being applied to costs which have been recognised as contract assets.

(f) Mobilisation costs
Mobilisation costs are those costs specifically incurred to enable performance of obligations in a contract after its award and form an integral part of the overall costs of a contract. Such costs are amortised over the period of the contract except where the contract becomes loss making, in which case the balance is immediately expensed.

(g) 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.

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.

Finance income and expense

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

Finance expense comprises interest on bank overdrafts, the unwinding of discounts on provisions, impairment losses recognised on financial assets, amortisation of prepaid bank facility arrangement fees, commitment fees charged by lenders on the undrawn portion of available bank facilities 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.

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 an acquisition over the Group's share of the identifiable net assets of the acquiree at the acquisition date. Where that excess is negative, it is immediately recognised in the income statement as a gain from a bargain purchase.

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 acquired directly is included in the carrying amount of the investment.

(iii) Impairment

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The cash-generating units to which the goodwill has been allocated is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The largest group to which goodwill is allocated for impairment testing purposes is the operating segment level.

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 consolidated 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 consolidated 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 and removed when expired.

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

Secured customer contracts	1–3 years
Other contracts and related relationships	1–12 years
Software	1–3 years
Non-compete agreements	3 years.

Property, plant and equipment
Freehold and leasehold property, 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 of the assets, other than land, over their estimated useful lives using the straight-line method on the following basis:

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.

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. The loans are non-interest bearing.

The shared equity loans receivable are a hybrid financial instrument consisting of an initial principal component and an embedded derivative. Fair value movements are recognised in profit from operations and the resulting financial asset is presented as a non-current 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 to the income statement.

(b) Operating leases
Rentals payable under operating leases are charged to the income statement 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 comprehensive income 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, other than shared equity 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 is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of a provision for impairment losses. When a trade receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against the provision. Changes in the carrying amount of the allowance are recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss 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
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 (share awards or share options) 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 awards or 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.

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

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 had not vested 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 and in Group companies to manage their exposure to foreign exchange rate risk.

Under IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'), interest rate, RPI swaps and foreign exchange forward contracts 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 remeasurement 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 consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the consolidated financial statements

Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

1 Business segments

For management purposes, the Group is organised into five operating divisions: Construction and Infrastructure, Fit Out, Affordable Housing, Urban Regeneration and Investments. The divisions' activities are as follows:

- Construction and Infrastructure: offers national design, construction and infrastructure services to private and public sector customers. The division works on projects of all sizes across a broad range of sectors including commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport, waste and water.
- Fit Out: specialises in fit out and refurbishment projects in the office, education, retail, technology and leisure sectors through Overbury as a national fit out company operating through multiple procurement routes and Morgan Lovell specialising in the design and build of offices in London and the South.
- Affordable Housing: specialises in the design and build, refurbishment, maintenance, regeneration and repair of homes and communities across the UK. The division operates a full mixed-tenure model creating homes for rent, shared ownership and open market sale.
- Urban Regeneration: specialises in working with landowners and public sector partners to unlock value from under-developed assets to bring about sustainable regeneration and urban renewal through the delivery of mixed-use projects typically creating commercial, retail, residential, leisure and public realm facilities.
- Investments: facilitates project development, primarily in the public sector, by providing flexible financing solutions and development expertise covering a wide range of markets including urban regeneration, education, healthcare, housing, emergency services, defence and infrastructure.

Group Activities represents costs and income arising from corporate activities which cannot be allocated to the operating segments. These include costs for central activities such as treasury management, corporate tax coordination, insurance management, pension administration and company secretarial and legal services. The divisions are the basis on which the Group reports its segment information. Segment information about the Group's continuing operations is presented below:

2011

	Construction and Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	£m	Eliminations £m	Total £m
Revenue: external	1,267.8	438.0	462.3	56.6	1.9	–	2,226.6	–	2,226.6
Revenue: inter-segment	0.2	7.0	3.2	–	–	–	10.4	(10.4)	–
Included in profit/(loss) below:									
Share of results of associates and joint ventures after tax	–	–	(0.1)	(1.2)	1.6	–	0.3	–	0.3
Profit/(loss) from operations before amortisation and non-recurring items	21.1	12.4	18.5	3.9	(3.9)	(5.9)	46.1	–	46.1
Amortisation of intangible assets (note 9)	–	–	(0.9)	(3.0)	–	–	(3.9)	–	(3.9)
Non-recurring items (note 2)	(1.4)	–	–	–	–	–	(1.4)	–	(1.4)
Profit/(loss) from operations	19.7	12.4	17.6	0.9	(3.9)	(5.9)	40.8	–	40.8
Net finance expense							(0.8)		(0.8)
Profit before income tax expense							40.0		40.0

During the year to 31 December 2011 and the year ended 31 December 2010, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

1 Business segments continued

2010

	Construction and Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	£m	Eliminations £m	Total £m
Revenue: external	1,249.8	415.1	387.3	45.8	3.9	–	2,101.9	–	2,101.9
Revenue: inter-segment	49.6	3.5	2.2	–	–	–	55.3	(55.3)	–
Included in profit/(loss) below:									
Share of results of associates and joint ventures after tax	–	–	(0.2)	(0.5)	0.8	–	0.1	–	0.1
Profit/(loss) from operations before amortisation and non-recurring items	26.9	14.8	16.1	2.0	(3.3)	(4.1)	52.4	–	52.4
Amortisation of intangible assets (note 9)	(0.5)	–	(0.3)	(4.7)	–	–	(5.5)	–	(5.5)
Non-recurring items (note 2)	(3.2)	–	(3.9)	2.0	–	–	(5.1)	–	(5.1)
Profit/(loss) from operations	23.2	14.8	11.9	(0.7)	(3.3)	(4.1)	41.8	–	41.8
Net finance expense							(1.1)		(1.1)
Profit before income tax expense							40.7		40.7

2011

	Construction and Infrastructure £m	**Fit Out £m**	**Affordable Housing £m**	**Urban Regeneration £m**	**Investments £m**	**Group Activities £m**	**Total £m**
Goodwill	**151.1**	**–**	**46.8**	**16.2**	**–**	**–**	**214.1**
Other intangible assets	**–**	**–**	**3.6**	**8.9**	**–**	**–**	**12.5**
Equity accounted joint ventures	**–**	**–**	**–**	**26.9**	**22.9**	**–**	**49.8**
Other assets	**436.2**	**105.2**	**221.8**	**31.6**	**(10.9)**	**(63.2)**	**720.7**
Total assets	**587.3**	**105.2**	**272.2**	**83.6**	**12.0**	**(63.2)**	**997.1**
Total liabilities	**(448.4)**	**(83.5)**	**(175.3)**	**(26.7)**	**(17.5)**	**(10.1)**	**(761.5)**
Other information:							
Amortisation of intangible assets (note 9)	**–**	**–**	**0.9**	**3.0**	**–**	**–**	**3.9**
Depreciation (note 10)	**5.8**	**0.8**	**2.1**	**0.2**	**–**	**0.6**	**9.5**
Property, plant and equipment additions (note 10)	**3.1**	**0.5**	**2.4**	**–**	**–**	**0.6**	**6.6**

2010 restated

	Construction and Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Total £m
Goodwill	151.1	–	46.8	16.4	–	–	214.3
Other intangible assets	0.1	–	4.4	12.1	–	–	16.6
Equity accounted joint ventures	–	–	–	28.3	17.1	–	45.4
Other assets	418.8	118.9	229.0	21.7	0.5	(42.3)	746.6
Total assets	570.0	118.9	280.2	78.5	17.6	(42.3)	1,022.9
Total liabilities	(449.7)	(99.1)	(190.4)	(13.6)	(19.6)	(28.8)	(801.2)
Other information:							
Amortisation of intangible assets (note 9)	0.5	–	0.3	4.7	–	–	5.5
Depreciation (note 10)	6.7	1.0	0.3	0.2	0.1	0.5	8.8
Property, plant and equipment additions (note 10)	3.9	0.2	0.2	–	–	0.2	4.5

2 Profit for the year

Profit before income tax expense for the year is stated after charging/(crediting):

	2011 £m	2010 £m
Non-recurring items (see below)	**1.4**	5.1
Depreciation of property, plant and equipment (note 10)	**9.5**	8.8
Gain on disposal of property, plant and equipment	**(1.0)**	(0.5)
Staff costs (note 4)	**378.4**	368.4
Amortisation of intangible assets (note 9)	**3.9**	5.5
Decrease in fair value of investment property	**0.2**	–
Impairment of raw materials recognised as an expense	**0.8**	–
Write back of trade receivables (note 29)	**(0.3)**	(0.6)
Auditor's remuneration for audit and other services (see below)	**1.0**	1.1

A more detailed analysis of non-recurring items is provided below:

	2011 £m	2010 £m
Acquisition related costs	**–**	3.9
Integration costs	**1.4**	3.2
One-off gain from a bargain purchase	**–**	(2.0)
Total non-recurring items	**1.4**	5.1
Total non-recurring items post income tax	**1.0**	4.0

Additionally, there was a non-recurring credit to the tax charge of £2.8m (2010: £nil) (note 6).

A more detailed analysis of auditor's remuneration is provided below:

	2011 £m	2010 £m
Fees payable to the Company's auditor and associates for the audit of the Company's annual report and accounts	**0.1**	0.1
The audit of the Company's subsidiaries and joint ventures	**0.8**	0.9
Total audit fees	**0.9**	1.0
Other services	**0.1**	–
Services to joint ventures relating to tax compliance	**–**	0.1
Total non-audit fees	**0.1**	0.1
Total auditor's remuneration	**1.0**	1.1

3 Employees

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

	2011 No.	2010 No.
Construction and Infrastructure	**3,899**	4,807
Fit Out	**596**	549
Affordable Housing	**2,136**	2,204
Urban Regeneration	**50**	50
Investments	**40**	33
Group Activities	**23**	19
	6,744	7,662

Notes to the consolidated financial statements
continued

4 Staff costs

	2011 £m	2010 £m
Wages and salaries	**335.4**	324.3
Social security costs	**33.4**	34.6
Other pension costs	**9.6**	9.5
	378.4	368.4

5 Finance income and costs

	2011 £m	2010 £m
Interest income on bank deposits	**0.2**	0.2
Other interest income	**0.5**	0.2
Interest receivable from joint ventures	**0.9**	1.3
Finance income	**1.6**	1.7
Interest payable on bank overdrafts and borrowings	**(0.7)**	–
Interest payable on finance leases	**(0.5)**	(0.5)
Loan arrangement and commitment fees	**(1.2)**	(1.7)
Other interest payable	**–**	(0.6)
Finance costs	**(2.4)**	(2.8)
Net finance costs	**(0.8)**	(1.1)

6 Income tax expense

	2011 £m	2010 £m
Current tax expense:		
UK corporation tax	**10.0**	11.7
Adjustment in respect of prior years as set out below	**(25.1)**	(1.4)
	(15.1)	10.3
Deferred tax expense:		
Current year	**(1.0)**	0.1
Adjustment in respect of prior years as set out below	**23.3**	0.5
	22.3	0.6
Income tax expense for the year	**7.2**	10.9

Corporation tax is calculated at 26.5% (2010: 28.0%) of the estimated assessable profit for the year.

