It's about construction and regeneration

Annual report and accounts 2012

MORGAN SINDALL GROUP

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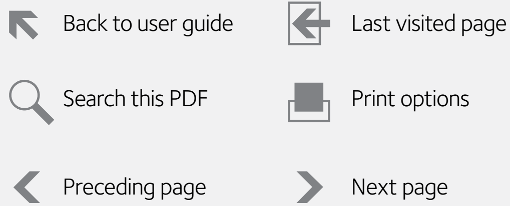

Links in this PDF
Words and numbers that are underlined are links — clicking on them will take you to further information within the document or to a web page (opens in a new window) if they are a url (e.g www.morgansindall.com).

Welcome to our 2012 annual report and accounts

From Construction and Infrastructure to Fit Out, Affordable Housing, Urban Regeneration and Investments, we deliver complex projects that create a real difference.

We call it Perfect Delivery.

It's not just about measurement, it's who we are and how we work.

It's about inspiring our teams to go that extra mile
It's about using our dependable expertise to secure projects
It's about delivering projects on time and on budget
It's about aspiring to a safety record second to none

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Group at a glance

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

Revenue
£1,168m
2011: £1,268m
Operating profit*
£19.7m
2011: £21.1m

Fit Out
Specialises in fit out and refurbishment projects in the commercial and government office, education, retail, technology and leisure markets. Overbury operates as a national fit out company through multiple procurement routes and Morgan Lovell specialises in the design and build of offices.

Revenue
£427m
2011: £438m
Operating profit*
£11.3m
2011: £12.4m

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

Revenue
£386m
2011: £462m
Operating profit*
£11.5m
2011: £18.5m

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.

Revenue
£62m
2011: £57m
Operating profit*
£2.7m
2011: £3.9m

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

Directors' portfoliovaluation
£32m
2011: £49m
Investments carrying value
£18.2m
2011: £23.2m

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

We offer opportunities to circa 360 apprentices each year.

We have over 382 Considerate Constructors awards.

We are a market leader in regenerating estates and communities.

We complete over 200,000 home repairs every year.

We partner with local authorities to deliver positive change and economic growth.

We develop enough commercial and residential space to cover more than 250 football pitches.

We relocated 16,000 staff to new offices without a single day's downtime.

We revitalise derelict dockyards into vibrant waterside residential districts.

We fit out office environments for 18 of the top 20 UK law firms and fit out offices for the nine largest UK accountancy firms.

We complete fit outs for half the FTSE 100 including the 10 largest companies.

We fit out whilst our clients continue to work in the same environment on 50% of projects to date.

We work in the education market including the fit out of higher education facilities.

We keep traffic flowing on the UK's highways.

We operate in nine of the UK's top 15 airports.

We deliver projects to make water safer and cleaner.

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Group at a glance

It's about the services we deliver

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MORGAN
SINDALL
GROUP

Revenue

£2,047m

2011: £2,227m

Profit before tax and amortisation

£37.1m

2011: £43.9m

Morgan Sindall Group is a leading UK construction and regeneration group employing circa 6,400 people. By focusing on delivery, the Group is able to offer innovative and cost-effective solutions to clients. Construction is offered through a network of 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. 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.

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Group highlights

The Group has delivered a solid performance against a background of challenging market conditions. The Group's track record and integrated offer of design, construction, development and financing services has enabled it to win some of the UK's most significant construction and regeneration projects and long-term frameworks this year.

Revenue £m

£2,047m ↓8%

Year	£m
12	2,047
11	2,227
10	2,102

Comment
Revenue fell 8% as construction and affordable housing markets remained under pressure.

Adjusted EPS pence*

79.3p ↓9%

Year	pence
12	79.3
11	86.7
10	83.5

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

*Adjusted EPS is basic earnings per share adjusted for amortisation expense (note 3).

Profit before tax and amortisation £m

£37.1m ↓15%

Year	£m
12	37.1
11	43.9
10	46.2

Comment
Profit has fallen reflecting the challenging market conditions and their impact on margin, along with non-recurring items of £10.0m (2011: £1.4m).

Basic EPS pence

72.5p ↓7%

Year	pence
12	72.5
11	77.5
10	70.5

Profit before tax £m

£34.2m ↓15%

Year	£m
12	34.2
11	40.0
10	40.7

Forward order book £bn

£3.1bn ↓9%

Year	£bn
12	3.1
11	3.4
10	3.6

Comment
Sound forward order book gives confidence despite caution over the short term market outlook.

Total dividend pence

27.0p ↓36%

Year	pence
12	27.0
11	42.0
10	42.0

Comment
The dividend has been rebased to achieve a dividend cover of between 2.5 and 3.0 times, in line with the Group's long-term dividend policy.

Regeneration pipeline £bn

£2.1bn ↑17%

Year	£bn
12	2.1
11	1.8
10	1.4

Comment
The pipeline shows the Group's share of forward development values. Further schemes secured in the year reflect the Group's growing investment in regeneration. There is a further £0.4bn (2011: £0.6bn) of opportunities at preferred developer stage.

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Group highlights

- Strategy remains to achieve leading positions in the Group's chosen markets and to invest cash generated from construction-related activities into regeneration opportunities
- Continuing to target growth infrastructure markets where the Group is increasing market share; significant contract wins include a potential 15-year £1.1bn framework in joint venture to develop Sellafield
- Maintained rigorous contract selectivity across the Group
- Maintained a tight control on overheads and costs across the Group
- Fit Out increased market share in commercial office market
- Focus on large, complex regeneration schemes which draw on specialist capabilities across the Group such as the Towcester Regeneration and Civic Accommodation project
- Increased investment in ISIS Waterside Regeneration joint venture from 25% to 50%
- Appointed preferred partner on Slough LABV
- Achieved a 26% reduction in the Group's carbon emissions
- Achieved a 7% increase in waste diverted from landfill to 92%
- Third consecutive year in which the Group had less than 100 reportable safety incidents
- Group well-positioned to come out of the downturn in a strong position having realigned resources.

It's about **long-term investment**

The Group's strategy is to build leading positions in its chosen markets.

TO READ MORE ABOUT OUR STRATEGY:
SEE PAGES 9 TO 11

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Our business model

The Group is a leading construction and regeneration group operating within the UK. The Group works in committed partnerships to help its clients and partners to create, renew and maintain their land, property and infrastructure assets. The specialist divisions provide design, construction, development and financing services. The Group has strength in its breadth of capabilities and has the ability to integrate skills to create value and simplify procurement for its clients and to deliver effectively the most complex large-scale projects in construction and regeneration.

The Group's strategy is to achieve leading positions in its chosen markets and to use the cash generated from its construction activities to invest in and grow its regeneration-related activities. It does this by developing its capabilities and building demonstrable expertise and a track record in those markets where there are clear barriers to entry and where quality and consistency of service delivery are valued at a premium.

The Group creates value through having capable teams, selecting the right construction and regeneration opportunities, applying a distinctive approach and achieving a successful outcome to any project or development.

The principal risks to the Group achieving its strategic objectives include:

- adverse macroeconomic conditions impacting the overall market
- failure to attract, develop and retain capable teams to deliver projects
- failure to perform or deliver contracts effectively thereby incurring potential financial loss and reputation impact
- failure to build a sustainable, resilient business whereby a major event could adversely impact the Group's reputation.

TO READ MORE ABOUT OUR RISK REVIEW:
SEE PAGES 34 TO 39

Ultimately it is through the excellent delivery of projects of all sizes that the Group generates the returns on its financial capital, enabling it to pay regular dividends to shareholders and reinvest in the business.

At the heart of the Group's operations is its philosophy of Perfect Delivery. It drives the quality of its service to clients and partners and motivates the Group to achieve continuous improvement in how it conducts itself and does business.

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Markets and strategy

The Group's strategic focus is to enhance its market position across its construction activities and to use the cash generated to invest in and grow its regeneration-related activities. The Group has increased its focus on the growing infrastructure markets and regeneration to secure medium- to long-term opportunities and superior returns.

The total value of construction industry output in the UK was forecast to be circa £97bn in 2012, a reduction of 9% on the previous year. Construction is split into three sectors; public, regulated and private. Within these sectors, the Group targets key markets valued at circa £58bn in 2012, also down from the previous year. The size and forecast movements of these targeted key markets are as follows:

Market conditions have remained tough over the past 12 months and will continue to be challenging in 2013. The public sector, which accounts for one-third of total construction, continues to be adversely affected by continuing fiscal constraints. Market recovery is expected from 2014, driven primarily by infrastructure and private sector construction growth, and the Group has the flexibility to benefit from emerging opportunities.

Due to the breadth of markets covered, the Group is well placed to steer a path through the medium-term. Forecasts for the next three years show the Group's targeted key markets outperforming the construction market as a whole, with growth in highways and rail output alone expected to be 30% by 2015. The Group has realigned resources to take full advantage of these opportunities, maintaining its ability to invest in regeneration where it has an increasing number of potential schemes. Local authorities and landowners continue to value both the Group's integrated expertise in mixed-tenure affordable housing and mixed-use urban development and its ability to provide affordable financing solutions. The Group works in long-term partnerships with clients and partners, utilising their land assets to achieve large-scale social and economic renewal.

	Construction Market				Group Revenue				
Targeted key markets	2011-12 Growth	2012 Market £bn	2013-16 Growth	% of 2012 Revenue	Construction and Infrastructure	Fit Out	Affordable Housing	Regeneration	Investments
Social housing	↓	3.6	↓	16%			■	■	■
Education	↓	7.5	↓	15%	■	■			■
Healthcare	↓	3.0	↓	3%	■				■
Community, Defence, Other	↓	2.1	↓	3%	■				
Public				**37%**					
Transport	↑	5.3	↑	12%	■				■
Energy	↑	3.1	↑	7%	■				■
Water	↓	2.2	↑	8%	■				
Regulated				**27%**					
Commercial	↓	5.7	↑	25%	■	■		■	■
Open market housing	↑	13.6	↑	4%			■	■	■
Retail	↓	4.4	↓	2%	■	■		■	■
Leisure	↓	3.9	↓	2%	■	■		■	■
Industrial, Pharmachem, Other	↑	3.3	↑	3%	■				■
Private				**36%**					
Total		57.7		**100%**					

Source: ONS, Construction Products Association (Winter 2012/13 edition) – 2005 prices.

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Our business model

The Group sets strategic priorities for each of the construction markets in which it operates and across its regeneration activities. These priorities are reviewed regularly to assess the progress that has been made and identify any additional actions that may be required. Of the key markets that the Group targets, there are six that each contribute more than 5% of its annual revenue; social housing, education, transport, energy, water and commercial. There has been significant progress in 2012 with a greatly increased presence in the growth infrastructure markets, a number of new and renewed framework awards and further development agreements signed.

Targeted key markets

Social housing
Housing will remain a challenging market through 2013 as lending restrictions continue to constrain demand, despite the introduction of the Government's FirstBuy scheme. The Funding for Lending scheme should encourage increased mortgage lending by the banks.

Education
Affected by public sector austerity measures and the cancellation of the Building Schools for the Future programme. Additional funding is now being made available through the Academies framework and Priority Schools programme in England, the 21st Century Schools programme in Wales and the Schools for the Future programme in Scotland.

Transport
Rail output will grow more than 30% over the next three years, driven by Crossrail and Network Rail frameworks. Investment in airports will continue, particularly at Heathrow. Highways fell sharply in 2012 but will benefit from additional funding as announced in the Autumn Statement and the National Infrastructure Plan.

Energy
The power generation market remained buoyant, despite investment uncertainty whilst awaiting the announcement of PF2, and is expected to grow as the energy gap looms. Growth is particularly expected in energy transmission.

Water
Little market growth is expected until the renewal of the five-year Asset Management Plan (AMP 6) in 2015 and the commencement of the £4.2bn Thames Tunnel in 2016.

Commercial
The market has been hard hit by the lack of confidence in the global economy and the uncertainty across the euro zone. The market is expected to further contract in 2013 before recovering from 2014 and beyond.

Regeneration
Challenging market conditions continue due to economic uncertainty but the market should be helped by Government regeneration initiatives, such as the Funding for Lending scheme and the 'Get Britain Building' programme. The commercial office market will remain subdued but there is increased potential for pre-letting opportunities. There will be regional variations in the housing market with growth expected to return to London, the South East and the South West during 2014.

It's about growing our market share

The Group has increased its focus on the growing infrastructure markets and regeneration to secure medium- to long-term opportunities and superior returns.