The total tax charge for the year of £7.2m is lower than the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%). The difference can be reconciled as follows:

	2011 £m	2010 £m
Current tax expense:		
Profit before tax	**40.0**	40.7
UK corporation tax rate	**26.5%**	28.0%
Income tax expense at UK corporation tax rate	**10.6**	11.4
Tax effect of:		
Expenses that are not deductible in determining taxable profits	**0.3**	0.8
Agreement with HMRC (see below)	**(2.8)**	–
Other adjustments in respect of prior years	**(0.5)**	(0.9)
Other effect of expected forthcoming change in tax rates upon closing deferred tax balance	**(0.1)**	0.1
Other	**(0.3)**	(0.5)
Income tax expense for the year	**7.2**	10.9
Effective tax rate for the year	**18.0%**	26.8%
Effective tax rate for the year ignoring prior year adjustments	**26.3%**	29.0%

6 Income tax expense continued

During the year the Group resolved its discussions with HMRC concerning corporation tax matters arising following the acquisition of certain businesses and assets from Amec in 2007. This agreement with HMRC resulted in a significant deferral of the Group's tax liabilities. This agreement is shown in the figures above through a reduction in current tax liabilities of £21.9m, shown as prior year adjustments, offset by an increase in deferred tax liabilities of £19.1m (calculated at 25% tax rate), mainly shown as prior year adjustments. The net effect, a £2.8m reduction in the tax charge, is due to reductions in UK corporation tax rates since 2007, as the release of provisions for current taxation is calculated using higher tax rates than the 25% tax rate used for calculation of the closing 2011 deferred tax balances.

7 Dividends

Amounts recognised as distributions to equity holders in the year:

	2011 £m	2010 £m
Second interim dividend for the year ended 31 December 2010 of 30.0p (2009: second interim dividend 30.0p) per share	**12.7**	12.7
Interim dividend for the year ended 31 December 2011 of 12.0p (2010: 12.0p) per share	**5.1**	5.1
	17.8	17.8

Proposed dividend:

	£m	£m
Proposed final dividend for the year ended 31 December 2011 of 30.0p (2010: second interim dividend of 30.0p) per share	**12.8**	12.8

The proposed final dividend of 30.0p (2010: second interim dividend of 30.0p) per share is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements. The proposed final dividend will be paid on 18 May 2012 to shareholders on the register at 27 April 2012. The ex-dividend date will be 25 April 2012.

8 Earnings per share

There are no discontinued operations in either the current or comparative years.

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

	Notes	**2011 £m**	2010 £m
Earnings			
Earnings before tax		**40.0**	40.7
Deduct tax expense per the income statement	6	**(7.2)**	(10.9)
Non-controlling interests		**0.1**	0.1
Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to owners of the Company		**32.9**	29.9
Add back:			
amortisation expense	2, 9	**3.9**	5.5
non-recurring items after tax	2	**1.0**	4.0
Deduct:			
non-recurring credit to tax charge	6	**(2.8)**	–
Earnings for the purposes of adjusted basic and dilutive earnings per share being net profit attributable to owners of the Company adjusted for amortisation expense and non-recurring items		**35.0**	39.4

8 Earnings per share continued

	2011 No. '000s	2010 No. '000s
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**42,442**	42,391
Effect of dilutive potential ordinary shares:		
Share options	**204**	93
Conditional shares not vested	**357**	389
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**43,003**	42,873

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 year that the options were outstanding. The weighted average share price for the year was £6.30 (2010: £5.93).

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

	2011	2010
Basic earnings per share	**77.5p**	70.5p
Diluted earnings per share	**76.5p**	69.7p

Earnings per share adjusted for amortisation expense and non-recurring items:

	2011	2010
Basic earnings per share adjusted for amortisation expense and non-recurring items	**82.5p**	92.9p
Diluted earnings per share adjusted for amortisation expense and non-recurring items	**81.4p**	91.9p

A total of 2,311,976 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 2011 (2010: 2,246,025).

9 Goodwill and other intangible assets

	Other intangible assets					
	Secured customer contracts £m	Other contracts and related relationships £m	Software £m	Non-compete agreements £m	Total other intangible assets £m	Restated goodwill £m
Cost or valuation						
Balance at 1 January 2010	4.2	26.9	0.9	5.0	37.0	193.4
Additions in the year	–	5.8	–	0.8	6.6	30.2
Disposals during the year	–	(2.0)	–	–	(2.0)	(0.3)
Balance at 31 December 2010	4.2	30.7	0.9	5.8	41.6	223.3
Balance at 1 January 2011	4.2	30.7	0.9	5.8	41.6	223.3
Additions in the year (note 25)	–	0.9	–	–	0.9	–
Disposals during the year (note 25)	–	(1.6)	–	–	(1.6)	(0.2)
Expired	–	–	–	(5.0)	(5.0)	–
Balance at 31 December 2011	**4.2**	**30.0**	**0.9**	**0.8**	**35.9**	**223.1**
Accumulated amortisation						
Balance at 1 January 2010	(3.9)	(11.5)	(0.9)	(4.1)	(20.4)	(9.0)
Amortisation charge for the year	(0.3)	(4.1)	–	(1.1)	(5.5)	–
Disposals during the year	–	0.9	–	–	0.9	–
Balance at 31 December 2010	(4.2)	(14.7)	(0.9)	(5.2)	(25.0)	(9.0)
Balance at 1 January 2011	(4.2)	(14.7)	(0.9)	(5.2)	(25.0)	(9.0)
Amortisation charge for the year	–	(3.6)	–	(0.3)	(3.9)	–
Disposals during the year	–	0.5	–	–	0.5	–
Expired	–	–	–	5.0	5.0	–
Balance at 31 December 2011	**(4.2)**	**(17.8)**	**(0.9)**	**(0.5)**	**(23.4)**	**(9.0)**
Carrying amount						
Carrying amount at 31 December 2011	**–**	**12.2**	**–**	**0.3**	**12.5**	**214.1**
Carrying amount at 31 December 2010	–	16.0	–	0.6	16.6	214.3

9 Goodwill and other intangible assets continued

In the course of the year, fair values on the acquisition of the business, obligations and certain assets from the administrators of Connaught Partnerships Limited in 2010 were finalised, leading to a restatement of the 2010 comparative balance sheet. Details are included in note 25.

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. Following a review of estimated useful lives, other contracts and related relationships will be fully amortised by 2019.

Secured customer contracts were fully amortised by 31 December 2010.

The Group acquired a non-compete agreement with a cost of £0.8m as a result of the acquisition of Powerminster Gleeson Services Limited on 30 June 2010 (note 25). This is of three years duration and is being amortised on a straight-line basis.

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

Included within goodwill is goodwill not deductible for tax purposes of £25.9m (2010: £26.8m).

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 administrative 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 2.30% (2010: 2.50%) which is equal to the HM Treasury's November 2011 medium-term forecast for the UK economy. The risk-adjusted nominal discount rates used are 12% (2010: 12%) for Construction and Infrastructure, 13% (2010: 13%) for Affordable Housing and 15% (2010: 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					
Balance at 1 January 2010	44.0	13.2	2.4	8.6	68.2
Additions in the year	2.8	0.7	–	1.0	4.5
Additions through acquisitions	1.4	–	–	–	1.4
Transfers	0.8	(0.8)	–	–	–
Disposals during the year	(2.7)	(0.3)	–	(0.2)	(3.2)
Balance at 31 December 2010	46.3	12.8	2.4	9.4	70.9
Balance at 1 January 2011	46.3	12.8	2.4	9.4	70.9
Additions in the year	5.4	–	–	1.2	6.6
Transfers	0.1	(0.1)	–	–	–
Disposals during the year	(13.6)	(4.8)	–	(0.6)	(19.0)
Balance at 31 December 2011	**38.2**	**7.9**	**2.4**	**10.0**	**58.5**
Accumulated depreciation					
Balance at 1 January 2010	(28.8)	(3.5)	–	(4.6)	(36.9)
Depreciation charge for the year	(5.9)	(1.5)	–	(1.4)	(8.8)
Transfers	(0.6)	0.6	–	–	–
Disposals during the year	2.2	0.2	–	0.2	2.6
Balance at 31 December 2010	(33.1)	(4.2)	–	(5.8)	(43.1)
Balance at 1 January 2011	(33.1)	(4.2)	–	(5.8)	(43.1)
Depreciation charge for the year	(7.1)	(1.2)	–	(1.2)	(9.5)
Transfers	(0.1)	0.1	–	–	–
Disposals during the year	11.8	3.3	–	0.6	15.7
Balance at 31 December 2011	**(28.5)**	**(2.0)**	**–**	**(6.4)**	**(36.9)**
Net book value					
Net book value at 31 December 2011	**9.7**	**5.9**	**2.4**	**3.6**	**21.6**
Net book value at 31 December 2010	13.2	8.6	2.4	3.6	27.8

Within the carrying value of property, plant and equipment, there are no assets under construction (2010: £nil).

Contractual commitments for the acquisition of property, plant and equipment are £nil (2010: £0.1m).

11 Investment property

	2011 £m	2010 £m
Valuation		
At 1 January	**4.3**	1.8
Additions in the year	**7.0**	2.5
Revaluation in the year	**(0.2)**	–
At 31 December	**11.1**	4.3

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 2011 is based on a valuation carried out at that date by the directors. The valuation, which conforms to International Valuation Standards, was determined 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 £0.4m (2010: £0.1m). Direct operating expenses arising on the investment property in the year amounted to £0.2m (2010: £0.1m).

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 a joint venture with Hochtief PPP Solutions (UK) Ltd and is developing the Wigan Life Centre.

Ashton Moss Developments Limited 50% share
Ashton Moss Developments Limited is a joint venture with Stayley Developments and has developed a mixed-use site in Manchester.

Blue Light Holdings Limited 50% share
Blue Light Holdings Limited is a joint venture with Infrastructure Investments Limited Partnership set up to hold the investment in a joint venture with Carden Croft for the Dorset Emergency Services PFI scheme. On 15 February 2012 the Group disposed of its interest in BLHL (see note 30).

Bromley Park Limited 50% share
Bromley Park Limited is a joint venture with Taylor Wimpey and has developed a site for housing in Kent acquired from the Ministry of Defence.