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Value	Strategic priorities	Progress in 2012
Market size **£3.6bn** 2011: £4.4bn **Revenue** **£400m** 2011: £497m	- Focus on larger, long-term regeneration projects - Increased collaboration across the Group - Capitalise on nationwide service in the response maintenance market - Target alternative financing solutions, such as the Government's Funding for Lending scheme.	- Investments in major mixed-tenure housing-led regeneration projects - Year-on-year increase in the number of open market sales, despite contraction of first-time buyer market - Secured £110m of response maintenance contracts.
Market size **£7.5bn** 2011: £9.3bn **Revenue** **£304m** 2011: £373m	- Continue to build on our strong track record - Extend number of frameworks - Further develop approach to model schools - Find funding solutions to otherwise non-viable projects.	- Launched Community Plus, a range of standard school designs supported by funding options - Now on 35 education frameworks with 12 being awarded or renewed in the year - Maintained market share.
Market size **£5.3bn** 2011: £6.5bn **Revenue** **£254m** 2011: £240m	- Expand scope of works and market share in rail - Use track record of working in airport environments to increase market share - Leverage strength of successful highways JVs to secure additional opportunities following the Autumn Statement.	- Continued progress on Crossrail and Network Rail projects - Operating at nine of the UK's top 15 airports - Established presence as a key player in highways - Awarded Managed Motorways (M62) by the Highways Agency along with further work on the A1.
Market size **£3.1bn** 2011: £3.2bn **Revenue** **£130m** 2011: £137m	- Grow presence and increase capability in nuclear sector - Increase order book in generation, transmission and substations - Further develop extra high voltage cabling and overhead lines capabilities.	- Awarded, in joint venture, framework for Sellafield Ltd - Awarded a number of extra high voltage projects by National Grid - Awarded, in joint venture, additional overhead line work by National Grid.
Market size **£2.2bn** 2011: £2.9bn **Revenue** **£166m** 2011: £151m	- Work with clients to deliver both clean and waste water projects - Strengthen client relationships ahead of AMP 6 frameworks.	- Work continues in joint venture on Lee Tunnel, the main driver of current output in the market - New contract awards with Yorkshire Water at Scarborough and Bridlington - Successful delivery of key projects for Thames Water, Severn Trent Water and Welsh Water.
Market size **£5.7bn** 2011: £6.3bn **Revenue** **£516m** 2011: £455m	- Utilise expertise and track record of Fit Out in this market to further develop the Group's construction offering - Target construction opportunities in larger conurbations.	- Market share increased to circa 30% in office fit out and refurbishment - Growth in London, Manchester, Leeds and Midlands - Completed £65m development for Legal and General Property and appointed to deliver £70m Longbridge town centre in Birmingham.
Pipeline **£2.1bn** 2011: £1.8bn **Preferred developer** **£0.3bn** 2011: £0.6bn	- Continue to unlock value from under-developed assets - Recycle assets when appropriate - Focus on commercial, residential, retail, and light industrial markets.	- Development agreements worth £340m signed at Stockport and Basingstoke - Planning consents granted for over 700,000 sq ft of new development - Increased investment in ISIS Waterside Regeneration to 50% - £45m funding secured across seven development projects under the 'Get Britain Building' programme.

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Our business model

The key components that define the Group's business model and reflect its philosophy of Perfect Delivery are applied consistently across the Group and permeate each division. Together they provide the framework for each division to create and deliver value. Each component is measurable through relevant and meaningful key performance indicators ('KPIs').

It's about having capable teams who select the right construction and regeneration opportunities and apply our distinctive approach to achieve successful outcomes.

Capable teams

The Group is focused on attracting and retaining talented people from diverse backgrounds to successfully deliver its strategy and projects for its clients. In order to ensure that it has the right skills for future growth the Group offers a variety of training and development opportunities for all employees. These include specific, on the job, skills training, trainee, apprentice and graduate development and professional development schemes. The Group actively encourages personal and professional growth to develop leadership and management skills amongst its employees.

The Group is committed to providing a safe working environment for all employees, subcontractors and partners that work on or visit its sites. It has adopted a health and safety framework supported by various programmes to maintain this focus, such as 100% Safe within the Construction and Infrastructure division.

The Group spent 84% (2011: 85%) of its cost of sales on goods and services and it is therefore vital that it selects supply chain partners who are committed to working with it in long-term relationships and that share the Group's commitment to sustainability and its philosophy of Perfect Delivery.

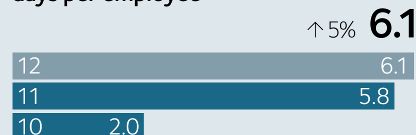
How we create value

Ensuring that the Group has capable teams enables it to broaden its capabilities and service offering to meet changing market conditions and client demands. It leads to greater productivity and industry-leading performance as well as ensuring that the Group is able to offer innovative solutions to clients. Developing expertise across the Group enables it to identify and manage risk effectively.

Key performance indicators

Average number of training days per employee

↑5% **6.1**



Accident incident rate

↓15% **399**

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Select the right opportunities

The Group ensures that there are clear guidelines in place to allow its teams to bid and manage projects and development opportunities that will prove profitable for the Group and will offer efficient and effective solutions to clients.

Through its process of delegated authorities, the Group ensures that its divisions only take on projects where they have sufficient skills and resources. The Group seeks opportunities whereby it can reduce complexity and solve problems for its clients, offering a single solution through integrated working across its divisions where appropriate.

The Group undertakes a careful vetting of all its clients, supply chain and joint venture partners to ensure that they are financially robust and that they will be able to deliver projects to the Group's service standards.

How we create value
By carefully selecting the right opportunities with the right clients, the Group is able to reduce the risk of project failure or the risk of a failure within its supply chain that could lead to project delays and therefore additional costs. The Group's rigorous approach to contract selectivity minimises exposure to high bidding costs, low margins and the potential for poor delivery. The Group's selection of its supply chain ensures it is able to use its scale to procure as effectively as possible.

Distinctive approach

The Group's distinctive approach is rooted in its philosophy of Perfect Delivery that drives continuous improvement and ever higher standards of quality and service delivery. This approach, combined with its ability to provide integrated design, construction, development and financing services, enables the Group to identify innovative solutions and reduce cost for its clients and partners.

The Group's breadth of capabilities and expertise enables it to offer the widest range of services and expertise to meet the changing requirements of its clients. Through sharing best practice across all divisions and markets, the Group constantly seeks to improve its overall offering. The Group's teams are encouraged and empowered to challenge accepted norms and to be flexible in their approach to challenging projects. This culture encourages innovation, a can-do attitude and enhances the Group's reputation.

How we create value
The Group's focus on Perfect Delivery leads to higher levels of work secured within frameworks and repeat business as well as minimising unnecessary delays and costs on projects. Its integrated capability allows it to align its resources and provide the best fit to meet client requirements and deliver projects of all sizes. Through a focus on innovation, the Group is consistently able to deliver efficiencies for clients in both the construction of their projects and the life cycle of their assets.

Successful outcomes

The Group's business model ensures that it remains a sustainable business and allows it to generate cash for shareholder dividends and for investment in future opportunities that underpin the Group's prosperity. Its unrelenting focus on Perfect Delivery results in delighted clients and enduring and trusted client relationships. The value the Group brings to projects encourages clients to consider it as their partner of choice and to recommend it to others.

How we create value
The Group's ability to successfully deliver projects enables it to focus on bidding frameworks and repeat business where the costs and the associated risks of bidding are reduced. Working together across divisions enables the Group to reduce the number of project interfaces for clients and therefore reduces complexity.

Operating profit* per employee £

↑10% **£7,498**

Year	£
12	7,498
11	6,836
10	6,839

Regeneration pipeline £bn

↑17% **£2.1bn**

Year	£bn
12	2.1
11	1.8
10	1.4

Perfect Delivery scores %

↑1% **77%**

Year	%
12	77
11	76
10	79

Adjusted EPS before amortisation of intangible assets pence

↓9% **79.3p**

Year	pence
12	79.3
11	86.7
10	83.5

Forward order book £bn

↓9% **£3.1bn**

Year	£bn
12	3.1
11	3.4
10	3.6

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Lee Tunnel, East London
Work continues for Thames Water on East London's Lee Tunnel, the capital's deepest ever tunnel. The four mile tunnelling project is set for completion in 2015 and will help prevent more than 16m tonnes of sewage mixed with rainwater overflowing into the River Lee each year. The Construction and Infrastructure division is delivering the £422m project as part of the MVB joint venture. The project is worth over £208m to the Group over five years.

It's about working collaboratively

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Royal Borough of Kensington and Chelsea
With 50% of projects carried out in live working environments, the Fit Out division always goes the extra mile to ensure projects are perfectly delivered with minimal disruption to clients and building users. At Royal Borough of Kensington and Chelsea, 40,000 sq ft of office space was fitted out with any noisy work undertaken during agreed periods so that the client could continue with business as usual.

It's about putting the client first

New Foxfield, Wythenshawe, Manchester
With over 40 years' experience of building affordable housing, safety is of paramount importance to the Affordable Housing division. Their RoSPA Gold award-winning health and safety system is certified to OHSAS 18001 and its teams work on both a corporate and regional level to ensure the highest standards are met. This scheme combines traditional masonry methods with cutting-edge technology to deliver 68 new residential units.

It's about being safe in all that we do

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Rathbone Market, Canning Town, London
Through English Cities Fund, the Urban Regeneration division has created a sustainable, mixed-use scheme at Rathbone Market which is helping to transform the Canning Town area physically, socially and economically. Through full and open engagement with the local job centre and community representatives, the scheme provided employment opportunities that consistently exceeded targets set by the London Borough of Newham.

It's about inspiring a generation

Chairman's statement

It's about the culture that drives our business at every level

"I am encouraged by the solid performance we have achieved in 2012."

Statement in summary

- Solid performance in 2012
- Core strategy remains the same
- Dividend realigned with stated policy
- Number of changes to the Board
- Medium-term prospects of the Group improving.

I am pleased to present my first statement as chairman of Morgan Sindall Group plc, having previously served on the Board as senior independent director.

Against the background of economic conditions which, over the past four years, have led to our UK construction markets declining by around a quarter, I am encouraged by the solid performance we have achieved in 2012.

Our clients are facing their own challenges and are placing a greater emphasis on capital cost, speed of delivery, quality and safety. Across the Group we are responding by identifying and achieving cost-effective solutions whilst continually raising the bar on the service we provide.

TO READ MORE ABOUT OUR CHOSEN MARKETS AND STRATEGY:
SEE PAGES 9 TO 11

Strategy

Our strategy remains the same:

- Increasing our focus on the UK construction and regeneration market, choosing those segments where we can achieve a market-leading position
- Targeting markets that offer the best potential for growth and provide medium- to longer-term opportunities with superior returns
- Utilising the cash generated across our construction-related activities to invest in, and grow, our two regeneration-related divisions, Affordable Housing and Urban Regeneration.

As part of our ongoing objective to manage the impact on the Group of the industry downturn, we are constantly working to shape the business to fit the trading environment. We have maintained a tight control on overheads and costs; we have recently reorganised our construction and affordable housing capabilities; we have changed the Board structure to improve efficiency and we are focusing on greater co-ordination across all divisions.

Dividend

The Board is proposing a final dividend of 15.0p (2011: 30.0p) giving a total dividend for the year of 27.0p (2011: 42.0p). This change to the dividend will bring it back into line with our stated policy of covering the dividend by adjusted earnings by between 2.5 and 3.0 times. We have been operating below this level of dividend cover for a number of years and the Board has now decided that it is appropriate to realign the dividend with this policy.

Board changes

There have been a number of changes to the Board over the past year.

In November the Board asked John Morgan, founder and former executive chairman, to return to the position of chief executive following the resignation of Paul Smith. In this role, John is already bringing his extensive knowledge of the Group and our clients to drive increased collaboration across the Group and to develop new and emerging opportunities for our business.

As announced in January 2013, David Mulligan is stepping down from his position of finance director at the end of February and will leave the Group in April. We are delighted to have secured the services of Steve Crummett as the Group's new finance director. Formerly finance director at Filtrona plc, Steve's wide-ranging skills will be of considerable value to the Board and the Group.

I am pleased that Liz Peace, chief executive of the British Property Federation, agreed to join the Board as a non-executive director in November. Her public sector background and understanding of the UK property industry will further strengthen the expertise of our Board.

I would like to take this opportunity to thank Paul and David for their commitment and valuable contribution to the Group over the past 10 and 15 years respectively. We wish them well with their future plans.

Our people

I would like to thank our dedicated employees and capable teams who continue to strive for and achieve a high level of service for our partners and clients. Their enthusiasm and commitment through another difficult year for the industry and at a time of significant change for the Group is very much appreciated.

Looking forward

I am sure we are not alone in expecting 2013 to be another difficult year for the construction and regeneration market. Whilst we remain cautious over the outlook in the short-term, the medium-term prospects for the Group are improving with the key projects we have already secured and some early signs of further opportunities from 2014.

We see further medium-term potential driven by the Government's pledge to improve the UK's infrastructure, an increasing number of lease renewals, a number of large-scale, housing regeneration schemes and a stream of response maintenance opportunities, where demand has been resilient. In addition, any modest improvement in the economy will also help regeneration more broadly. This potential, along with a sound forward order book of £3.1bn, means that we believe the Group is well-positioned to emerge from the downturn in a stronger place.

I look forward to working with the Board in the next phase of the Group's development as we seize the exciting opportunities that lie ahead of us.

Adrian Martin
Chairman
19 February 2013

Chief Executive's review

It's about an enduring strategy for the long term

"I am fortunate in the broad base of expertise that I can call upon within the Board and senior management. There are undoubtedly some very exciting opportunities ahead for the Group and I look forward to ensuring we are in the best shape to leverage our expertise and track record."

Statement in summary

- Group made steady progress despite tough market conditions
- Increased our focus on growth sectors of infrastructure markets
- Investment in regeneration to drive growth from 2014
- Continue tight management of working capital and overheads
- 2013 to remain challenging, 2014 outlook improving
- Sound forward order book and regeneration pipeline.

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I am delighted to return to the position of chief executive. As a founder of the business I have steered the Group through prosperous years and through downturns and I intend to draw on this experience to lead the Group through the current challenging market conditions and ensure we are positioned to take advantage of the opportunities that lie ahead. We have made progress in 2012 but there is always scope for improvement.

I believe our strategy is robust and our aim is to remain focused on those UK markets where we can develop a leadership position. My priorities are on improving margins, focusing on our strengths in delivering complex projects, appropriate capital allocation, driving increased collaboration across the Group and developing new and emerging opportunities.

I am fortunate in the broad base of expertise I can call upon within the Board and senior management. There are undoubtedly some very exciting opportunities ahead for the Group and I am looking forward to ensuring we are in the best shape to leverage our expertise and track record.

Managing market conditions

Revenue £m

↓8% **£2,047m**

Year	£m
12	2,047
11	2,227

Profit before tax, amortisation and non-recurring items £m

↑4% **£47.1m**

Year	£m
12	47.1
11	45.3

Profit before tax and amortisation £m

↓15% **£37.1m**

Year	£m
12	37.1
11	43.9

Profit before tax £m

↓15% **£34.2m**

Year	£m
12	34.2
11	40.0

The Group has made steady progress throughout 2012 despite market conditions remaining tough. Revenue fell to £2.0bn (2011: £2.2bn) and profit before tax and amortisation reduced to £37.1m (2011: £43.9m). A £10.0m charge for reorganisation costs has been incurred during the year as we refocused our construction and affordable housing activities and these are shown as non-recurring items. Profit before tax, amortisation and non-recurring items was £47.1m (2011: £45.3m), which includes a £7.0m gain on the disposal of our medical properties investment in July 2012.

Adjusted earnings per share before amortisation of intangible assets were 79.3p (2011: 86.7p). The Group's construction-related revenue fell in 2012, which led to an increase in working capital. This, coupled with a modest increase in the level of investment in our regeneration businesses, meant that average net debt was, as expected, £40m (2011: £23m average net cash). The year end cash balance was £50.4m (2011: £108.9m).

We continue to face challenges including reductions in public spending, deferred investment decisions and higher levels of competition. Rigorous risk management processes are in place to identify, monitor and, where possible, mitigate potential risks. Our strategy remains to invest the cash generated from our construction-related activities in our regeneration-related activities, namely Affordable Housing and Urban Regeneration. This strategy is being tested by a drop in construction revenues and tighter payment terms from clients. We are therefore being more selective in the regeneration schemes we invest in and are identifying construction opportunities that best suit our market knowledge and specialist skills. This includes our exposure to growth infrastructure markets where we already have a proven track record.

We are positioning the Group to come out of the downturn stronger by realigning resources. We have reshaped the construction business within the Construction and Infrastructure division as we have become increasingly selective in our contract bidding. We are also focused on growing its infrastructure business where there are market opportunities. In non-infrastructure sectors, including the education and commercial sectors, we are increasing our focus on long-term frameworks. Changes have also been made to the Affordable Housing division to improve its operational efficiency and to match the level of resources with its current and medium-term workload.

Growing market share in infrastructure

We have increased our focus on growth sectors of the infrastructure market, in particular the energy and transport markets, which offer longer-term opportunities and enhanced returns due to the complexity and scale of projects. Our reputation within these markets is improving significantly as we have established the required track record, scale and expertise. We are increasingly working on larger infrastructure projects as our integrated approach enables us to reduce complexity for our clients. We are also enhancing our ability to deliver more complex projects through joint ventures as demonstrated by our appointment, in joint venture, by Sellafield Ltd as its delivery partner for a potential 15-year, £1.1bn contract.

Chief Executive's review

It's about our track record

Construction and Infrastructure

Murray Royal Hospital, NHS Tayside Scotland

In June 2012, the Construction and Infrastructure division completed work on the new £75m state-of-the-art mental health facilities on the Murray Royal Hospital site in Perth. Undertaken for NHS Tayside, the development provides integrated healthcare facilities for General Adult Psychiatry, Psychiatry of Old Age and Medium Secure patients. The division's extensive healthcare experience was instrumental in ensuring the safety of patients as well as visitors and resulted in a delighted client.

Unlocking land values for regeneration partners

Our growing investment in regeneration is closely aligned with the Government's agenda to release under-utilised land assets to stimulate local economies and create jobs. This approach allows local authorities and landowners to unlock land values and create opportunities at no significant upfront cost to the public sector. Land is often retained by our partners, allowing us to use our capital efficiently and avoid the risk of buying land on the open market. Our growing expertise in complex Local Asset Backed Vehicles ('LABVs'), driven by public sector land release, has led to our Investments division being appointed as the preferred joint venture partner for Slough Borough Council's LABV. This long-term joint venture is expected to deliver one of the country's most ambitious regeneration schemes, completing developments up to a total value of £1.0bn over a 15-year period.

There are high barriers to entry in regeneration as success lies in experience, expertise, commitment and trust. It is these credentials, which take years to develop, that have enabled our regeneration-related divisions to embed themselves deeply within this market. This year our Urban Regeneration division has demonstrated its expertise by securing £45m of Government funding that will play a critical role in kick-starting seven projects for our clients. As tightening fiscal constraints persist, our collaborative approach will remain in strong demand as local authorities continue to seek partners with a track record, financial strength and the ability to provide funding solutions to regenerate worn-down communities.

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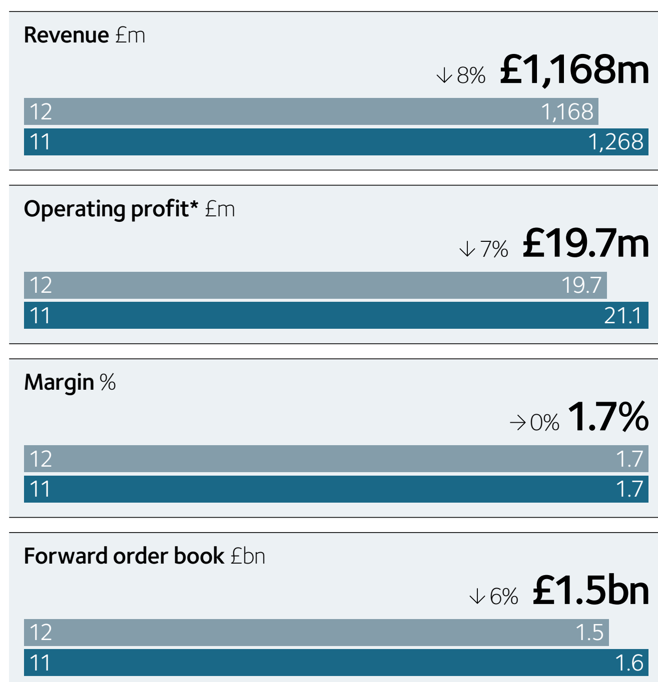
In 2012, we increased our interest in a key joint venture, ISIS Waterside Regeneration, from 25% to 50%, which will underpin medium-term growth and we are excited about the opportunities that this brings. We anticipate returns from our investment in regeneration to drive growth from 2014 as Urban Regeneration increases the level of construction activity on-site in 2013.

Honing our competitive advantage

The UK construction industry output is forecast to show a drop of 9% in 2012 and is forecast to contract further by around 5% in 2013. With output shrinking, bidding is more aggressive and pressure on margins has increased. We continue to carefully select the contracts we bid for, and maintain a tight control of resources. We also continue to focus on the areas where we can secure competitive advantage and on improving what we offer to clients. Our unique and differentiating approach is rooted in our philosophy of Perfect Delivery, which lies at the heart of our operations, driving us to achieve ever higher standards of quality.

The Group aims to develop competitive advantage through its integrated capabilities. Increasingly, we are maximising our offering through packaging together our capabilities and providing clients with the added value of two or more of our specialist divisions working together. We have strength in our breadth of capabilities and in our ability to integrate different skills to provide excellent service as demonstrated within South Northamptonshire Council's £38m Towcester Regeneration and Civic Accommodation project. The Investments division will deliver the project in partnership with Affordable Housing, who will deliver the residential development and Construction and Infrastructure, who will build the commercial development.

Construction and Infrastructure



As expected, Construction and Infrastructure's revenue fell by 8% to £1,168m (2011: £1,268m) with a corresponding fall in operating profit to £19.7m (2011: £21.1m). This was a creditable performance given the market pressures, with margin steady at 1.7% (2011: 1.7%).

Falling public sector, and weak private sector, demand will inevitably impact on construction volumes going forward. However, in line with the Group's strategy, the division has successfully implemented a shift in the balance of its work as it increases its focus on the growing infrastructure markets. This is significantly offsetting the anticipated drop in demand and has enabled the division to largely maintain its order book despite the overall market decline.

Through the division's commitment to Perfect Delivery, it sets the highest standards of service and consistently delivers against them. It innovates by bringing a fresh approach to challenging projects, driving down client costs in many different ways including identifying cutting edge building techniques or through its expertise in value engineering. The division's project team working on the £136m joint venture to deliver the M62 managed motorway contract clearly demonstrated its expertise when it identified £48m of value engineering and efficiency savings for its client before work commenced.

> Nine of the UK's top 15 airports have benefited from the division's specialist skills this year and the sector especially values its integrated design and construction approach to complex projects.

Shaping the UK's infrastructure

The highly regulated energy market offers significant potential to the Group as the division has extensive experience and expertise in transmission and distribution and is broadening its capability in power generation. The division's reach into the nuclear sector has been extended with the award of the contract at Sellafield to provide a range of essential infrastructure asset services. Our relationship with National Grid has deepened further with two awards in joint venture including a five-year contract extension to deliver major enhancements to the UK's electrical transmission infrastructure.

Within the rail market, significant ongoing work has been undertaken for Network Rail throughout the year as part of the Multi Asset Framework Agreement, which runs until 2014 and is expected to deliver £200m of work in joint venture. In addition, the division has been awarded the £20m North Doncaster Chord project on the East Coast Main Line. The aviation market has considerable barriers to entry as it demands the highest standards in technical expertise, consistent delivery, security and safety. Nine of the UK's top 15 airports have benefited from the division's specialist skills this year and the market especially values its integrated design and construction approach to complex projects. Major projects have been secured under existing frameworks at Gatwick and Heathrow airports including a £31m runway rehabilitation contract at Heathrow airport.

Chief Executive's review

The division is well-positioned within the highways market to benefit from the Government's continuing commitment to infrastructure investment. Allocated work from the Highways Agency frameworks is expected to start in 2013 and approval has been provided to commence work, in joint venture, on upgrading the A1 to motorway standard between Leeming and Barton.

Within the water market, the AMP 5 framework agreement with Yorkshire Water Services has provided £76m of joint venture contracts to improve bathing water quality at both Scarborough and Bridlington, drawing on the division's tunnelling expertise, and to design and build a pioneering new energy scheme at the Esholt Waste Water treatment works.