Claymore Roads (Holdings) Limited 50% share
Claymore Roads (Holdings) Limited is a joint venture with Infrastructure Investments (Portal) Limited Partnership and is responsible for the upgrade and operation of the A92 between Dundee and Arbroath in Scotland.

Community Solutions Investment Partners Limited 50% share
Community Solutions Investment Partners Limited is a joint venture with Barclays European Infrastructure Fund II Limited Partnership and carries out strategic development and regeneration projects in the health sector.

English Cities Fund 12.5% equity participation
English Cities Fund 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.

Hull Esteem Consortium PSP Limited 33⅓% share
Hull Esteem Consortium PSP Limited is the private sector investor in the Hull BSF scheme with three schools currently in operation, six under construction and with a pipeline of a further six. The other investors in this company are Robertson Capital Projects Limited, Sewell Education (Hull BSF) Limited and Hull City Council.

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 Aviva 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.

Lewisham Gateway Developments Limited 50% share
Lewisham Gateway Developments Limited is a joint venture with Taylor Wimpey and 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 a joint venture with United Utilities and is developing new office space and ancillary facilities at Warrington in Cheshire.

Morgan-Vinci Limited 50% share
Morgan-Vinci Limited is a joint venture with Vinci Newport DBFO Ltd and is responsible for the construction and operation of the Newport Southern Distributor Road.

North Shore Development Partnership Limited
North Shore Development Partnership Limited was a joint venture with Urban Splash and is creating a high quality extension to Stockton-on-Tees' town centre in partnership with Tees Valley Regeneration, Stockton Council and English Partnerships. On 24 January 2011, this joint venture became a wholly owned subsidiary of the Group (note 25).

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.

12 Investments in equity accounted joint ventures continued

St Andrews Brae Developments Limited 50% share
St Andrews Brae Developments Limited is a joint venture with Miller Homes and is securing planning permission for residential development.

Taycare Health (Holdings) Limited 50% share
Taycare Health (Holdings) Limited is a joint venture with Robertson Capital Projects Investments Limited and has invested 50% in a non-profit distributing project to develop two mental health hospitals for Tayside Health Board.

The Bournemouth Development Company LLP 50% share
The Bournemouth Development Company LLP is a partnership with Bournemouth Borough Council to operate a Local Asset Backed Vehicle (LABV) developing a series of sites in Bournemouth over a twenty year period.

The Compendium Group Limited 50% share
The Compendium Group Limited is a joint venture with The Riverside Group Limited and 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:

	2011 £m	2010 £m
At 1 January	45.4	50.2
Equity accounted share of net profits for the year	0.3	0.1
Increase in investment	6.0	4.3
Disposals (note 25)	(0.9)	(5.8)
Dividends received	(0.3)	(2.0)
Movement on cash flow hedges	(0.7)	(1.4)
At 31 December	**49.8**	45.4

The increase in investments in joint ventures during the year was mainly due to equity and loan investment in Access For Wigan (Holdings) Limited, cash investment in St Andrews Brae Developments Limited and loan investment in Community Solutions Investment Partners Limited.

Of the dividends received in the year, £0.3m (2010: £0.8m) were paid in cash and £nil (2010: £1.2m) through settlement of amounts owing to joint ventures.

Financial information related to equity accounted joint ventures:

	2011 £m	2010 £m
Non-current assets (100%)	476.2	296.8
Current assets (100%)	363.7	376.9
Current liabilities (100%)	(134.2)	(92.3)
Non-current liabilities (100%)	(574.5)	(458.4)
Net assets reported by equity accounted joint ventures (100%)	**131.2**	123.0
Revenue (100%)	96.9	148.9
Expenses (100%)	(96.6)	(148.5)
Net profit (100%)	**0.3**	0.4

Results of equity accounted joint ventures:

	2011 £m	2010 £m
Group share of profit before tax	1.8	0.6
Group share of income tax expense	(1.5)	(0.5)
Group share of profit after tax	0.3	0.1

Commitments in respect of interests in joint ventures:

	2011 £m	2010 £m
Commitment to provide further equity to Urban Regeneration joint ventures	–	0.8
Commitment to provide further equity and subordinated debt to PFI/PPP joint ventures	7.4	12.0
	7.4	12.8

13 Shared equity loan receivable

	2011 £m	2010 £m
Balance at 1 January	**13.9**	9.0
Additions arising from the sale of properties	**4.9**	4.0
Additions through acquisitions	**–**	0.6
Movement in fair value	**(0.9)**	0.3
Repayments	**(0.3)**	–
Balance at 31 December	**17.6**	13.9

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 (2010: £nil) and there were repayments of shared equity loan receivables in the year of £0.3m (2010: £nil). All repayments were at values at or above the values held in the accounts. 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 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 national 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:

	2011	2010
Assumption		
Period over which shared equity loan receivables are discounted	**7 years**	7 years
Weighted average annual property price increase assumed	**2.5%**	3.8%
Nominal discount rate applied to initial shared equity receivable	**5.8%**	6.6%
Rate of delinquency assumed in valuation of shared equity loan portfolio	**0.0%**	0.0%

At 31 December 2011, a total of 618 (2010: 462) properties had been sold under the shared equity scheme for which a loan was outstanding at the year end.

At 31 December 2011, 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 24% (2010: 25%). The maximum loan contribution by the Group under the shared equity scheme is 25% (2010: 25%).

The fair value measurement for shared equity loan receivables is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

Sensitivity analysis

At 31 December 2011, if the nominal interest rate had been 1.2% higher at 7.0% and all other variables were held constant, the Group's house price linked financial assets and liabilities, which are solely shared equity loan receivables, would decrease in value, excluding the effects of tax, by £0.9m with a corresponding reduction in both the result for the year and equity.

At 31 December 2011, if the period over which the shared equity loan receivables are discounted had been 10 years and all other variables were held constant, the Group's house price linked financial assets and liabilities, which are solely shared equity loan receivables, would decrease in value, excluding the effects of tax, by £1.5m with a corresponding reduction in both the result for the year and equity.

14 Inventories

	2011 £m	2010 £m
Raw materials	**–**	2.2
Development work in progress	**146.0**	138.9
	146.0	141.1

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

15 Trade and other receivables

	2011 £m	2010 £m
Trade receivables (note 29)	**168.2**	209.7
Provision for impairment losses (note 29)	**(0.9)**	(2.0)
	167.3	207.7
Amounts owed by joint ventures (note 28)	**3.6**	9.8
Prepayments and accrued income	**6.4**	5.5
Other receivables	**9.2**	6.2
	186.5	229.2

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

The average credit period on revenue is 15 days (2010: 23 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts.

Included in the Group's trade receivable balance are debtors with a carrying amount of £47.0m (2010: £50.0m) 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 161 days (2010: 120 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 (2010: £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

	2011 £m	2010 £m
Amounts due from construction contract customers	**228.6**	178.4
Amounts due to construction contract customers	**(78.8)**	(70.7)
Carrying amount at the end of the year	**149.8**	107.7
Contract costs incurred plus recognised profits less recognised losses to date	**9,227.7**	7,497.7
Less: progress billings	**(9,077.9)**	(7,390.0)
	149.8	107.7

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

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 2011, retentions held by customers for contract work amounted to £58.4m (2010: £57.1m).

17 Trade and other payables

	2011 £m	2010 £m
Trade payables (note 29)	**182.3**	149.9
Amounts owed to joint ventures (note 28)	**0.8**	0.8
Other tax and social security	**11.3**	20.4
Accruals and deferred income	**409.6**	480.7
Other payables	**16.9**	15.4
	620.9	667.2

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 28 days (2010: 25 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.

Non-current liabilities include trade and other payables of £0.3m (2010: £nil) that fall due between two and five years.

18 Finance lease liabilities

	Minimum lease payments		Capital element of lease payments	
	2011 £m	2010 £m	2011 £m	2010 £m
Amounts payable under finance leases:				
Within one year	**1.0**	2.1	**0.8**	1.7
In the second to fifth years inclusive	**4.1**	5.0	**3.5**	4.2
After more than five years	**0.8**	1.9	**0.8**	1.8
	5.9	9.0	**5.1**	7.7
Less: future finance charges	**(0.8)**	(1.3)	**n/a**	n/a
Present value of lease obligations	**5.1**	7.7	**5.1**	7.7
Current lease liability			**0.8**	1.7
Non-current lease liability			**4.3**	6.0
			5.1	7.7

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is six years (2010: six years). For the year ended 31 December 2011, the average effective borrowing rate was 5% (2010: 5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximates to their carrying amount. The Group's obligations under finance leases are secured on the assets to which the leases relate.

19 Retirement benefit schemes

Defined contribution plans

(i) The Morgan Sindall Retirement Benefits 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 (2010: £9.2m) represents contributions payable to the defined contribution section of the Plan by the Group.

As at 31 December 2011, contributions of £0.9m (2010: £1.0m) 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.

(ii) Local Government Pension Schemes

The Group makes contributions on defined contribution principles to a number of Local Government Pension Schemes ('LGPS') for employees who have transferred to the Group from other employers. The assets of these plans are held separately from those of the Group under the control of the Trustees of the LGPS. The total cost charged to the income statement of £0.3m (2010: £0.1m) represents contributions payable to these LGPS by the Group.

19 Retirement benefit schemes continued

Defined benefit plans

The Plan includes a defined benefit section comprising liabilities and transfers of funds representing the accrued benefit rights of active and deferred members and pensioners of pension plans of companies which are now part of the Group. These include salary related benefits for members in respect of benefits accrued before 31 May 1995 (and benefits transferred in from The Snape Group Limited Retirement Benefits Scheme include accruals up to 1 August 1997). No further defined benefit membership rights can accrue after those dates.

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was prepared at 31 December 2011. 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.

	2011 %	2010 %
Key assumptions used:		
Discount rate	**4.7**	5.4
Expected return on the Plan assets	**3.8**	4.8
Expected rate of salary increases	**4.1**	4.6
Future pension increases[a]	**3.5**	3.5
Inflation increases	**3.1**	3.6

[a] depending on their date of joining, members receive fixed pension increases of 3.0% or 3.5%.

Life expectancy

For the disclosures as at 31 December 2011, the S1NXA series of tables (31 December 2010, the S1NXA series of tables) from the Continuous Mortality Investigation were adopted appropriate to members' actual years of birth and with a 95% scaling factor for males and 100% for females. Medium cohort projections with a minimum underpin of 1.5% were adopted 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:

	2011	2010
Male	**87.1**	87.1
Female	**89.6**	89.6

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

	2011	2010
Male	**90.0**	90.0
Female	**92.5**	92.5

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%.