Construction and Infrastructure is working for UK Power Networks on a £14m cable tunnel project between Whitechapel and Finsbury Market in order to strengthen London's electricity supplies. Work also continues in joint venture for Thames Water on East London's Lee Tunnel, the capital's deepest ever tunnel, and for Crossrail on projects including C510 Whitechapel and Liverpool Street Station tunnels where the joint venture is now two years into the five-year, £235m contract.

Performing across a breadth of sectors

The division's construction profile remains high as it focuses on sectors where it can benefit from its respected track record. In particular education remains an important market. 2012 saw the launch of the division's innovative standard designs for primary and secondary schools that are fully supported by funding options to ensure projects are financially viable. It has also been allocated a further £45m project to construct nine new primary schools over the next three years in the latest phase of South Lanarkshire Council's £150m Primary School Modernisation programme.

Despite the commercial market remaining subdued, the division has enjoyed success. It has been appointed to deliver the £70m Longbridge town centre development in Birmingham and has also successfully established a foothold in London including winning £55m of building and refurbishment contracts and completing a £65m commercial development for Legal and General Property.

Encouraging forward order book

With little improvement anticipated in economic and market conditions in the short-term we do expect the division's revenue, operating profit and margin to reduce further in 2013. However, we are encouraged by the division's forward order book standing at £1.5bn (2011: £1.6bn) with projects at preferred bidder stage valued at £0.5bn (2011: £0.3bn). We are confident that the division's track record in infrastructure, its expertise in operating frameworks and its wide range of skills will continue to provide it with a level of resilience, as it continues to adapt to changing market conditions.

Fit Out

Revenue £m

↓3% **£427m**

Year	£m
12	427
11	438

Operating profit* £m

↓9% **£11.3m**

Year	£m
12	11.3
11	12.4

Margin %

↓7% **2.6%**

Year	%
12	2.6
11	2.8

Forward order book £m

↓21% **£170m**

Year	£m
12	170
11	216

Fit Out's revenue was marginally down on 2011 at £427m (2011: £438m) with operating profit at £11.3m (2011: £12.4m) and margin softening slightly to 2.6% (2011: 2.8%). The division has performed steadily given it is operating within a highly competitive and price sensitive market. The division's consistent delivery and quality is valued and has led to 40% of the division's workload comprising repeat business from valued clients.

Maintaining its leadership position

The division has made a major contribution to the Group's strategy of creating leading positions in its chosen markets. It has maintained its leadership position in the commercial office market, increasing market share to 30% and has delivered the year's largest project in the fit out market for a global professional services firm. The division has maintained its focus on the more resilient sub-£1m project market where it expects continued growth in 2013 whilst the market continues to be impacted by a significant shortage of major projects. The strong trend towards refurbishment plays to the division's strengths as specialists in the refurbishment of occupied buildings as demonstrated this year by the refurbishment of Freshfields Bruckhaus Deringer LLP's London office whilst under occupation.

It's about the quality of our service

Fit Out

Monitise
London

The division transformed 45,000 sq ft of the London headquarters of mobile money specialists Monitise. A time lapse video of the site was filmed so that the client could show the project build to its stakeholders. The project was delivered on time and on budget.

Broadening capabilities

In line with our strategy to broaden our capabilities in existing markets, our design and build fit out business, Morgan Lovell, has significantly strengthened its offering this year by establishing a new workplace consultancy team. Demand for this extended offering has been proven with work already secured with leading organisations including LinkedIn and SAS.

Progress in core markets

The division has made progress in its core growth markets of retail banking, higher education and leisure. Securing a further retail banking framework appointment means that the division is now working in partnership with three of the four largest UK banks. In the leisure market, a major completion includes the fit out of the largest premium gym in London, owned by American operators, Equinox. Current major clients in higher education include Imperial College London where the division is drawing on the Group's integrated capability, leading a joint venture with Construction and Infrastructure.

Growing regional presence

The division has increased its balance of work outside of London and reported a solid regional performance, underpinned by a new office opening in Leeds. Projects include a 60,000 sq ft fit out of ITV's new office at MediaCity UK in Salford and the delivery of the UK's only Leadership Energy and Environmental Design ('LEED') Gold and Silver (assessment for sustainable office fit out) accredited office building for AutoDesk in Farnham. Major projects are also underway in Scotland for Hewlett Packard and Scottish Power.

Improving medium-term outlook

Moving into 2013, the division remains committed to realising its ambition to be the trusted property partner of choice and to reaching its target of securing 100% of its workload through recommendation. Its objectives include securing more work directly from existing clients and frameworks and winning work from international clients. Its order book currently stands at £170m (2011: £216m) and we expect similar market conditions in 2013 to those experienced in 2012. The market is expected to improve in the medium-term, driven by an expected surge in lease expiries and new office development.

Chief Executive's review

Affordable Housing

Revenue £m

↓17% **£386m**

Year	Value
12	386
11	462

Operating profit* £m

↓38% **£11.5m**

Year	Value
12	11.5
11	18.5

Margin %

↓25% **3.0%**

Year	Value
12	3.0
11	4.0

Forward order book £bn

↓13% **£1.3bn**

Year	Value
12	1.3
11	1.5

It has been a challenging year for Affordable Housing with revenue falling by 17% to £386m (2011: £462m) with operating profit down to £11.5m (2011: £18.5m) and margin at 3.0% (2011: 4.0%). This reflects difficult market conditions with new-build social housing being particularly hard hit, as well as lower than normal returns from a small number of older mixed-tenure regeneration projects.

Consequently, we have restructured the business in response to tough competition and continuing pressure on margins. Open market house sales have improved and the division has continued to develop its market-leading response maintenance offering, providing local authorities and housing associations with a nationwide service. This investment has led to over £110m of contract awards this year and a far greater contribution to the division's overall performance.

Affordable Housing is responding to the demanding environment by focusing on securing major, long-term regeneration schemes and more work via framework agreements across all its operations. As the UK's complete affordable housing solutions specialist, its track record and its ability to forge strong long-term relationships has enabled the division to capitalise on major opportunities.

Complex regeneration projects

The division is playing a key role in our strategy to focus on major regeneration opportunities. Its expertise allows it to take on highly complex, housing-led regeneration projects, either solely or working in collaboration with other Group divisions. In 2013 it starts construction of the £100m Castleward Urban Village regeneration development, through Compendium, its joint venture with Riverside Housing Association, eventually delivering 850 new homes. It is working on major long-term projects with other Group divisions including the potential delivery of the first £105m tranche of housing within the £1bn Slough Borough Council LABV. Other Group regeneration collaborations include the £38m Towcester Regeneration and Civic Accommodation project with the Investments division and the second phase of residential development at Northshore, Stockton-on-Tees with our Urban Regeneration division.

A slowdown in affordable housing starts has had a significant impact on the division's new-build social housing programme. The new affordable housing regime introduced gave Registered Providers until the end of March 2015 to complete their programmes. A number of clients are yet to commence their building programmes, which has resulted in a significant slowdown in the market. However, those with grant funding are expected to deliver the targeted homes in time, so the division is anticipating an increase in activity over the next 18 months as projects commence on-site to meet this deadline.

Open market sales volumes improving

Despite the limited mortgage availability subduing the market, house sale volumes have improved throughout the year with completed sales totalling 383 in 2012 (2011: 332). The division's reputation for consistent delivery of high-quality sustainable homes is enabling it to win significant contracts despite the increasingly competitive environment. The division is working on one of Scotland's largest, new-build council housing sites, delivering 150 council homes in a £12m scheme for West Lothian Council. Further improvement in its pipeline of opportunities is expected next year as the division works with partners to commit funding allocations to meet the Homes and Communities Agency's deadline of March 2015.

Response and refurbishment markets

The response maintenance market remains steady, albeit competitive. A highlight has been the £50m repairs contract awarded by Accord Group, reinforcing the division's market-leading position. There is a growing number of opportunities in the South of England with the division currently bidding for over £200m of contracts to be awarded in early 2013.

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It's about offering clients innovative solutions

The division's expertise and ability to offer different cross-subsidy funding solutions enabled this development to proceed and provided much needed housing for London.

Affordable Housing
Finsbury Park
London

In the planned refurbishment market, the division continues to support social landlords upgrading their ageing housing stock. It has been appointed as one of two contractors to share equally the delivery of a £35m Decent Homes improvement programme in Leicestershire and has also begun work on the Vale of Glamorgan framework, providing a platform to progress further work in Wales.

National need for affordable housing
With a forward order book of £1.3bn (2011: £1.5bn), the division is well placed to continue helping partners and clients meet the UK's crucial need for high-quality affordable housing. It is also targeting major housing regeneration schemes, which will drive economic and social renewal and enable growth in the medium-term.

Urban Regeneration

Revenue £m
↑9% **£62m**

Year	£m
12	62
11	57

Operating profit* £m
↓31% **£2.7m**

Year	£m
12	2.127
11	3.9

Regeneration pipeline £bn
↑19% **£1.9bn**

Year	£bn
12	1.9
11	1.6

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Urban Regeneration saw a rise in the level of activity in 2012 with revenue increasing to £62m (2011: £57m). Operating profit was down to £2.7m (2011: £3.9m). The operating profit was impacted by the subdued market conditions as well as an increased share of the costs of the ISIS Waterside Regeneration joint venture. During the year the division increased its interest in ISIS from 25% to 50%. In the short-term the division will recognise a greater share of the operating costs but will enjoy 50% of the future profit as opportunities are developed in the medium-term.

Overcoming barriers to success

Overall the division has made solid progress this year. The momentum it has built up across its portfolio of 35 schemes and the award of new development agreements are all significant factors in our confidence that returns from our investment in regeneration will start to increase in 2014.

Our confidence is further strengthened by the fact that the division has capitalised on its reputation and secured £45m of Government funding to unlock stalled housing development. These funds will help kick-start seven projects within the division's portfolio and funding conditions include an accelerated timetable of delivery. This will result in a number of residential elements within the division's mixed-use schemes being brought forward and delivered over the next two years.

Sentiment remains subdued

Investor and tenant sentiment remains stable but subdued as economic recovery continues to stall. The lack of speculative development in the commercial office market together with tenants exercising lease breaks is expected to lead to an uplift in demand for new Grade A accommodation. The division believes it is in a good position to respond to this uplift due to its landholdings secured through development agreements.

New development agreements

In 2012, £340m of schemes were converted from preferred developer status into contracted agreements. The division has entered into two development agreements with Basingstoke and Deane Borough Council to deliver its £200m regeneration project, developing in excess of 700,000 sq ft on council-owned land parcels. The first planning application is targeted for mid-2013 with work on-site expected to commence later in the year. Stockport Council has also selected the division to deliver its £140m office quarter and the first phase of development is due to start on-site early 2013. Progress has also been made in finalising development agreements to deliver major mixed-use schemes in Warrington and Hucknall.

Planning secured

Planning consents for new development valued at over £300m have been secured in 2012. These include consent for the second phase of residential development at its Northshore development to deliver 76 residential units in partnership with our Affordable Housing division. Planning has been secured for a 60,000 sq ft Grade A office building, pre-let to KPMG. This development is the first new-build office in Leeds city centre since 2006. Approximately £95m of construction contracts have been awarded on sites this year. Construction has started on the 1.1m sq ft, £220m mixed-use Talbot Gateway Central Business District scheme in partnership with Blackpool Council. Work is also underway on the large-scale £350m regeneration of Swindon town centre.

Tentative lettings market

Fragile occupier confidence has meant that the lettings market remains subdued. In addition to KPMG in Leeds, significant deals have been completed including leasing 140,000 sq ft in two major distribution centres at Eurocentral in Scotland and over 14,000 sq ft of Grade A office space to Santander at No 4 St Paul's Square, Liverpool.

Completions include the new £20m civic offices in Doncaster, an element of the city's £300m Civic and Cultural Quarter. The division has also delivered 271 new homes as part of the £180m, 680,000 sq ft Rathbone Market regeneration scheme in Canning Town, East London, working within the English Cities Fund partnership. With the critical need for housing in the capital, the first phase of this new development has proved successful with only 21 units currently unreserved.

Maintaining momentum

Whilst market constraints will continue in the short-term, an increased emphasis on residential, especially in the South, has served to further balance the division's mixed-use activity. Through maintaining momentum across its portfolio, commencing 15 further development projects with an end value of £190m, the division has good visibility of how it will contribute to the Group's profitability in 2014 and beyond. Its forward development pipeline stands at £1.9bn (2011: £1.6bn) with a further £0.3bn (2011: £0.6bn) at preferred developer status. The Group's strong balance sheet and the division's track record will enable it to identify and create new long-term partnership opportunities with the public and private sectors, enabling the division to continue unlocking land values and playing a leading role in regeneration.

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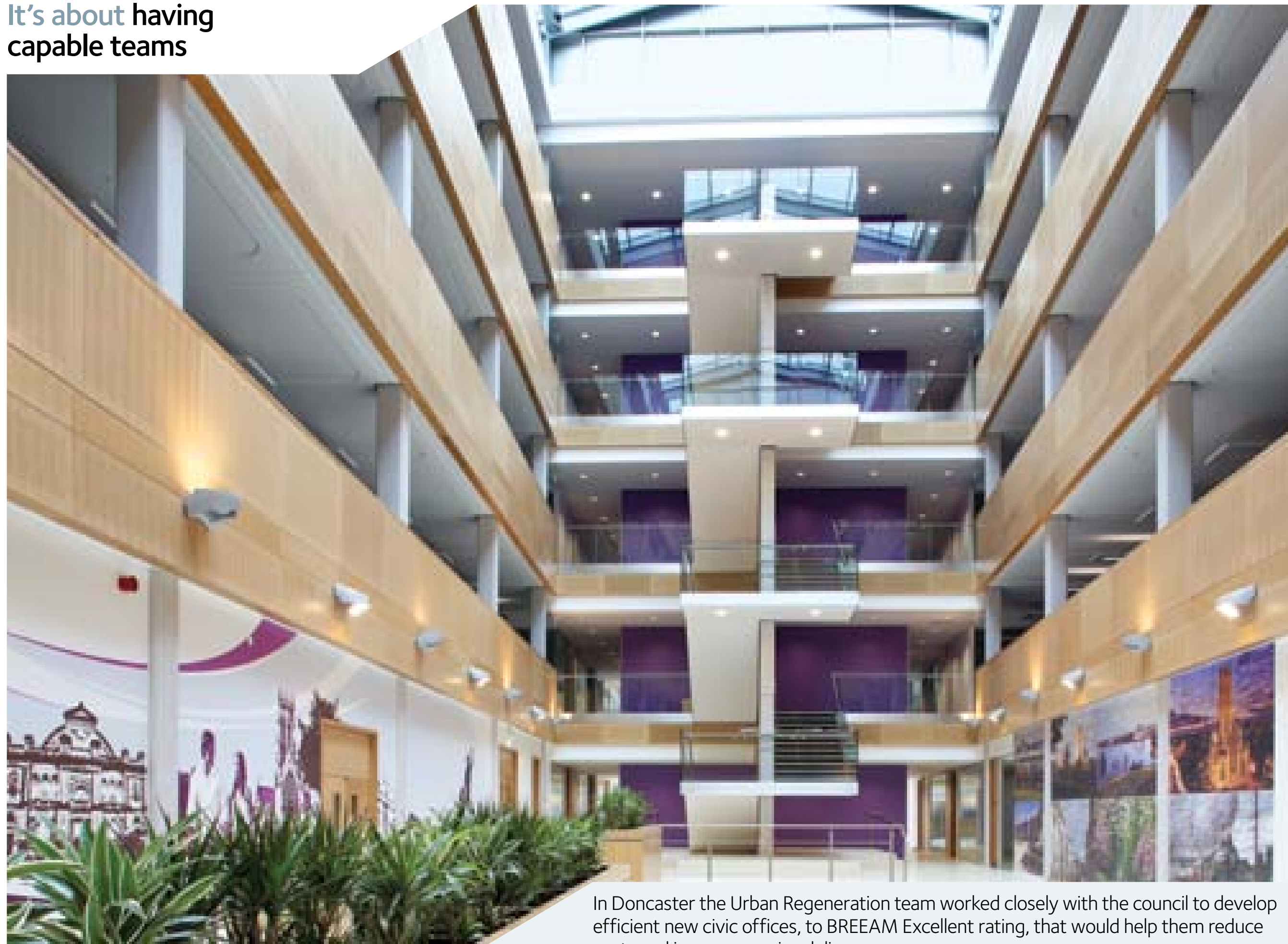
It's about having capable teams



In Doncaster the Urban Regeneration team worked closely with the council to develop efficient new civic offices, to BREEAM Excellent rating, that would help them reduce costs and improve service delivery.

Urban Regeneration

Commercial and Cultural Quarter Doncaster

Investments

Directors' portfolio valuation £m

↓35% **£32m**

Year	£m
12	32
11	49

Investments carrying value £m

↓22% **£18.2m**

Year	£m
12	18.2
11	23.2

Operating profit/(loss)* £m

£7.4m

Year	£m
12	7.4
11	(3.9)

Investments' mandate is to create valuable investments for the Group and to unlock prime long-term construction opportunities for other divisions. The division delivered a profit in 2012 of £7.4m (2011: operating loss of £3.9m). This was driven, in particular, by the £7.0m profit from the £24m sale of the division's medical property investments and from a healthy performance from our investments portfolio during the year of £5.7m (2011: £1.6m). The sale was in line with our strategy to realise investments as they mature to redeploy capital into new projects.

Creating opportunities for the Group

Investments has capitalised on its reputation and experience gained from the complex Bournemouth Town Centre LABV and has been appointed preferred partner by Slough Borough Council for its LABV joint venture. The LABV will benefit from the strength of our integrated capability and will procure work from our Affordable Housing and Construction and Infrastructure divisions over the lifetime of the partnership.

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It's about
developing talent

Three more schools were successfully handed over for the first day of January 2013 school term and Investments, in conjunction with their partners, are 90% towards their target of 200 apprenticeship opportunities across the life of the project.

Investments

Building Schools for the Future programme Hull

The division has also been appointed preferred developer for South Northamptonshire Council's £38m Towcester Regeneration and Civic Accommodation project and has secured planning consents for a residential development, student accommodation and a multi-storey car park in the 20-year £500m+ Bournemouth Council LABV scheme.

Scotland has an extensive public-private partnership-based investment programme and is therefore an area of strategic importance for the division. The Western Territory Hub Programme Board has recently selected an Investments-led joint venture, the WellSpring Partnership, to deliver a pipeline of £160m public sector health and education projects over the next 10 years. The WellSpring Partnership will deliver new facilities for a number of public sector bodies in the Glasgow area. In East Scotland, the £95m Tayside Acute Adult Mental Health Development scheme has been completed through the Group's integrated capability with design and construction services provided by our Construction and Infrastructure division.

Positive pipeline of opportunities

The division has carried out a review of the changes to PFI announced in the Government's launch of its successor, PF2, in the Autumn Statement. Whilst clarification is being sought around how particular aspects of the announcement will work in practice, it is considered to be a positive development. PF2 will be applied to the £2bn Priority Schools Building programme expected to come to the market in spring 2013 and this is a major target for Investments as it hopes to leverage its track record within the education market and identify further opportunities for our Construction and Infrastructure division. It is anticipated that other Government departments will start to release a pipeline of schemes procured under this initiative later in the year, providing further opportunities for Investments and other Group divisions.

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Whilst current economic conditions persist, local authorities will need support from the private sector. The division will continue to identify innovative ways to structure and finance deals to allow its partners to realise the potential of under-utilised property assets, secure efficiencies and promote economic growth and social well-being. The division expects to realise further investments in 2013 in order to recycle capital to create revenue for the Group and provide a sustainable return on investment.

Sustainability
During 2012, we continued to embed our Roadmap for Sustainability and work towards merging the Group's procurement and sustainability functions to create a new team headed by the director of group sustainability and procurement. This will take effect from February 2013. The Group spends a significant amount through its supply chain each year and a closer alignment of the two functions will drive improvements in the Group's sustainability performance. The Group achieved a significant reduction in its carbon emissions and increase in the tonnage of waste diverted from landfill during the year. The Group's Total Commitment to ensuring that we offer a safe working environment for all employees is demonstrated by our health and safety performance. This is the third consecutive year in which the Group achieved its aim of less than 100 reportable incidents.

Measuring success
We measure success in many ways. We track our performance using traditional indicators including measuring growth in market share and in our regeneration pipeline, achieving quality margins and maintaining a healthy order book. In addition, in line with our philosophy of Perfect Delivery, we place equal importance on measuring success through non-financial metrics. Our safety record, sustainability performance and client satisfaction are all critical to the Group's future prosperity.

TO READ MORE ABOUT OUR KPIs:
SEE PAGES 12 AND 13

Managing responsibly
Rigorous reviews of the business are undertaken regularly as we continue to carefully manage it through challenging times. Robust management of overheads, cash and working capital are prioritised to ensure we have sufficient cash resources to increase our investment in regeneration.

Stringent credit checks and due diligence are undertaken to assess the financial health of clients to minimise bad debt and our supply chain members are also scrutinised to ensure we deliver maximum benefits to our clients. The supply chain is managed closely and we choose to build long-term relationships with suppliers and subcontractors who share our values and commitment to sustainability and safety so that, together, we provide a superior quality service.

Outlook
The market will remain challenging in the short-term with little sign of improvement expected as economic recovery continues to be slow. We will maintain our focus on careful contract selection, Perfect Delivery and tight management of overheads.

We have positioned the Group to capitalise on growth markets with barriers to entry and, in the longer term, the opportunity for superior returns. We will continue to pursue opportunities in these markets, promoting the synergies created by our integrated capabilities.

Whilst cautious over the short-term outlook, we are encouraged by the opportunities that exist in our chosen markets. With a sound forward order book of £3.1bn (2011: £3.4bn), with a further £0.5bn (2011: £0.3bn) at preferred bidder stage, and a regeneration pipeline of £2.1bn (2011: £1.8bn), we believe the Group is well-positioned to maximise opportunities throughout the next year and beyond.

John Morgan
Chief Executive
19 February 2013

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Finance review

It's about measuring financial performance

Statement in summary

- Solid set of financial results
- £10m reorganisation costs incurred
- Year end cash of £50m with banking facilities in place of £110m
- Dividend realigned to stated policy
- Sale of mature investments for £28m.

Steady 2012 performance	2012	2011
Revenue	**£2,047m**	£2,227m
Operating profit*	**£48.1m**	£46.1m
Profit before tax, amortisation and non-recurring items†	**£47.1m**	£45.3m
Profit before tax and amortisation	**£37.1m**	£45.3m
Profit before tax	**£34.2m**	£40.0m
Year end cash balance	**£50.4m**	£108.9m
Basic earnings per share adjusted for amortisation	**79.3p**	86.7p
Basic earnings per share	**72.5p**	77.5p
Total dividend per share	**27.0p**	42.0p

*Operating profit has been calculated as profit from operations before amortisation and non-recurring items.

†Non-recurring items comprise £10.0m of reorganisation costs in 2012 (2011: £1.4m of integration costs).

Overview

The challenging macroeconomic conditions continued in 2012. This resulted in lower workload and margins in some of the markets in which the Group operates, such as construction and affordable housing. The Group has sought to mitigate this as far as possible by bidding selectively for high-quality schemes where there is opportunity for integrated working, focusing on growth sectors of the infrastructure market and maintaining tight control on the cost base. This has enabled the Group to deliver a solid set of results.

Revenue of £2,047m and operating profit* of £48.1m

Revenue declined by 8% to £2,047m (2011: £2,227m), primarily in the Construction and Infrastructure and Affordable Housing divisions.

Operating margins before amortisation and non-recurring items held firm in Construction and Infrastructure at 1.7% (2011: 1.7%) and declined slightly in Fit Out to 2.6% (2011: 2.8%). The reduction in margin in Affordable Housing to 3.0% (2011: 4.0%) was due to challenging market conditions and lower levels of profitability from some older regeneration schemes.

The Investments division completed two disposals during the year generating operating gains of £8.8m. These gains are considered to be recurring items as they are in accordance with the Group's strategy of disposing of its investments as they mature to enable capital to be recycled into new schemes.

The Group continues to manage its cost base resulting in a reduction in administrative expenses (excluding non-recurring items) of 10% to £153.7m (2011: £170.3m).

Overall, operating profit increased to £48.1m (2011: £46.1m).

Non-recurring items

The Group streamlined the management structures in a number of divisions and has recognised a non-recurring restructuring cost of £10.0m. This comprises redundancy and property related costs and relates principally to the Construction and Infrastructure and Affordable Housing divisions. In 2011 non-recurring costs of £1.4m were incurred in relation to merging the Construction and Infrastructure Services divisions.