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

	2011 £m	2010 £m
Present value of the Plan liabilities	**(9.4)**	(8.5)
Fair value of the Plan assets	**8.1**	6.6
Deficit in the Plan liability recognised in the balance sheet	**(1.3)**	(1.9)

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

	2011 £m	2010 £m
Interest cost	**(0.4)**	(0.5)
Expected return on the Plan assets	**0.3**	0.3
Net periodic cost	**(0.1)**	(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 £0.8m (2010: £0.2m).

19 Retirement benefit schemes continued

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

	2011 £m	2010 £m
Liabilities at 1 January	**(8.5)**	(8.9)
Interest cost	**(0.4)**	(0.5)
Actuarial (loss)/gain	**(0.7)**	0.6
Benefits paid	**0.2**	0.3
Liabilities at 31 December	**(9.4)**	(8.5)

The liabilities in respect of pensions in payment account for around 35% of the total liabilities (2010: 35%). The average term to retirement is 7.4 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) (2010: 7.5 years) and 6.3 years (2010: 6.4 years) for deferred members.

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

	2011 £m	2010 £m
Assets at 1 January	**6.6**	5.7
Expected return on the Plan assets	**0.3**	0.3
Actuarial gain	**0.7**	0.2
Contributions from sponsoring company	**0.7**	0.7
Benefits paid	**(0.2)**	(0.3)
Assets at 31 December	**8.1**	6.6

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	**(1.6)**	1.9
Inflation rate		
Effect on interest cost	**–**	–
Effect on the defined benefit obligation	**0.5**	(0.5)
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 2012. The sensitivities to the defined benefit obligation relate to the liability as at 31 December 2011.

	2011 £m	2010 £m
Actuarial loss recognised in the statement of comprehensive income	**–**	(0.8)
Cumulative actuarial loss recognised in the statement of comprehensive income	**3.0**	3.0

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

	Fair value of assets		Expected return	
	2011 £m	2010 £m	2011 %	2010 %
Fixed interest gilts	**4.1**	3.3	**3.0**	4.2
Corporate bonds	**4.0**	3.3	**4.7**	5.4
	8.1	6.6		

19 Retirement benefit schemes continued

The expected return on the Plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The Plan does not hold any financial instruments issued by Morgan Sindall Group plc, and does not hold any property or other assets used by Morgan Sindall Group plc.

The history of experience adjustments is as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of the Plan liabilities	**(9.4)**	(8.5)	(8.9)	(8.0)	(8.0)
Fair value of the Plan assets	**8.1**	6.6	5.7	5.0	4.7
Deficit in the Plan	**(1.3)**	(1.9)	(3.2)	(3.0)	(3.3)
Experience adjustments on the Plan liabilities:					
Amount	**(0.7)**	0.6	(0.8)	0.2	(0.4)
Percentage of the Plan liabilities	**7.7%**	6.7%	8.9%	(1.9%)	4.4%
Experience adjustments on the Plan assets:					
Amount	**0.7**	0.2	0.2	(0.3)	(0.5)
Percentage of the Plan assets	**9.3%**	3.6%	2.6%	(6.6%)	(11.0%)

The amount of contributions expected to be paid to the Plan during 2012 is £0.7m (2011: £0.7m).

Local Government Pension Schemes

The Group has liabilities to defined benefit schemes for employees who have transferred to the Group under TUPE arrangements. The amount of any liabilities to fund these deficits on termination of the Contractor Admission Agreement is capped at £0.2m (2010: £0.1m). These liabilities are not included in any of the disclosures above.

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 2010	1.7	0.6	0.9	0.6	3.8
Credit/(charge) to income statement	0.2	(0.7)	(0.1)	0.1	(0.5)
(Charge)/credit to equity	–	–	(0.3)	0.6	0.3
Acquisition of subsidiary	(0.3)	–	–	–	(0.3)
Effect of change in tax rate:					
Income statement	(0.1)	–	–	–	(0.1)
At 31 December 2010	1.5	(0.1)	0.5	1.3	3.2
At 1 January 2011	**1.5**	**(0.1)**	**0.5**	**1.3**	**3.2**
Charge to income statement	(23.4)	(0.3)	(0.1)	–	(23.8)
Charge to equity	–	–	(0.1)	(0.5)	(0.6)
Effect of change in tax rate:					
Income statement	1.5	–	–	–	1.5
Equity	–	–	–	(0.1)	(0.1)
At 31 December 2011	**(20.4)**	**(0.4)**	**0.3**	**0.7**	**(19.8)**

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:

	2011 £m	2010 £m
Deferred tax within non-current assets	**–**	3.2
Deferred tax within provisions	**(19.8)**	–

At 31 December 2011, the Group had unused tax losses of £0.6m (2010: £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.

The UK corporation tax rate is set to reduce to 25% in April 2012, affecting the closing deferred tax balances as shown above. Further reductions in the UK corporation tax rate to 23% are expected but not yet legislated. The closing net deferred tax liability would reduce by £1.6m to £18.2m if these further expected changes were taken into account.

21 Provisions

Current liabilities

	Contract provisions £m	Employee provisions £m	Total £m
At 1 January 2010	–	–	–
Additions (restated, note 25)	11.8	15.7	27.5
Utilised	(7.5)	(12.3)	(19.8)
At 31 December 2010 (restated, note 25)	4.3	3.4	7.7
At 1 January 2011	**4.3**	**3.4**	**7.7**
Utilised	(3.1)	–	(3.1)
At 31 December 2011	**1.2**	**3.4**	**4.6**

In the course of the year, fair values on an acquisition in 2010 were finalised, leading to a restatement of the 2010 comparative balance sheet. Details are included in note 25.

The contract provisions were established on acquisition to reflect the fair value of novated contracts. Employee provisions relate to redundancy and other costs associated with contracts that did not novate.

Non-current liabilities

	Employee provisions £m	Insurance provisions £m	Other £m	Total £m
At 1 January 2010	1.7	10.0	5.1	16.8
Utilised	(2.0)	(1.7)	(2.5)	(6.2)
Additions	1.8	3.0	1.8	6.6
Released	(0.8)	–	(1.0)	(1.8)
At 31 December 2010	0.7	11.3	3.4	15.4
At 1 January 2011	**0.7**	**11.3**	**3.4**	**15.4**
Utilised	–	(1.8)	(0.8)	(2.6)
Additions	–	3.2	6.6	9.8
Released	–	(0.5)	(0.1)	(0.6)
At 31 December 2011	**0.7**	**12.2**	**9.1**	**22.0**

Employee provisions comprise obligations to former employees other than retirement or post-retirement obligations. Insurance provisions include £1.9m (2010: £1.9m) held in the Group's captive insurance company, Newman Insurance Company Limited 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.

22 Operating lease commitments

	2011 £m	2010 £m
Minimum lease payments under operating leases recognised as an expense for the year	**11.0**	17.2

At 31 December 2011, the Group had outstanding commitments for minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011			2010		
	Land and buildings £m	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
Within one year	**6.0**	**1.6**	**7.6**	6.9	2.7	9.6
Within two to five years	**15.2**	**1.5**	**16.7**	17.5	2.8	20.3
After more than five years	**1.9**	**–**	**1.9**	5.2	–	5.2
At 31 December	**23.1**	**3.1**	**26.2**	29.6	5.5	35.1

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 (2010: three years) and rentals are fixed for an average of four years (2010: two years).

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2011 is £0.4m (2010: £0.9m).

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.

As at 31 December 2011, contract bonds in issue under uncommitted facilities covered £204.1m (2010: £171.8m) of contract commitments of the Group.

24 Share capital

	2011		2010	
	No. '000s	**£'000s**	No. '000s	£'000s
Issued and fully paid:				
At the beginning of the year	**43,188**	**2,159**	43,160	2,158
Exercise of share options	**27**	**1**	28	1
At the end of the year	**43,215**	**2,160**	43,188	2,159

The Company has one class of ordinary shares of 5p each ('shares') which carry 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 the member if any call or other sum then payable by the member 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

27,019 shares were issued during 2011 in respect of options exercised under the Company's 1995 Scheme (as defined below) for a total consideration of £1,351 (2010: 27,870 shares for a total consideration of £1,394). All options exercised under the 1995 Scheme during the year were settled on a net basis.

No other shares were issued during the year.

Share options

The Company has four share option schemes:

- The Morgan Sindall Employee Share Option Plan 2007 ('the ESOP 2007') received approval from the Board on 7 June 2007. All options granted and to be granted under the ESOP 2007 will be settled with market purchased shares and are exercisable between three and 10 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 53 to 61

- The Morgan Sindall Savings Related Share Option scheme ('the SAYE scheme') was approved by shareholders on 22 April 2008 and by HMRC on 9 May 2008. 1,607,119 options were granted during the year (2010: nil). 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

- The Morgan Sindall 1995 Executive Share Option Scheme ('the 1995 Scheme') received shareholders' approval on 24 May 1995. All options outstanding at the beginning of the year were exercised or have lapsed during the year.

Further details of the employee share option schemes are given in note 27.

Own shares

Own shares at cost represent 766,714 (2010: 781,444) shares in the Company held in the Morgan Sindall Employee Benefit Trust ('the Trust') in connection with the ESOP 2007 and the 2005 Plan. 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. All of the shares held by the Trust were unallocated at the year end and dividends on these shares have been waived. The cost of shares expected to be awarded by the Trust is charged over the three year period to which the award relates. Based on the Company's share price at 31 December 2011 of £5.94 (2010: £7.05), the market value of the shares was £4,554,281 (2010: £5,509,180).

25 Acquisition of subsidiaries

Final valuation of the business, obligations and certain assets acquired from the administrators of Connaught Partnerships Limited
On 9 September 2010, the Group acquired the business, obligations and certain assets from the administrators of Connaught Partnerships Limited ('Connaught'). On pages 104 and 105 of the Group's 2010 annual report and accounts, the provisional fair values of the net assets and goodwill acquired were reported. The Group has since completed the fair value exercise. This led to further adjustments of £1.1m. The goodwill arising and fair values are as follows:

	£m
Total purchase consideration: cash	28.0
Net assets acquired	4.5
Goodwill	**23.5**

Goodwill arising on this acquisition represents the value of people, track record, expertise and opportunity to access new markets acquired within acquisitions that are not capable of being individually identified and separately recognised.

	Acquiree's carrying amount £m	Provisional fair value adjustments made 31 Dec 2010 £m	Final fair value adjustments made 31 Dec 2011 £m	Fair value 31 Dec 2011 £m
Intangible asset	–	4.0	–	4.0
Trade receivables and amounts on construction contracts recorded by Connaught	72.4	(44.4)	–	28.0
Provisions	–	(26.4)	(1.1)	(27.5)
Net assets acquired	**72.4**	**(66.8)**	**(1.1)**	**4.5**

The final fair value of certain provisions reflects the directors' best assessment of redundancy and other costs associated with contracts that did not novate and currently there remains some inherent uncertainty over the final determination of these liabilities.