Tax

The Group's tax charge of £3.5m (2011: £7.2m) represents an effective tax rate of 12.3% (2011: 18.1%), significantly lower than the standard rate of corporation tax. The low effective tax rate arises primarily as a result of there being no expected tax liabilities upon the gains on disposals of investments during the year, together with the effect of revaluing the deferred tax liabilities to reflect the change in the statutory rate of corporation tax from 25% to 23%. After adjusting for these two items, the tax charge is approximately equal to tax at the UK corporation tax rate on profit before tax excluding joint venture profit, which is reported after tax.

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Earnings per share

Adjusted basic earnings per share before amortisation has decreased by 9% from 86.7p to 79.3p, due to the decrease in profitability offset by the decrease in the effective tax rate. Basic earnings per share has fallen by 6% to 72.5p from 77.5p.

Cash and interest

The drop in construction revenues combined with clients requiring longer payment terms resulted in a lower cash balance at the year end of £50m (2011: £109m). The Group had average net debt during the year of £40m (2011: net cash £23m) principally due to an increase in working capital deployed across the Group. The net finance expense increased to £1.0m (2011: £0.8m).

Acquisitions and disposals

The Group disposed of its mature investments in its NHS LIFT and medical properties portfolio and the Dorset Fire & Rescue PFI for total consideration of £27.7m.

The Group increased its investment in the ISIS Waterside Regeneration strategic partnership from 25% to 50% for deferred consideration with a fair value of £18.5m payable between 2013 and 2017. In addition the Group purchased the remaining 50% share of Lewisham Gateway Developments from its joint venture partner for consideration of £0.4m. These schemes are expected to begin generating profits in 2014.

Capital management

The Board maintains 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.

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. The Group invests cash generated by its construction activities in long-term regeneration projects which 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 small defined benefit pension plan (£1.5m deficit on £10.4m of gross liabilities) that is closed to new members and further accruals.

Banking facilities committed until 2015

The Group has £110m of committed banking facilities through to September 2015. The banking facilities are subject to financial covenants, all of which have been met throughout the year. These committed facilities supplement cash balances in providing financial security to the Group.

Dividend

The Board recommends a final dividend of 15.0p payable on 24 May 2013 to shareholders on the register at the close of business on 3 May 2013. This will give a total dividend for the year of 27.0p (2011: 42.0p).

The Group has a long-term progressive dividend policy and aims to achieve dividend cover based on adjusted earnings of between 2.5 and 3.0 times. In recent years the Group has maintained the dividend despite a reduction in earnings such that dividend cover has been below its target range for several years. The Board has now determined that it is appropriate to reduce the dividend in 2012 such that dividend cover increases to 2.9 times (2011: 2.0 times), which is within its target range.

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 ventures use interest rate swaps to hedge floating interest rate exposures and Retail Prices Index swaps to hedge inflation exposure. The Group considers that its exposure to interest rate, foreign exchange and inflation movements is appropriately managed.

In the normal course of its business, the Group arranges for financial institutions to provide client guarantees ('bonds') to provide some financial protection in the event that 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 2012, contract bonds in issue under uncommitted facilities covered £186.5m (2011: £204.1m) 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.

As at 31 December 2012, the Group had cash of £50.4m and committed banking facilities of £110m extending to September 2015.

The directors have reviewed the Group's forecasts and projections, which show that the Group will have a sufficient level of headroom within facility limits and covenants for the foreseeable future.

After making enquiries 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.

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Risk review

It's about managing risk

Key risks

- **Markets** The Group is particularly focused at present on managing the impact of the challenging economic conditions, changes in Government spending priorities and the increasing emphasis on infrastructure investment
- **Strategy** The Group's strategy needs to be clearly articulated and understood to ensure successful outcomes are achieved
- **Capable teams** 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
- **Select right opportunities** 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
- **Distinctive approach** If employees are not properly engaged with the culture of the business, clients are less likely to receive exceptional levels of service
- **Successful outcomes** 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.

The Group's strategy is to achieve leading positions in its chosen markets and to use the cash generated from those construction activities to invest in housing-led and mixed-use regeneration to generate higher levels of return.

A risk management framework has been put in place to identify risks to the Group 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 and project. The Group and divisional risk registers are reviewed and updated at least every six months to ensure that risks are properly evaluated and that controls remain appropriate. Project risks are reviewed and updated on an ongoing basis. The internal audit function reviews the control environment to ensure that each of the risks and controls identified are tested at least every two years, which cover both 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 divisional audit committees established separately for Construction and Infrastructure and Affordable Housing, which have larger and more complex operations than 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 submissions. 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 Board has identified the following key risks to the Group achieving its strategic goals, aligned to the different elements of the Group's business model.

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Risk category	Description and *impacts*	Mitigation
Markets **The markets in which the Group operates are affected to varying degrees by general macroeconomic conditions. The Group is particularly focused at present on managing the impact of the challenging economic conditions, changes in Government spending priorities and the increasing emphasis on infrastructure investment.**	**New opportunities** Shortage of new opportunities caused by a challenging economic environment, austerity measures reducing public spending and reduced or delayed Government funding schemes. *Fall in construction activity may result in less cash being generated which will reduce the capital available to invest in regeneration and growth markets.*	- Market spread and diversification offer a degree of protection against decline in individual markets - Scale also gives some protection by enabling the Group 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 price competition and more onerous terms and conditions being sought by clients. This can also affect the bidding process where an increased number of pre-conditions may be put in place by clients through the bidding phase. *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 declining gross margins.*	- Delegated authorities in place require approval of tenders by appropriate levels of management, covering both price and terms and conditions - Delegated authorities stop the business knowingly taking on loss making contracts - Through the development of effective client relationships, the Group seeks to differentiate itself through the quality of its service and consistency of delivery - Greater value can be offered to clients when, where appropriate, different divisions work together - Regular review of resource levels against anticipated workload.
Strategy **The Group's strategy needs to be clearly articulated and understood to ensure successful outcomes are achieved.**	**Conflicted decision making** The Group's strategy is not clearly communicated to and understood by employees. *Employees may unintentionally make decisions that are not wholly aligned with the Group's strategic aims.*	- Strategic aims of the Group, individual divisions and business units are communicated, as appropriate, in business cascades or in annual employee reviews that seek to align personal and corporate objectives - Delegated authorities ensure that material decisions are signed off at an appropriate level, ensuring that the decisions made are in accordance with the Group's strategy - Monthly divisional review meetings allow the Board to assess progress against the agreed strategy.

Risk review

Risk category	Description and *impacts*	Mitigation
Capable teams **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.** **In a challenging economic climate, it can become increasingly difficult to retain key employees, especially those targeted by competitors.**	**Environmental or safety incident** An accident or incident causes harm to a community or to an individual, leading to the potential for legal proceedings, financial penalties, reputational damage and delays to a client's project. *Consequently the Group fails to pre-qualify for contracts due to a poor health, safety and environmental 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 to manage them in each division and at project level where appropriate - 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 - Major incident management plans and business continuity plans in place that are periodically reviewed and tested.
	Failing to attract talented people Risk that the Group fails to adapt by not ensuring that the best people are employed to create the most capable teams possible. *The Group does not benefit from new ideas and experience and could become too internally focused without sufficient external stimulus to challenge current thinking and promote positive change.*	- Progression planning in place in each division to ensure immediate and future replacements are identified and developed accordingly - Investment made in graduate, trainee and apprenticeship schemes to secure an annual inflow of new talent - Monitoring of future skills and capability requirements - Identification of future talent.
	Not developing or retaining capable teams The business is not able to keep hold of employees or improve the performance of the teams that they work within. *Without capable teams, it becomes very difficult to maintain the high levels of client service that the Group strives for. When employee turnover increases it can adversely affect morale within the rest of the team.*	- Annual employee appraisal process in place, providing two way feedback on performance - Training and development plans seek to maximise relevant skills and experience - Remuneration packages are benchmarked where possible.
	Poor project delivery The quality of workmanship or poor commercial and operational delivery of a contract, whether by the Group or a joint venture partner, does not meet expectations of clients. *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 - Collation and review of client feedback - Lessons learned exercises carried out on projects - Employees incentivised on basis of contract performance - Internal peer reviews.

Risk category	Description and *impacts*	Mitigation
Select right opportunities **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, increased commodity prices are not factored in 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 the 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 the Group 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, including any contract variations - Contract terms reviewed at tender stage and any variations approved by the appropriate level of management - Reviews in place to ensure rigour is applied in core processes - Decision to take legal action based on appropriate legal advice - Suitable provision made for legal costs.
	Poor contract selection Risk that the Group accepts a contract outside of its core competencies or for which it has insufficient resources. This can become a greater risk when there is a shortage of opportunities in the market. *This may lead to poor understanding of project risks, poor project delivery and ultimately result in contract losses and reputational damage.*	- Business planning identifies markets 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.

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Risk category	Description and *impacts*	Mitigation
Distinctive approach **The Group has a unique and differentiating approach. If employees are not properly engaged with the culture of the business, clients are less likely to receive exceptional levels of service.**	**Perfect Delivery** The Group does not fully adopt the philosophy of Perfect Delivery. *Likely to incur additional costs that erode profit margins. It is also likely that client experiences will fall short of the standards set by the Group, potentially leading to a reduction in repeat business or in referrals from client recommendations.*	- Continuing engagement with employees, clients and supply chain - Internal resources dedicated to the further development of Perfect Delivery, ensuring maximum engagement.
	Business conduct Failure by employees to observe the appropriate standards of integrity and conduct in dealing with clients, suppliers and other stakeholders. This is an increased risk in times of economic uncertainty and hardship. *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 - Training in place to ensure awareness of and compliance with both competition law and the Bribery Act - Reviews and risk assessments undertaken to ensure adequate procedures are in place and followed.
	Innovation Failure to adopt appropriate innovations in new products or techniques. *The Group becomes less effective than its competitors and not able to secure best value for, or offer the best solutions to, its clients.*	- Reviews undertaken to promote elimination of waste of both resources and process, adopting lean methodology where appropriate - Building Information Modelling strategy developed to provide more efficient asset management across the whole life cycle - Maintaining knowledge base of new products and thinking.

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Risk category	Description and *impacts*	Mitigation
Successful outcomes **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.**	**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. There is also a risk that, given the wider macroeconomic climate, historical credit checks are relied upon that have subsequently been overtaken by events. *Insolvency of a client may result in significant financial loss due to a 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 required Work with approved suppliers wherever possible Contracts with clients, subcontractors or suppliers only entered into after review at the appropriate level of delegated authority Regular meetings with key supply chain members to give and receive feedback and maintain the quality of the relationship.
	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 or growth markets.*	Daily monitoring of cash levels and regular forecasting of future cash balances Regular stress testing of long-term cash forecasts Regular assessment of the level of banking facilities available to the Group Working capital monitored and managed as appropriate, with acute focus on any overdue work in progress, debtors or retentions For very significant purchases on large projects, forward orders can be placed on a longer timescale.
	Management of overheads The Group fails to responsibly shape the business and becomes uncompetitive. *If the cost base is too high, the Group may be hindered in winning new work and profit margins will be eroded.*	Overheads are reviewed on a monthly basis Business planning identifies future overhead requirements Internal and external benchmarking is carried out to ensure overhead levels are appropriate.

Sustainability review

It's about Total Commitment

The Roadmap for Sustainability encourages the Group as a whole to be forward-looking and enhances its ability to identify emerging issues and legislation and assess their potential impact on the Group.

Statement in summary

- **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.**

TO FIND OUT MORE ABOUT SUSTAINABILITY VISIT:
corporate.morgansindall.com/sustainability

The Group's Roadmap for Sustainability, launched in 2011, consolidates its strategy for sustainability. The Roadmap provides a detailed action plan for embedding and progressing sustainable practices across the Group. It also provides a framework for measuring, communicating and reporting progress to both internal and external stakeholders. In 2011, the Group published its first dedicated sustainability report which included a comprehensive set of measurements that provide the benchmark for the Group's 2012 performance. The Roadmap encourages the Group to be forward-looking in respect of sustainability and enhances its ability to identify emerging issues and legislation and assess their potential impact on the Group.

The Group's sustainability commitment is focused on six specific areas known as its Total Commitment. In addition, a further series of priority objectives have been identified with appropriate targets and responsibilities. The Roadmap is reviewed regularly to ensure that it remains relevant and continues to match the priorities of the Group.

During 2012, the Group has been working towards merging its procurement and sustainability functions to create a new team headed by a director of group sustainability and procurement, which will take effect from February 2013. The closer alignment of sustainability and procurement will enable the Group to drive further improvements in its sustainability performance as a significant level of its expenditure is on goods and services procured through its supply chain partners.