	£m
Purchase consideration settled in cash	28.0
Cash and cash equivalents acquired	–
Cash outflow on acquisition	**28.0**

Acquisition of investment from partner in a joint venture
During the year the Group, through its subsidiary Muse Developments Limited, acquired from Urban Splash Yorkshire Limited its 50% interest in the jointly owned North Shore Development Partnership Limited. As a result of the transaction, Muse Developments Limited now owns the entire issued share capital of North Shore Development Partnership Limited. The total amount payable to Urban Splash Yorkshire Limited for the purchase was £0.4m, which was paid in cash. This transaction has been accounted for as a step acquisition under IFRS 3 'Business combinations'.

The fair value of the Group's existing 50% interest in North Shore Development Partnership Limited was £1.5m, comprising equity £0.9m, goodwill of £0.2m and an intangible asset of £0.4m. The directors determined that the fair value of the pre-existing interest in the joint venture was different from its carrying value of £2.2m. The total consideration due to Urban Splash Yorkshire Limited for the remaining 50% interest was £0.4m and the fair values of the identifiable net assets of the whole of North Shore Development Partnership Limited were as follows:

	Fair value £m
Intangible asset	0.9
Inventories	1.8
Identifiable net assets	2.7

On disposal of original interest:

	Equity £m	Goodwill £m	Intangible asset £m	£m
Fair value	0.9	0.2	0.4	1.5
Book value	(0.9)	(0.2)	(1.1)	(2.2)
Loss on disposal of original interest				(0.7)

25 Acquisition of subsidiaries continued

On acquisition of controlling interest:

	£m
Fair value of original interest	1.6
Cash paid	0.4
	2.0
Fair value acquired	(2.7)
Negative goodwill	(0.7)

The net effect on result for the year is as follows:

	£m
Loss on disposal of original interest	(0.7)
Negative goodwill	0.7
	–

The cash outflow in respect of this acquisition during the year ended 31 December 2011 was £0.4m, being £0.4m paid to Urban Splash Yorkshire Limited net of £nil cash acquired.

26 Cash flow from operating activities

	Notes	2011 £m	2010 £m
Profit from operations for the year		**40.8**	41.8
Adjusted for:			
Amortisation of fixed life intangible assets	2	**3.9**	5.5
Share of net profit of equity accounted joint ventures	12	**(0.3)**	(0.1)
Depreciation of property, plant and equipment	2	**9.5**	8.8
Expense in respect of share options		**0.5**	0.7
Defined benefit obligation payment	19	**(0.7)**	(0.7)
Defined benefit obligation charge	19	**0.1**	0.2
Net gain from bargain purchase of subsidiary previously held as equity interest		**–**	(2.0)
Gain on disposal of property, plant and equipment		**(1.0)**	(0.5)
Increase in investment properties	11	**(7.0)**	(2.5)
Revaluation of investment properties		**0.2**	–
Increase in shared equity loan receivables	13	**(4.9)**	(4.0)
Movement in fair value of shared equity loan receivables		**0.9**	(0.3)
Increase/(decrease) in provisions	21	**6.6**	(1.4)
Operating cash flows before movements in working capital		**48.6**	45.5
(Increase)/decrease in inventories		**(3.2)**	12.8
Increase in receivables		**(7.3)**	(66.8)
(Decrease)/increase in payables and short-term provisions		**(41.1)**	107.7
Movements in working capital		**(51.6)**	53.7
Cash (utilised in)/generated from operations		**(3.0)**	99.2
Income taxes paid		**(6.8)**	(6.4)
Interest paid		**(2.0)**	(2.2)
Net cash (outflow)/inflow from operating activities		**(11.8)**	90.6

Additions to leased property, plant and equipment during the year amounting to £1.2m (2010: £1.7m) 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

A description of the Group's employee share option schemes is set out in note 24.

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. Details of the ESOP 2007 option vesting periods are given in note 24 (no performance criteria are applied to options granted under this scheme). The vesting periods and performance conditions for options and share awards granted under the 2005 Plan are given in the directors' remuneration report on pages 53 to 61.

Under the SAYE scheme, employees are granted an option to purchase shares at a discount of up to 20% of the market price at grant, exercisable after three years from date of grant for a six month period from the proceeds of a monthly savings contract over the relevant period. 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 £7.08 (2010: £6.47). The options outstanding at 31 December 2011 had a weighted average exercise price of £6.09 (2010: £7.12) and, a weighted average remaining contractual life of 2.1 years (2010: 1.2 years). In 2011, options under the ESOP 2007 were granted on 2 March, 30 March, 21 April and 16 May, and the estimated fair value of the options granted on those dates was £0.3m (2010: £0.1m). Options and share awards under the 2005 Plan were granted on 30 March and 16 May. The estimated fair value of the options granted on those dates was £0.8m (2010: £0.6m) and the estimated fair value of the share awards granted on those dates was £1.5m (2010: £1.0m). 1,607,119 options were granted under the SAYE scheme in 2011 (2010: nil). The estimated fair value of options granted under the SAYE scheme on 27 September 2011 was £1.0m (2010: £nil).

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

	2 Mar 2011	30 Mar 2011	21 Apr 2011	16 May 2011
2007 ESOP options				
Number of options granted	195,000	10,000	30,000	20,000
Weighted average fair value at date of grant per option	£1.29	£1.41	£1.35	£1.54
Weighted average share price at date of grant	£6.35	£6.57	£6.58	£6.94
Weighted average exercise price	£6.58	£6.57	£6.86	£6.90
Expected term (from date of grant)[b]	6 years	6 years	6 years	6 years
Expected volatility[c]	41.00%	41.00%	41.00%	41.00%
Expected dividend yield[d]	6.60%	6.40%	6.40%	6.10%
Risk-free rate	2.80%	2.70%	2.70%	2.50%

	Options Mar 2011	Share awards Mar 2011[e]	Options May 2011	Share awards May 2011[e]
2005 Plan shares and options				
Number of options/shares granted[a]	325,570	189,384	224,536	21,460
Weighted average fair value at date of grant (per option/share)	£1.41	£6.57	£1.54	£6.94
Weighted average share price at date of grant	£6.57	£6.57	£6.94	£6.94
Weighted average exercise price	£6.57	n/a	£6.90	n/a
Expected term (from date of grant)[b]	6 years	3 years	6 years	3 years
Expected volatility[c]	41.00%	48.00%	41.00%	48.00%
Expected dividend yield[d]	6.40%	0.00%	6.10%	0.00%
Risk-free rate	2.70%	1.30%	2.50%	1.40%

(a) In March and May, 550,106 options and 210,844 share awards were granted to executives of the Group under the 2005 Plan.

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

(c) Assumed to be equal to historic volatility of the Company's share price over the period prior to grant equal in length to the expected term.

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

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

27 Share-based payments continued

The Group recognised total remuneration expenses of £0.5m and £0.7m related to equity-settled share-based payment transactions in 2011 and 2010 respectively.

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

2011

										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												
	25 Feb 04	25 Feb 09	24 Feb 11	4.20	10,000	–	5,819	–	4,181	–	–	209
	14 Sep 04	14 Sep 09	13 Sep 11	4.38	60,000	–	37,162	–	22,838	–	–	1,142
2007 Scheme												
	13 Aug 07	13 Aug 10	12 Aug 17	16.76	23,000	–	–	–	–	23,000	23,000	–
	24 Sep 07	24 Sep 10	23 Sep 17	15.81	37,000	–	5,000	–	–	32,000	32,000	–
	20 Dec 07	20 Dec 10	19 Dec 17	10.51	94,000	–	40,000	–	–	54,000	54,000	–
	15 Apr 08	15 Apr 11	14 Apr 18	10.03	50,000	–	–	–	–	50,000	50,000	–
	27 May 08	27 May 11	26 May 18	9.92	50,000	–	–	–	–	50,000	50,000	–
	28 Oct 08	28 Oct 11	27 Oct 18	4.36	42,500	–	3,998	–	1,002	37,500	37,500	4,365
	26 Nov 08	26 Nov 11	25 Nov 18	4.75	25,000	–	15,159	–	9,841	–	–	46,755
	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	–	10,003	–	3,887	76,110	–	24,733
	17 Mar 10	17 Mar 13	16 Mar 20	5.55	63,000	–	5,000	–	–	58,000	–	–
	24 May 10	24 May 13	23 May 20	5.29	50,000	–	–	–	–	50,000	–	–
	2 Mar 11	2 Mar 14	1 Mar 21	6.58	–	195,000	–	–	–	195,000	–	–
	30 Mar 11	30 Mar 14	29 Mar 21	6.57	–	10,000	–	–	–	10,000	–	–
	21 Apr 11	21 Apr 14	20 Apr 21	6.86	–	30,000	–	–	–	30,000	–	–
	24 May 11	24 May 14	23 May 21	6.90	–	20,000	–	–	–	20,000	–	–
2005 Plan												
	20 May 05	20 May 08	19 May 15	7.24	318,024	–	–	–	–	318,024	318,024	–
	5 Apr 06	5 Apr 09	4 Apr 16	12.59	228,752	–	–	–	–	228,752	228,752	–
	9 Apr 08	9 Apr 11	8 Apr 18	10.39	309,582	–	309,582	–	–	–	–	–
	16 Jun 08	16 Jun 11	15 Jun 18	7.42	25,048	–	25,048	–	–	–	–	–
	30 Mar 09	30 Mar 12	29 Mar 19	5.80	503,018	–	–	–	–	503,018	–	–
	17 Mar 10	17 Mar 13	16 Mar 20	5.55	630,776	–	–	–	–	630,776	–	–
	30 Mar 11	30 Mar 14	29 Mar 21	6.57	–	325,570	–	–	–	325,570	–	–
	16 May 11	16 May 14	15 May 21	6.90	–	224,536	–	–	–	224,536	–	–
2008 SAYE Scheme												
	1 Jul 08	1 Sep 11	29 Feb 12	7.02	1,020,619	–	–	133,184	–	887,435	887,435	–
	27 Sep 11	1 Nov 14	1 May 15	4.96	–	1,607,119	–	27,777	–	1,579,342	1,814	–
Total					3,724,319	2,412,225	456,771	160,961	41,749	5,477,063	1,682,525	77,204

The 14,730 options exercised in the year (2007 scheme) were settled by a distribution from the Morgan Sindall Employee Benefit Trust.