Performance in 2012

Despite the challenging economic environment, the Group has achieved significant improvements in its sustainability performance. These achievements have delivered material commercial benefits to the Group and have also benefited the environment and the communities within which it operates.

The Group's objective in 2012 was to embed its Total Commitment across all divisions and deliver measurable improvements in each of the six areas. Health and safety remains the Group's number one priority. This year saw a further reduction in incidents, although there is still work to do in achieving the Group's objective of achieving no lost time incidents. Excellent progress has been made, especially in the areas of waste and energy. The Group was the first non-FTSE 350 company to achieve a listing in the Carbon Disclosure Leadership Index for the Carbon Disclosure Project. By significantly improving the percentage of waste diverted from landfill to 92% (2011: 86%), the Group has achieved a saving of circa £3m in potential landfill tax.

The construction industry faces a bigger challenge than other industries in sustainable procurement with high levels of revenue spent through the supply chain. In recognition of the role the Group has to play in influencing its supply chain, it has committed significant resources, as a founder partner and sponsor, to establish and support the CITB Construction Skills Supply Chain Sustainability School. The School is open to the industry's supply chain and provides an online educational programme to drive up comprehension and standards of all aspects of sustainability.

It's about encouraging local employment

The Construction and Infrastructure and Affordable Housing divisions participated in the Open Doors scheme, which aimed to raise interest in construction careers. The scheme was organised by a partnership between the UK Contractors Group, CITB-ConstructionSkills, The Considerate Constructors Scheme and the Chartered Institute of Building. Participation in the scheme was considered an excellent opportunity to contribute towards the Group's commitment to support local employment.

Total Commitment

Total Commitment to a safe workplace

Providing a safe working environment for everyone is of the highest importance. Through proper training and education the Group continues to ensure that its employees are fully engaged and involved in improving safety in the workplace, at home and on their journeys to and from work. The Group ensures that everyone understands the part they play in preserving their own safety and that of their co-workers, suppliers, subcontractors and clients as well as the wider community.

<table>
<tr><th>Objective: No lost time incidents</th><th>2012</th><th>2011</th></tr>
<tr><td>Total number of RIDDOR* incidents over three days (to 31 March 2012)</td><td>26</td><td rowspan="2">96</td></tr>
<tr><td>Total number of RIDDOR incidents over seven days (from 1 April 2012)</td><td>51</td></tr>
<tr><td>Total number of incidents recorded between one and three days (i.e excluding RIDDOR)</td><td>102</td><td rowspan="2">81</td></tr>
<tr><td>Total number of incidents recorded between three and seven days (i.e. excluding RIDDOR) (from 1 April 2012)</td><td>18</td></tr>
</table>

*The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 ('RIDDOR')

On 1 April 2012, the basis on which RIDDOR incidents would be reported was changed from over three days to over seven days. Therefore, going forward, the Group will comply with this change and will be reporting on incidents over seven days. On a comparative basis, the Group's RIDDOR incidents over three days was 95 (2011: 96). This was the third consecutive year in which the Group achieved its target of under 100 reportable incidents per annum with only 77 reportable incidents (95 on the previous basis, 2011: 96 and 2010: 82). Over the last five years, the Group has achieved an underlying 45% reduction in its reportable incidents.

Total Commitment to developing talented employees

Recruiting, empowering and training talented individuals is essential to the Group's success. To help develop talent, the Group provides all new employees with clear induction, appraisal and appropriate development programmes.

Objective: To attract and retain talented people	2012
Average number of training days per employee	6.1 2011: 5.8

In spite of the current economic climate, the Group has increased the average number of training days provided to all employees. Continuing to invest in employees is a strategic priority to secure the Group's position as a preferred employer and to motivate employees and to provide clients with a quality service delivery.

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Sustainability review

Total Commitment to reducing energy consumption and carbon emissions

The Group continues to reduce emissions by targeting, as a minimum, a 5% year-on-year reduction in energy consumption. By building more efficiently, using less resources and energy, the Group creates efficient and sustainable workplaces, housing, schools and offices whilst also helping clients to reduce their own emissions.

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

	2012
Total carbon emissions (tCO_2e)	42,000* (2011: 56,812)

*The current year figure of 42,000 tonnes is a provisional result and may change subject to the Group's Certified Emissions Management and Reduction Scheme ('CEMARS') audit which will be undertaken in May 2013.

The Group's reduction in its energy consumption and carbon emissions has translated directly into significantly reduced energy bills across the Group.

Total Commitment to reducing waste

The Group continues to improve the total tonnage of waste diverted to landfill achieving a 7% increase on its 2011 performance. It remains committed to working with recognised waste reduction schemes, as well as encouraging individual initiatives.

Objective: To minimise waste generated throughout the Group

	2012
Total waste produced (tonnes)	1,311,032 (2011: 1,311,800)
Total waste diverted from landfill (tonnes)	1,206,874 (2011: 1,127,035)
Percentage of waste diverted from landfill (%)	92 (2011: 86)

The total quantity of waste produced was comparable to 2011. The overall improvement in its diversion rate to 92% brings the Group closer to industry-leading levels of circa 95%.

Total Commitment to improving sustainable procurement

The Group's supply chain is vital to the delivery of its sustainability objectives and therefore it supports the Construction Industry Research and Information Association ('CIRIA') guidance on sustainable procurement in construction as its benchmark. The Group's supply chain is diverse and dynamic and has to respond to changes in core markets, the expectations of the Group's clients and external changes in policy and technology. Therefore, a proportion of the Group's trading will always sit outside of its Group-wide trading agreements as the Group addresses specialist or niche client requirements or processes the application of new members.

Objective: Ensure that the Group's supply chain conforms to its minimum standards for sustainability

	2012
Percentage of total spend that is covered by Group wide agreements (%)	65 (2011: 85)

The Group has seen some subtle changes in its workstreams which have created the need to introduce new additions to its core supply chain partners as it looks to cover new markets to the same standards that apply to existing members of its core supply chain. Volume transactions through existing Group-wide trading agreements fell from 85% to 65%, as the Group opened up its markets to new suppliers and service providers. The Group is currently completing its vendor registration and conformance checks before they are admitted as full members of the Group-wide trading agreements. This does not prevent the Group trading with these companies in the interim. On completion of the process, transactions passing through the Group-wide trading agreements should return to at least historical levels.

Total Commitment to supporting local employment

This was a new KPI to be reported in 2012. The Group is committed to provide sustainable employment opportunities in local communities in which it operates. Originally the Group had intended to measure performance on distance travelled to site or office by employees and subcontractors based on postcodes for two projects per division.

On the basis of early experience in capturing this data, the Group realised a need to adjust the original KPI in order to provide a more meaningful and accurate measurement across all divisions. Affordable Housing has been monitoring the number of its direct employees living within 25 miles of the sites on which they work. In 2012, this figure totalled 1,576 (2011: 1,599). In Construction and Infrastructure 59% of its employees commute less than 25 miles per day. In addition, the Construction and Infrastructure division has been using hand readers to gather data on commuting on several of its projects during 2012, an example of which was the Botanic House project in Cambridge.

The Group's full sustainability report can be viewed at www.morgansindall.com/sustainability which provides more details about the Group's approach.

The Group has made good progress in 2012 and is committed to drive further improvement across each Total Commitment and the priority objectives. Improving the Group's sustainability performance will drive efficiencies, strengthen its competitive advantage and provide long-lasting economic, environmental and social gain.

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Board of directors

Board composition

Executive	3	Male	6
Non-executive	5	Female	2

01 Adrian Martin

Position Chairman

Appointed: December 2008

In November 2012, Adrian was appointed non-executive chairman having previously held the role of senior independent director. His career includes 30 years' audit and corporate finance experience with BDO Stoy Hayward, the last eight years as managing partner, before becoming chief executive and then consultant at Reynolds Porter Chamberlain LLP until 2009. Adrian holds a number of non-executive directorships, including H R Owen plc, M&C Saatchi plc and Safestore Holdings plc.

02 John Morgan

Position Chief Executive

Appointed: October 1994

John has overall responsibility for proposing and developing the strategy and day-to-day management of the operational activities of the Group. He co-founded Morgan Lovell in 1977 which then reversed into William Sindall plc in 1994 to form Morgan Sindall Group plc. He was formerly chief executive from 1994 to 2000 and executive chairman from 2000 to 2012.

03 Steve Crummett

Position Finance Director

Appointed: February 2013

Steve was finance director of Filtrona plc from 2008 to September 2012. Prior to that he was director for mergers and acquisitions at Exel plc and held senior finance roles within McKechnie plc and Logica plc. Steve qualified as a chartered accountant with Arthur Andersen and has been a non-executive director of Consort Medical plc since June 2012.

04 Paul Whitmore

Position Commercial Director

Appointed: April 2000

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

05 Patrick De Smedt

Position Senior Independent Director

Appointed: December 2009

Patrick assumed the role of senior independent director in November 2012. 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 chairman of WorkPlace Systems Ltd, a non-executive director of Victrex plc and a non-executive director of Easynet Global Services Ltd.

06 Geraldine Gallacher

Position 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.

07 Simon Gulliford

Position 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 plc. 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, Barclays plc and Standard Life. Simon is a non-executive director of Aegon UK plc and also a number of private companies.

08 Liz Peace CBE

Position Non-Executive Director

Appointed: November 2012

Liz has been chief executive officer of the British Property Federation since 2002, following a career in the Ministry of Defence including as director of corporate affairs from 1990 to 2002 at QinetiQ Group plc (formerly the Defence Evaluation and Research Agency). Liz is also a member of the board of Peabody, a trustee of property charity Land Aid and a non-executive director of Turley Associates.

David Mulligan will step down from the Board as finance director on 25 February 2013.

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Chairman's 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 Group 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, no more so than at this time of continued challenges facing the construction and regeneration market. Equally important is the Board's work in formulating the risk management strategy of the Group and monitoring its effectiveness.

I was appointed as chairman in November 2012, when a number of changes to the Board took place, with John Morgan returning to the chief executive role following Paul Smith's resignation from the Board. This move recognises the need for a simplified management structure at a time when some of the Group's divisions have faced efficiency reviews of their own operations. The Board now encompasses the more traditional structure of a non-executive chairman and chief executive considered to be better aligned to corporate governance best practice.

These changes have, however, in the short-term resulted in certain areas of non-compliance with the provisions of the UK Corporate Governance Code ('the Code') relating to the composition of Board committees. In addition, in view of these changes, the Board decided to defer until 2013 the annual evaluation of its effectiveness required by the Code, although an external evaluation is now underway. Further explanation of these areas of non-compliance is set out in the relevant sections of this corporate governance statement.

Statement of compliance

The Code, which was introduced by the Financial Reporting Council in 2010, has applied to the Company since 1 January 2011. A copy of the Code is available from the Financial Reporting Council's website (www.frc.org.uk). Save as highlighted above, the Board has complied with the provisions of the Code throughout the year ended 31 December 2012 and up to the date of this report. A summary of how the Company has applied the main principles of the Code and specific details of areas of non-compliance are set out below.

The Company is committed to managing its affairs in compliance with the principles and provisions of the Code. Whilst subject to the provisions of the Code applicable to smaller companies, the Company seeks, where appropriate, to follow those applicable to FTSE 350 companies. The Board is aware of the changes to the Code issued by the Financial Reporting Council in September 2012 and applicable to the Company with effect from 1 January 2013. Where practicable, some of the new disclosure recommendations have been reflected in this report, however, the Board will seek to report fully on compliance with this 2012 Code in the 2013 annual report and accounts.

Adrian Martin
Chairman

Structure of the Board

Director changes

For most of 2012, following the resignation of Gill Barr as a non-executive director in May, the Board comprised an executive chairman, three further executive directors and four non-executive directors. On 6 November 2012 the Company announced Paul Smith's resignation from the Board and the appointment of John Morgan as chief executive. At the same time Adrian Martin, who had been the senior independent director, was appointed non-executive chairman and Patrick De Smedt was appointed senior independent director. Finally, Liz Peace joined the Board as non-executive director. Therefore the structure of the Board now comprises a non-executive chairman, three executive directors and four non-executive directors, meeting the requirements of the Code.

Since the year end the Company has announced that David Mulligan will be leaving the Board on 25 February 2013 to be succeeded as finance director by Steve Crummett.