27 **Share-based payments** continued

2010

	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												
	25 Feb 04	25 Feb 09	24 Feb 11	4.20	90,000	–	52,130	–	27,870	10,000	10,000	1,394
	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	23,000	–
	24 Sep 07	24 Sep 10	23 Sep 17	15.81	37,000	–	–	–	–	37,000	37,000	–
	20 Dec 07	20 Dec 10	19 Dec 17	10.51	100,000	–	6,000	–	–	94,000	94,000	–
	15 Apr 08	15 Apr 11	14 Apr 18	10.03	50,000	–	–	–	–	50,000	–	–
	27 May 08	27 May 11	26 May 18	9.92	50,000	–	–	–	–	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	–	–
	17 Mar 10	17 Mar 13	16 Mar 20	5.55	–	63,000	–	–	–	63,000	–	–
	24 May 10	24 May 13	23 May 20	5.29	–	50,000	–	–	–	50,000	–	–
2005 Plan												
	20 May 05	20 May 08	19 May 15	7.24	318,024	–	–	–	–	318,024	318,024	–
	5 Apr 06	5 Apr 09	4 Apr 16	12.59	246,624	–	17,872	–	–	228,752	228,752	–
	6 Mar 07	6 Mar 10	5 Mar 17	12.15	258,024	–	258,024	–	–	–	–	–
	9 Apr 08	9 Apr 11	8 Apr 18	10.39	342,066	–	32,484	–	–	309,582	–	–
	16 Jun 08	16 Jun 11	15 Jun 18	7.42	25,048	–	–	–	–	25,048	–	–
	30 Mar 09	30 Mar 12	29 Mar 19	5.80	503,018	–	–	–	–	503,018	–	–
	17 Mar 10	17 Mar 13	16 Mar 20	5.55	–	630,776	–	–	–	630,776	–	–
2008 SAYE Scheme												
	1 Jul 08	1 Sep 11	29 Feb 12	7.02	1,280,380	–	–	259,761	–	1,020,619	19,819	–
Total					3,634,684	743,776	366,510	259,761	27,870	3,724,319	790,595	1,394

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 (2010: nil). Phantoms are exercisable between three and eight years from the date of grant of the phantom. The total intrinsic value at 31 December 2011 was £nil (2010: £nil). The Group had recorded no liabilities at 31 December 2011 in respect of phantoms (2010: £0.1m).

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	0.26
11 Oct 2005	8.49	51,000	–	–	51,000	0.05
5 Dec 2005	8.31	60,000	10,000	–	50,000	0.06
5 Apr 2006	12.59	50,000	–	–	50,000	–
5 Apr 2006[(a)]	12.59	50,000	–	–	50,000	–
18 May 2006	11.09	30,000	10,000	–	20,000	0.01
10 Aug 2006	10.86	10,000	–	–	10,000	0.01
	9.67[(b)]	319,000	20,000	–	299,000	0.08[(b)]

(a) The performance condition attached to this grant has been satisfied. No performance criteria are applied to other phantom awards.

(b) Weighted average.

The market price of a share on 31 December 2011 was £5.94 (2010: £7.05).

Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

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 2011	31 Dec 2010
Expected term (from date of grant)[a]	**4.6–5.6 years**	4.6–5.6 years
Expected remaining term	**1 year**	1 year
Share price at valuation date	**£5.94**	£7.05
Expected volatility of return[b]	**28%**	29%
Expected dividend yield[c]	**7.1%**	6.0%
Risk-free rate	**0.3%**	0.7%

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

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

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

The Group recorded a credit to profit of £0.1m during the year in respect of phantoms (2010: £nil credit).

28 Related party transactions

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

Trading transactions
During the year, Group companies entered into transactions 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	
	2011 £m	2010 £m	2011 £m	2010 £m
Claymore Roads (Holdings) Limited	**–**	–	**0.4**	–
Community Solutions Investment Partners Limited	**2.1**	19.5	**0.3**	0.5
Renaissance Miles Platting Limited	**0.1**	0.1	**–**	–
Blue Light Holdings Limited	**0.3**	0.3	**–**	0.1
Ashton Moss Developments Limited	**–**	–	**(0.2)**	(0.2)
Bromley Park Limited	**–**	–	**(0.6)**	(0.6)
Chatham Place (Building 1) Limited[a]	**n/a**	0.1	**n/a**	n/a
ECf (General Partner) Limited	**2.0**	1.7	**–**	–
Eurocentral Partnership Limited[a]	**n/a**	1.9	**n/a**	n/a
Lewisham Gateway Developments Limited	**–**	–	**0.2**	0.2
North Shore Development Partnership Limited[b]	**n/a**	–	**n/a**	0.1
The Compendium Group Limited	**3.7**	0.5	**0.6**	0.1
Access for Wigan (Holdings) Limited	**19.5**	0.1	**0.3**	–
Hull Esteem Consortium PSP Limited	**46.7**	50.2	**1.2**	4.8
St Andrews Brae Developments Limited	**2.8**	4.0	**0.1**	4.0
Taycare Health (Holdings) Limited	**–**	1.8	**–**	–
The Bournemouth Development Company LLP	**0.1**	–	**0.5**	–
	77.3	80.2	**2.8**	9.0

[a] In 2010 Chatham Place (Building1) Limited and Eurocentral Partnership Limited became wholly owned subsidiaries of the Group.

[b] In the course of the year North Shore Development Partnership Limited became a wholly owned subsidiary of the Group.

28 Related party transactions continued

	Amounts owed by/(to) related parties	
	2011 £m	2010 £m
Amounts owed by related parties	**3.6**	9.8
Amounts owed to related parties	**(0.8)**	(0.8)
	2.8	9.0

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

The amounts outstanding are unsecured and will be settled in cash. Other than construction related performance guarantees given in the ordinary course of business, no guarantees have been given to or received from related parties. No provisions have been made for doubtful debts in respect of amounts owed by related parties. All amounts owed to 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 59 to 61.

	2011 £m	2010 £m
Emoluments	**3.2**	2.2
Social security contributions	**0.4**	0.3
Other long-term benefits	**–**	0.2
Post-employment benefits	**0.2**	0.4
	3.8	3.1

Directors' transactions
During 2011, Eurocentral Partnership Limited (a wholly owned subsidiary of the Group) sold some land and buildings in the ordinary course of business to a syndicate of investors on arm's length terms. Certain senior employees and directors of Muse Developments Limited together with John Morgan (£0.6m) and Paul Smith (£0.4m) participated in the syndicate. Their investments were carried out on an arm's length basis and on the same terms as other investors in the syndicate and there are no amounts outstanding.

There have been no related party transactions with any director in the subsequent period to 21 February 2012.

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 21 February 2012.

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 £35.4m (2010: £26.7m) 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 risk review on pages 18 to 21 and the corporate governance statement on pages 48 to 52.

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.

(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 2011 were £58.4m (2010: £57.1m).

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 creditworthiness 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, mean 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.

29 Financial instruments continued

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

	2011		2010	
	Gross trade receivables £m	**Provision for impairment losses £m**	Gross trade receivables £m	Provision for impairment losses £m
Not past due	**120.3**	**–**	157.7	0.4
Past due 1 to 30 days	**19.1**	**–**	15.3	0.1
Past due 31 to 120 days	**7.6**	**0.2**	16.8	0.1
Past due 121 to 365 days	**3.8**	**0.1**	10.2	0.5
Past due greater than one year	**17.4**	**0.6**	9.7	0.9
	168.2	**0.9**	209.7	2.0

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

	2011 £m	2010 £m
Balance at beginning of the year	**2.0**	2.9
Amounts written off during the year	**–**	(0.2)
Amounts recovered during the year	**(0.8)**	(0.1)
Decrease in provision recognised in the income statement	**(0.3)**	(0.6)
Balance at 31 December	**0.9**	2.0

(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 2011 (2010: £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 generally 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 September 2015.

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.

29 Financial instruments continued

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; and 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:

	2011 £m	2010 £m
Not past due	**162.1**	123.9
Past due 1 to 30 days	**14.6**	12.0
Past due 31 to 120 days	**3.1**	7.4
Past due 121 to 365 days	**2.5**	6.6
Past due greater than one year	**0.3**	–
	182.6	149.9

(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 £154.4m (2010: £129.0m) have fixed interest payments at an average rate of 4.55% (2010: 4.83%) for periods up until 2041.

The Group's share of the fair value of swaps entered into at 31 December 2011 by joint ventures is estimated at a £4.0m liability (2010: £3.1m 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.

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.

During the year a UK construction project joint venture in which the Group participates entered into forward foreign exchange contracts, in order to hedge UK project costs incurred in Euros. The Group's share of the fair value of these forward foreign exchange contracts as at the year end is immaterial, accordingly no value for these contracts is shown upon the balance sheet. The Group's share of the value of project costs which have been hedged is £5.3m.

The forward foreign exchange contracts have been treated as cash flow hedges. All of the hedges have been treated as fully effective. It is expected that the project costs will be incurred in the same periods as the hedges will mature, at which time any amount deferred in equity will be reclassified to profit or loss. The fair values of the contracts have been calculated using level 2 – inputs that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

A 5% reduction in the value of the Euro against sterling would result in a £0.3m reduction in the fair value of the contracts, which would be shown in cash flow hedging reserve.

29 Financial instruments continued

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, and its approach to capital management is explained fully in the finance review on page 14.

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 September 2015.

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

On 15 February 2012 the Group disposed of its 33% interest in the Dorset Fire & Rescue PFI for cash consideration of £3.8m. This represents a discount on the directors' valuation cash flows of 7%.

Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

Independent auditor's report

to the members of Morgan Sindall Group plc

We have audited the Parent Company financial statements of Morgan Sindall Group plc for the year ended 31 December 2011 which comprise the Parent Company balance sheet, the Parent Company statement of movements in reserves and shareholders' funds, significant accounting policies, and the 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 auditor's 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 auditor

As explained more fully in the directors' responsibilities statement, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss 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 directors' 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 directors' 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 Group plc for the year ended 31 December 2011.

Ian Krieger
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
21 February 2012

Company balance sheet

at 31 December 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Tangible assets	4	**0.8**	0.8
Investments	5	**374.1**	372.1
		374.9	372.9
Current assets			
Trade debtors		**0.1**	0.1
Amounts owed by subsidiary undertakings		**65.7**	66.2
Other debtors		**1.1**	0.3
Prepayments and accrued income		**1.5**	0.9
Deferred tax asset	6	**1.1**	1.7
Cash at bank and in hand		**60.2**	109.7
		129.7	178.9
Creditors: amounts falling due within one year			
Bank overdraft		**(128.7)**	(158.2)
Trade creditors		**(1.9)**	(0.6)
Amounts owed to subsidiary undertakings		**(226.6)**	(201.3)
Corporation tax payable		**(2.8)**	(22.5)
Other tax and social security		**(0.8)**	(0.3)
Other creditors		**(0.7)**	(1.1)
Accruals		**(6.2)**	(7.8)
		(367.7)	(391.8)
Net current liabilities		**(238.0)**	(212.9)
Total assets less current liabilities		**136.9**	160.0
Provision for liabilities	10	**(11.1)**	(10.1)
Net assets excluding retirement benefit obligation		**125.8**	149.9
Retirement benefit obligation	7	**(1.0)**	(1.4)
Net assets including retirement benefit obligation		**124.8**	148.5
Shareholders' funds			
Share capital	8	**2.2**	2.2
Share premium account		**26.7**	26.7
Capital redemption reserve		**0.6**	0.6
Own shares		**(5.8)**	(5.9)
Special reserve		**13.7**	13.7
Profit and loss account		**87.4**	111.2
Shareholders' funds		**124.8**	148.5

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 21 February 2012 and signed on its behalf by:

Paul Smith
Chief Executive

David Mulligan
Finance Director

Company combined statement of movements in reserves and shareholders' funds

for the year ended 31 December 2011

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
Balance at 1 January 2011	2.2	26.7	0.6	(5.9)	13.7	111.2	148.5
Loss for the year	–	–	–	–	–	(5.9)	(5.9)
Recognition of share-based payments	–	–	–	–	–	0.5	0.5
Second interim dividend for 2010	–	–	–	–	–	(12.7)	(12.7)
Interim dividend for 2011	–	–	–	–	–	(5.1)	(5.1)
Exercise of share options	–	–	–	0.1	–	–	0.1
Deferred tax charge arising on recognition of share-based payments	–	–	–	–	–	(0.5)	(0.5)
Deferred tax charge arising on actuarial gain on retirement benefit obligation	–	–	–	–	–	(0.1)	(0.1)
Balance at 31 December 2011	**2.2**	**26.7**	**0.6**	**(5.8)**	**13.7**	**87.4**	**124.8**

Significant accounting policies

for the year ended 31 December 2011

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. These financial statements have been prepared on a going concern basis as discussed in the finance review on page 14, under the historic cost convention in accordance with the 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 (revised 1996) '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 cash flow statement, 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 100%.

The Company's accounting policies have been applied on a consistent basis throughout the year.

Significant estimates and judgments

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

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

The estimates and judgments concerning the future at 31 December 2011 and that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

(a) Taxation

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

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

The directors engage an independent and qualified actuary to calculate the Company's liability in respect of the defined benefit plan. In order to arrive at this valuation, certain assumptions in respect of discount rates, salary escalations, expected return on the plan's assets and future pension increases have been made. Assumptions regarding future mortality are based on published statistics and mortality tables. As the actual rates of increase and mortality may differ from those assumed, the actual pension liability may differ from that recognised in these financial statements. Assumptions used and full details of the Company's liability are set out in full in note 7.

Accounting policies

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.

Tangible 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 of fixed assets over their estimated useful lives as follows:

Freehold property	2% per annum
Plant, machinery and equipment	Between 10% and 33% per annum

Taxation

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

■ *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.

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 tax rates and laws that have been enacted or substantively enacted by the balance sheet date. 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.

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 are 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 had not vested as of 1 January 2005.

The Company grants equity-settled and cash-settled share-based payments (share awards or share options) 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 shareholders' funds, over the period from date of grant to the date on which the employees become unconditionally entitled to the awards or 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 was 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 remeasured at each reporting date.

Leased assets
Rentals payable under operating leases are charged to the profit and loss account 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, amortisation of prepaid bank facility arrangement fees and commitment fees charged by lenders on the undrawn portion of available bank facilities.

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.

Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

Notes to the Company financial statements

1 Employees

The average monthly number of people employed by the Company, including directors, during the year was 23 (2010: 19).

2 Staff costs

	2011 £m	2010 £m
Wages and salaries	**5.3**	4.9
Social security costs[(a)]	**–**	1.1
Other pension costs	**0.5**	0.6
	5.8	6.6

(a) Included within this amount is £0.7m (2010: £nil) relating to the release of National Insurance accrual recognised on share-based payments. The accrual is remeasured at each reporting period on the basis of the period end share price.

3 Profit/(loss) 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 loss of the parent company for the financial year amounted to £5.9m (2010: loss of £4.2m).

4 Tangible assets

	Owned plant, machinery and equipment £m	Freehold property £m	Total £m
Cost			
Balance at 1 January 2011	3.3	0.1	3.4
Additions in the year	0.6	–	0.6
Balance at 31 December 2011	**3.9**	**0.1**	**4.0**
Accumulated depreciation			
Balance at 1 January 2011	(2.6)	–	(2.6)
Depreciation charge for the year	(0.6)	–	(0.6)
Balance at 31 December 2011	**(3.2)**	**–**	**(3.2)**
Net book value			
Net book value at 31 December 2011	**0.7**	**0.1**	**0.8**
Net book value at 31 December 2010	0.7	0.1	0.8

5 Investments

	Subsidiary undertakings Shares £m	Other investments £m	Total £m
Cost			
Balance at 1 January 2011	375.6	–	375.6
Additions during the year:			
Transfers from subsidiary undertakings during the year	0.8	–	0.8
Additions	0.9	–	0.9
Investment in preference shares carried at amortised cost	–	0.3	0.3
At 31 December 2011	**377.3**	**0.3**	**377.6**
Provisions			
Balance at 1 January 2011	(3.5)	–	(3.5)
Balance at 31 December 2011	**(3.5)**	**–**	**(3.5)**
Net book value			
Net book value at 31 December 2011	**373.8**	**0.3**	**374.1**
Net book value at 31 December 2010	372.1	–	372.1

5 Investments continued

Notes
The following transactions occurred during the year and refer to the registered company names at 31 December 2011:

On 15 March 2011, the ownership of Lovell Respond Limited was transferred from the Company's wholly owned subsidiary, Lovell Partnerships Limited, to the Company through the purchase of all of the £1.00 fully paid ordinary shares (a total of £271,857).
On 15 March 2011, on completion of the acquisition of the issued ordinary shares in Lovell Respond Limited, Morgan Sindall Group plc increased its investment in Lovell Respond Limited through the purchase of one £1.00 ordinary share for a consideration of £911,332.

On 8 September 2011, the ownership of Elec-Track Installations Limited was transferred from the Company's wholly owned subsidiary, Overbury plc, to the Company through the purchase of all of the £1.00 fully paid ordinary shares (a total of £1,000).

On 8 September 2011, the ownership of Morgan Lovell London Limited was transferred from the Company's wholly owned subsidiary, Morgan Lovell plc, to the Company through the purchase of all of the £1.00 fully paid ordinary shares (a total of £525,000).

On 3 December 2011, the Company purchased 300,000 8% cumulative preference shares in Cornerstone Property Assets Limited, for a purchase consideration of £300,000. The preference shares are not convertible into ordinary shares, and represent one third of the issued preference shares.

6 Deferred tax

	Accelerated allowances and other short-term timing differences £m	Retirement benefit obligation £m	Share-based payments £m	Total £m
At 1 January 2010	0.4	0.9	0.6	1.9
(Charge)/credit to income	–	(0.1)	0.2	0.1
(Charge)/credit to equity	–	(0.3)	0.5	0.2
At 31 December 2010	0.4	0.5	1.3	2.2
At 1 January 2011	**0.4**	**0.5**	**1.3**	**2.2**
Charge to income	(0.1)	(0.1)	–	(0.2)
Charge to equity	–	(0.1)	(0.5)	(0.6)
At 31 December 2011	**0.3**	**0.3**	**0.8**	**1.4**

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:

	2011 £m	2010 £m
Deferred tax within current assets	**1.1**	1.7
Deferred tax within retirement benefit obligation	**0.3**	0.5
	1.4	2.2

At 31 December 2011, the Company had unused tax losses of £0.6m (2010: £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.

The UK Corporation tax rate is set to reduce to 25% in April 2012, affecting the closing deferred tax balance as shown above. Further reductions in the corporation tax rate to 23% are expected but not yet legislated. The closing deferred tax asset would reduce by a further £0.1m to £1.2m if these changes were taken into account.

Directors' report: business review 02–44
Directors' report: governance 45–66
Financial statements 67–122
Shareholder information 123–124

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 (‘DC’) 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. The total cost charged to the profit and loss account of £0.4m (2010: £0.4m) represents contributions payable to the DC section of the Plan by the Company at rates specified in the Plan rules.

As at 31 December 2011, contributions of £0.1m (2010: £0.1m) were due in respect of December’s contribution not paid over to the Plan. The Company, with the consent of the Trustee directors, can decide how to use monies held in a “DC General Account”.

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 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 2010 and was prepared using assumptions of a rate of investment return of 4.8% per annum in the period before retirement and 4.9% in the period after retirement, a rate of earnings escalation of 5.3% per annum and a rate of inflation of 3.8% per annum. The ongoing liabilities of the Plan were assessed using the projected unit credit method and the assets were taken at realisable market value. The actuarial valuation also showed that the defined benefit liabilities were partly funded and the value of the assets of £5.9m represented 64% of the value of these liabilities on an ongoing funding basis. The next triennial valuation will be carried out as at 5 April 2013 when the funding position will be reappraised.

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was prepared as at 31 December 2011. 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.

	2011 %	2010 %	2009 %
Key assumptions used:			
Discount rate	**4.7**	5.4	5.6
Expected rate of salary increases	**4.1**	4.6	4.8
Expected return on Plan assets	**3.8**	4.8	4.9
Rate of inflation	**3.1**	3.6	3.8
Future pension increases – members who left before 1 June 1995[a]	**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

[a] Depending on their date of joining, members receive fixed pension increases of 3.0% or 3.5%.

Life expectancy

For the disclosures as at 31 December 2011, the S1NXA series of tables from the Continuous Mortality Investigation were adopted appropriate to members’ actual years of birth and with a 95% scaling factor for males and 100% for females. Medium cohort projections with a minimum underpin of 1.5% were adopted 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:

	2011	2010
Male	**87.1**	87.1
Female	**89.6**	89.6

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

	2011	2010
Male	**90.0**	90.0
Female	**92.5**	92.5

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% (2010: 3.0%).

7 Retirement benefit schemes continued

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

	2011 £m	2010 £m	2009 £m
Present value of the Plan liabilities[(a)]	**(9.4)**	(8.5)	(8.9)
Fair value of the Plan assets[(b)]	**8.1**	6.6	5.7
Deficit in the Plan	**(1.3)**	(1.9)	(3.2)
Related deferred taxation at 25% (2010: 27%)	**0.3**	0.5	0.9
Liability recognised in the balance sheet	**(1.0)**	(1.4)	(2.3)

[(a)] Any pension which accrues in respect of service after 6 April 1997 will increase in line with inflation, subject to a maximum of 5% per annum.

[(b)] Represents the ongoing value of assets invested in managed funds operated by AEGON (69%) (formerly Scottish Equitable) and Legal & General (31%) at the valuation date. The assets and liabilities relating to defined contribution members are in addition to these figures.

Amounts recognised in the profit and loss account of the Company in respect of the Plan:

	2011 £m	2010 £m
Interest cost	**(0.4)**	(0.5)
Expected return on the Plan assets	**0.3**	0.3
Net return	**(0.1)**	(0.2)
Total amount charged to profit and loss (total operating charge less net return)[(a)]	**0.1**	0.2

[(a)] There are no amounts to be included within the operating profit for current or past service costs in 2011 and 2010.

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

	2011 £m	2010 £m
Deficit at 1 January	**(1.9)**	(3.2)
Interest cost	**(0.4)**	(0.5)
Actuarial gain/(losses)	**–**	0.8
Expected return on the Plan assets	**0.3**	0.3
Contributions from sponsoring Company[(a)]	**0.7**	0.7
Deficit at 31 December	**(1.3)**	(1.9)

[(a)] The minimum amount of contributions the Company expects to be paid to the defined benefit section of the Plan in 2012 is £0.7m.

Liabilities in respect of pensions in payment account for 35% of the total (2010: 32%). The average term to retirement is 7.4 years (2010: 7.5 years) for active members (i.e. members who are still employed by the Company and whose past service benefits are linked to their final salary but are no longer accruing final salary benefits) and 6.3 years (2010: 6.4 years) for deferred members.

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

	Fair value of assets			Expected return		
	2011 £m	2010 £m	2009 £m	2011 %	2010 %	2009 %
Fixed interest gilts	**4.1**	3.3	3.2	**3.0**	4.2	4.4
Corporate bonds	**4.0**	3.3	2.5	**4.7**	5.4	5.6
Cash	**–**	–	–	**2.0**	2.0	2.0
	8.1	6.6	5.7			

The expected return on 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.

The Plan does not hold any financial instruments issued by the Company and does not hold any property or other assets used by the Group.

7 Retirement benefit schemes continued

History of experience adjustments is as follows:

	2011		2010		2009		2008		2007	
	£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	**0.7**	**8.6**	0.2	2.5	0.2	3.5	(0.4)	(6.6)	(0.5)	(11.0)
Experience gain/(loss) arising on the Plan liabilities	**(0.7)**	**(7.4)**	0.6	6.4	(0.8)	(9.0)	0.2	1.9	(0.4)	(4.4)
Total actuarial gain/(loss)	**–**		0.8		(0.6)		(0.2)		(0.9)	

Actuarial gains/(losses) recognised in the combined statement of movements in reserves and shareholders' funds:

	2011 £m	2010 £m	2009 £m
Actuarial gains/(losses) recognised during the year	**–**	0.8	(0.6)
Cumulative actuarial losses recognised during the year	**(3.0)**	(3.0)	(3.8)

8 Share capital

	2011		2010	
	No. '000s	**£'000s**	No. '000s	£'000s
Issued and fully paid:				
At the beginning of the year	**43,188**	**2,159**	43,160	2,158
Exercise of share options	**27**	**1**	28	1
At the end of the year	**43,215**	**2,160**	43,188	2,159

The Company has one class of ordinary shares of 5p each ('shares') which carry 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 the member if any call or other sum then payable by the member 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

Share options

The weighted average share price at the date of exercise for share options exercised during the year was £7.08 (2010: £6.47). The options outstanding at 31 December 2011 had a weighted average exercise price of £6.09 (2010: £7.12) and a weighted average remaining contractual life of 2.1 years (2010: 1.2 years). In 2011, options under the ESOP 2007 were granted on 2 March, 30 March, 21 April and 16 May, and the estimated fair value of the options granted on those dates was £0.3m (2010: £0.1m). Options and share awards under the 2005 Plan were granted on 30 March and 16 May. The estimated fair value of the options granted on those dates was £0.8m (2010: £0.6m) and the estimated fair value of the share awards granted on those dates was £1.5m (2010: £1.0m). 1,607,119 options were granted under the SAYE scheme in 2011 (2010: nil). The estimated fair value of options granted under the SAYE scheme on 27 September 2011 was £1.0m (2010: £nil).

Own shares

Own shares at cost represent 766,714 (2010: 781,444) shares in the Company held in the Morgan Sindall Employee Benefit Trust ('the Trust') in connection with the ESOP 2007 and the 2005 Plan. 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. All of the shares held by the Trust were unallocated at the year end and dividends on these shares have been waived. The cost of shares expected to be awarded by the Trust is charged over the three-year period to which the award relates. Based on the Company's share price at 31 December 2011 of £5.94 (2010: £7.05), the market value of the shares was £4,554,281 (2010: £5,509,180).

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 2011	**0.7**	**9.4**	**10.1**
Utilised	–	(1.8)	(1.8)
Additions	–	2.8	2.8
At 31 December 2011	**0.7**	**10.4**	**11.1**

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 expiring in less than one year for £0.1m (2010: £0.2m). Lease payments recognised as an expense in the year amounted to £0.2m (2010: £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.

As at 31 December 2011, contract bonds in issue under uncommitted facilities covered £204.1m (2010: £171.8m) of contract commitments of the Group.

13 Subsequent events

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

14 Additional information on subsidiary undertakings and joint ventures

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings and significant interests in joint ventures which affected the Group's results or net assets:

Subsidiary undertakings	Activity
Lovell Partnerships Limited	Affordable housing
Magnor Plant Hire Limited	Construction plant hire
Morgan Sindall plc	Construction and infrastructure
Morgan Lovell plc	Specialist in office design and build
Morgan Sindall Professional Services Ltd	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
Morgan Sindall Underground Professional Services Ltd	Infrastructure design services
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
Claymore Roads (Holdings) Limited (50%)*	Infrastructure services
Community Solutions Investment Partners Limited (previously called Community Solutions for Primary Care (Holdings) Limited) (50%)*	Strategic development and regeneration projects in the health sector
English Cities Fund (12.5%)*	Inner city regeneration
Hull Esteem Consortium PSP Limited (33⅓%)*	Investment in the development of education facilities
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
Renaissance Miles Platting Limited (33⅓%)*	Mixed-tenure development
St Andrews Brae Developments Limited (50%)*	Residential development
Taycare Health (Holdings) Limited (50%)*	Investment in primary healthcare
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 Group 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, and Taycare Health (Holdings) Limited, registered and operating in Scotland, 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.

On 15 February 2012 the Company disposed of its interest in Blue Light Holdings Limited.

Shareholder information

Financial calendar 2012

Financial year end	31 December 2011
Preliminary results announcement	21 February 2012
Annual general meeting	3 May 2012
Interim management statement	3 May 2012
Final dividend:	
Ex-dividend date	25 April 2012
Record date	27 April 2012
Payment date	18 May 2012
Half year results announcement	August 2012
Interim dividend payable	September 2012
Interim management statement	November 2012

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 Registrar and clearly state the shareholder's registered address and, if available, the full shareholder reference number:

By post: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

By telephone: 0871 664 0300 (calls cost 10p per minute plus network extras). Lines are open Monday to Friday 8.30am 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 Group 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.capitashareportal.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 Registrar on request or at www.capitashareportal.com.

Website and electronic communications
The 2011 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 Registrar.

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.

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 Registrar giving details of the accounts concerned and instructions on how they should be amalgamated.

Shareholder alerts
Unsolicited mail, investment advice and fraud
The Company is obliged by law to make its share register publicly available and, as a consequence, some shareholders may receive unsolicited mail. In addition, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence, typically from overseas 'brokers', concerning investment matters.

These callers can be very persistent and extremely persuasive and their activities have resulted in considerable losses for some investors. It is not just the novice investor that has been deceived in this way; many of the victims have been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you receive any unsolicited mail or investment advice:

- Make sure you get the correct name of the person and organisation
- Check that the organisation is properly authorised by the FSA before getting involved by visiting http://www.fsa.gov.uk/Pages/register/index.shtml
- If the organisation is unauthorised or if you are concerned, report the matter to the FSA either by calling 0845 606 1234 or by completing an online form at http://www.fsa.gov.uk/Pages/Doing/Regulated/Law/Alerts/form.shtml
- If the unsolicited phone calls persist, hang up
- 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.co.uk.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

More detailed information on this or similar activity can be found on the Consumer Financial Education Body website www.moneymadeclear.fsa.gov.uk.

Share dealing services
You can buy shares through any authorised stockbroker or bank that offers a share dealing service in the UK, or in your country of residence if outside the UK.

A telephone dealing service has been arranged with Stocktrade which provides a simple way for buying or selling Morgan Sindall Group plc shares. Basic commission is 0.5% up to £10,000, reducing to 0.2% thereafter (subject to a minimum commission of £15). Sales are carried out on a 10-day settlement basis with purchases on a 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.

Analysis of shareholdings at 31 December 2011

	Number of accounts	% of total accounts	Number of shares	% of total shares
Holding of shares				
Up to 1,000	863	52.95	419,803	0.97
1,001 to 5,000	463	28.40	1,086,008	2.51
5,001 to 100,000	233	14.30	5,758,689	13.33
100,001 to 1,000,000	62	3.80	18,518,870	42.84
Over 1,000,000	9	0.55	17,431,935	40.34
	1,630	100.00	43,215,305	100.00

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	Jefferies Hoare Govett Numis Securities Limited
Solicitors	Slaughter and May Wragge & Co LLP
Bankers	Lloyds TSB Bank plc The Royal Bank of Scotland plc Santander UK plc Yorkshire Bank
Independent auditors	Deloitte LLP

Forward looking statements
This document may include certain forward looking statements, beliefs or opinions that are based on current expectations or beliefs, as well as assumptions about future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in forward looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or disposals.

The Group undertakes no obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

Designed and produced by
Bostock and Pollitt Limited, London

Copywriting provided by
SGC Communications Ltd

Photography
Directors photography by George Brooks and Natalie Lawrence
Heathrow Airport courtesy of www.baa.com/photolibrary (page 24)
BBC headquarters by Will Pryce (page 27)

Print
This report is printed on Claro Silk and Purfect Image, 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. This report was printed by Granite Communications, an FSC certified printer who, through their environmental standards and working to ISO 14001 policies, minimises the impact of printing on the environment. Vegetable based inks have been used and dry/wet solvent water associated with its production have been recycled.

Morgan Sindall Group plc
Kent House
14–17 Market Place
London W1W 8AJ

Twitter: @morgansindall
morgansindall.com

MORGAN
SINDALL