Roles of the chairman, chief executive and senior independent director

The division of responsibility between the chairman and the chief executive has changed with the appointment of a non-executive chairman and the changes are reflected in a revised written schedule agreed by the Board. The principal change is that the responsibility for proposing and developing the overall strategy of the Group lies with John Morgan as chief executive whilst Adrian Martin, as non-executive chairman, is responsible for ensuring that the Board as a whole is involved in refining and determining Group strategy. The chairman remains responsible for ensuring that the Board 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. The chief executive's principal responsibility is for the day-to-day management of the operational activities of the Group in accordance with the strategy and policies determined by the Board.

Patrick De Smedt, 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 chairman. He meets with the other non-executive directors at least once a year to review the chairman's performance.

Independence and diversity

All of the non-executive directors are considered by the Board to be independent. Simon Gulliford, in his role as director of a subsidiary of Chime Communications plc, has been involved in the provision of consulting services to the Group. The directors are satisfied that these arrangements are not such as to interfere with the discharge of Simon Gulliford's duties as an independent non-executive director of the Company. Further details of these services are set out in note 28 on pages 105 and 106.

The directors are aware of their duties under the provisions of the Companies Act 2006 relating to the management of conflicts of interest. The Company's articles of association ('the Articles') 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.

The Board recognises the importance of diversity in general at Board level and believes that the balance of relevant experience, perspective and thought amongst its members enables it to exercise effective leadership and control of the Group.

In relation to gender diversity, the Board believes in the benefits of a greater female presence on the Board, whilst continuing to seek to recruit the right talent and skills irrespective of gender and not resorting to quotas. The Company had two women on the Board from 2007 until May 2012, when Gill Barr retired. Following the appointment of Liz Peace in November 2012, the female representation on the Board has returned to approximately 25% and is therefore aligned with the minimum representation level to be achieved by 2015 as recommended by the Davies Review.

The Board also recognises that gender diversity below Board level remains an issue, particularly in management and technical roles within certain types of industry including construction and civil engineering. The divisions are taking steps to address this through membership of the UKCG's Diversity Group and by working with a variety of organisations to promote recruitment into the construction industry from as wide a pool as possible.

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 ('AGM') after his or her appointment and for re-election at every third AGM thereafter. The Board agreed with effect from last year's AGM, however, that in accordance with the Code all of its continuing directors should submit themselves for re-election on an annual basis. All of the existing directors will, therefore, be standing for election at the 2013 AGM and their biographies are set out on pages 44 and 45. The Board is satisfied 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.

Operation of the Board

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 oversee 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 by 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 2012 at scheduled Board meetings and meetings of the remuneration, audit and nominations committees are set out below.

	Board	Percentage attendances	Remuneration committee	Audit committee	Nominations committee
Total number of meetings	11		5	3	4
Adrian Martin	11	100%	5	3	4
John Morgan	11	100%	n/a	n/a	4
David Mulligan	11	100%	n/a	n/a	n/a
Paul Whitmore	11	100%	n/a	n/a	n/a
Patrick De Smedt	11	100%	5	3	4
Geraldine Gallacher	11	100%	5	n/a	4
Simon Gulliford[1]	10	91%	n/a	2	4
Liz Peace[2]	2	100%	n/a	n/a	1
Paul Smith[3]	9	100%	n/a	n/a	n/a
Gill Barr[4]	3	75%	2	1	n/a

(1) Simon Gulliford joined the audit committee on 3 May 2012 and attended all the audit committee meetings after his appointment. His non-attendance at one Board meeting was due to illness.

(2) Liz Peace attended all the Board and nominations committee meetings after her appointment.

(3) Paul Smith ceased to be a director on 5 November 2012.

(4) Gill Barr ceased to be a director on 3 May 2012.

In addition to the formal meetings, the Board met on several occasions to consider and debate specific strategic issues affecting the Group and the industry, with input where relevant from senior management.

The chairman, whilst he held the senior independent director position and now in his current role, meets regularly with the non-executive directors without the executive directors present.

Effectiveness

Board evaluation

In previous years, the Board has carried out evaluations of its effectiveness and that of its committees and individual directors using a rigorous internal process. This year, in light of the changes to the Board and its committees announced in November, it was decided that there would be more benefit to be gained from an evaluation if it was postponed until 2013. Therefore, no formal evaluation process was carried out for the year ended 31 December 2012 and this represents a breach of Principle B.6 of the Code. The Board has, however, since the year end instigated an evaluation process using an external consultant and details of this will be included in the 2013 annual report and accounts.

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Training, development and advice is provided

Newly appointed directors receive a full induction, including a detailed information pack (including information about sustainability and governance matters relevant to the Group), 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 and guidance affecting them 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.

Dialogue with 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 chairman meets from time-to-time with major shareholders and the 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 2012. Details of proxy votes submitted for each resolution at general meetings, including proxy directions to withhold votes, are published on the Company's website.

Accountability

Risk management and internal controls

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 which identifies the significant risks attached to the Group's strategy and objectives and the root cause for each risk; it confirms the internal controls in place to mitigate the risk and any further 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, are compiled in a Group risk register, which is updated and reviewed by the Board twice yearly. This process seeks to ensure 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 34 to 39. In addition to the standing risk register review process, the Board devotes time during some of the scheduled Board meetings to considering specific 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.

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 will include 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 31 and in the sustainability review on pages 40 to 42.

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. An audit plan for each year is drawn up following review of the divisional and group risk registers and discussion with management and the audit committee and is approved in advance by the audit committee. 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 twice a year.

The internal audit process is supplemented by a rolling programme of peer group reviews within Construction and Infrastructure and Affordable Housing, 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 2012 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 and internal controls above, as well as a review of the results of internal audit work and the overall effectiveness of the process.

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) Patrick De Smedt Simon Gulliford (from 3 May 2012) Geraldine Gallacher (from 10 January 2013) Liz Peace (from 10 January 2013) Gill Barr (until 3 May 2012)

All committee members during the year and up to the date of this report are or were independent non-executive directors in accordance with the Code save that Adrian Martin, whilst independent on appointment, became chairman of the Board on 5 November 2012. Biographical details of each member of the committee are set out on page 44. In particular, 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 recent and relevant financial experience. For that reason and to ensure continuity through the audit process, he has agreed with the Board to remain as chair of the committee until the conclusion of the 2013 AGM. The independence of the committee has, however, been strengthened by the appointments of both Geraldine Gallacher and Liz Peace. Liz will take over from Adrian as chair of the committee after the 2013 AGM. For the period during which Adrian is both chairman of the Board and of the committee, this represents non-compliance with provision C.3.1 of the Code. The Board considers that the benefit to the audit committee of Adrian's financial and accounting experience outweighs the risk that his continued membership might bring to the independence of the committee and he will remain a member of the committee for the time being.

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

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- to make recommendations to the Board regarding the appointment, reappointment and removal of the external auditor and to approve its remuneration and terms of engagement
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process
- to apply the Board's policy on the engagement of the external auditor to supply non-audit services with the objective of ensuring that the provision of such services does not impair its 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. Senior representatives from the external auditor, the finance director and the group head of audit and assurance attended each of these meetings and part of each meeting was reserved for a private discussion with the external auditor without management present.

The main purpose of the first meeting was to review the scope and results of the full year audit and the effectiveness of the external audit process and to monitor the integrity of the annual financial statements. This process involved discussing with the external auditor the key findings of the external audit and challenging the significant management judgments reflected in the financial results on matters such as recoverability of work in progress and other receivables, areas of key contract risk, the carrying value of goodwill and other intangible assets and the recognition and measurement of the fair value of shared equity loans. The second meeting focused on the half year results with similar assessments of the key areas of management judgment. The final meeting of the year addressed with the external auditor its overall work plan for the forthcoming audit.

Time was set aside at each of the meetings to review with the group head of audit and assurance the results of reviews carried out by the internal audit team and any other matters he wished to bring to the attention of the committee. Further details of the internal audit function are set out under internal controls above.

At each meeting, the committee also reviewed a summary of calls received by the external call line introduced in 2010 for raising concerns and other similar calls received directly by the Group, 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 chair of the audit committee reports to the full Board on matters of significance arising at meetings of the committee.

External auditor
Monitoring the independence and objectivity of the external auditor
To fulfil its obligations, the committee reviewed the external auditor's presentation of its policies and safeguards to ensure its 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 auditor's policy on rotating audit executives, in particular the appointment of a new lead audit engagement partner for 2012. Those policies and safeguards, together with the Company's own policy on engaging the external auditor 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 auditor
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 auditor's fulfilment of the agreed audit plan and any major issues highlighted as part of the external audit.

Reviewing the use of the external auditor for non-audit work
The Company's policy on the engagement of the external auditor for non-audit related services is designed to ensure that the provision of such services does not impair the external auditor's independence or objectivity. Certain categories of services are excluded entirely from the external auditor, in particular those which would be subject to direct review by the audit firm as part of the statutory audit or which could involve the external auditor in managerial decisions or judgments. Other categories, such as audit-related services or work which, because of the auditor's existing knowledge of the Group's business could be more effectively carried out by it, may, if not on the list of prohibited services, be carried out by the external auditor subject to the advance approval of the finance director or, if the fees for such services exceed an absolute limit or a specified proportion of the audit fee, the advance approval of the audit committee. No non-audit services to the Company provided by Deloitte LLP in 2012 required the approval of the committee. The fees for non-audit services during the year are set out in note 3 to the consolidated financial statements on page 84. These represented approximately 12.5% of the audit fee and comprised property and planning advice on certain projects, review of a disputed final account claim and certification of accounting records for the purpose of compliance with government grant funding. 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.

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Reappointment of external auditor
The committee considers the reappointment of the external auditor each year and makes a recommendation to the Board. The committee has satisfied itself that Deloitte LLP, the external auditor, 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 auditor.

Remuneration committee

Members
Patrick De Smedt (chair from 3 May 2012) Geraldine Gallacher Adrian Martin (until AGM 2013) Liz Peace (from 1 February 2013) Gill Barr (chair until 3 May 2012)

All members are independent and Adrian was independent on appointment as chairman of the Board.

Responsibilities
- to set all elements of remuneration and any compensation payments for executive directors and the company secretary
- 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 directors' remuneration report on pages 52 to 61.

Nominations committee

Members
Adrian Martin (chair from 5 November 2012) John Morgan (chair until 5 November 2012) Patrick De Smedt Geraldine Gallacher Simon Gulliford Liz Peace (from 5 November 2012) Gill Barr (until 3 May 2012)

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 on a number of occasions during the year to review the structure, size and composition of the Board and in connection with various changes to the Board. In particular the committee:
- recommended the appointment of Liz Peace to the Board, following a review of its size and composition after Gill Barr's resignation and her introduction to the Company by Augmentum, recruitment consultants
- managed the changes following Paul Smith's resignation and recommended the subsequent appointments of John Morgan, Adrian Martin and Patrick De Smedt to their current roles
- led the instruction and briefing of Odgers Berndtson to recruit a new finance director following David Mulligan's indication of his intention to step down.

Directors' remuneration report

Dear Shareholder,

As the new chair of the Remuneration Committee ('the Committee'), I am pleased to introduce our directors' remuneration report for the year ended 31 December 2012.

In this year's report we have made a number of changes to the way in which we present information to help reflect the transparency sought by the UK Government. Whilst the Department of Business, Innovation and Skills ('BIS') proposals are not yet final we have taken steps to disclose, in advance, additional information. We believe these changes will make the report easier to read and assess.

2012 was a year of continued challenges for the UK construction and regeneration market in the face of difficult economic conditions and ongoing constraints in public spending. Against this background, the Company has delivered a solid financial performance for the year ended 31 December 2012 and this has resulted in an annual bonus of 30% of the maximum and a vesting level for the awards made in 2010 under the Morgan Sindall Executive Remuneration Plan 2005 (the 'Plan') of 48.76% (performance shares) and 46.25% (options). Bonus awards remain subject to final approval by the Committee.

During the year, Paul Smith resigned as chief executive and was succeeded by John Morgan on 5 November 2012. Following the end of the financial year, David Mulligan announced his intention to step down as finance director. He will be succeeded by Steve Crummett, who will be appointed from 25 February 2013. The Committee agreed a salary and benefits package for Steve which is consistent with the current remuneration framework for executive directors, with the largest part of the package subject to performance. Details of the termination arrangements for Paul Smith and David Mulligan, the recruitment package for Steve Crummett and John Morgan's ongoing remuneration package are set out in the detailed directors' remuneration report which follows.

Turning to our policy for 2013, the Committee has concluded that, with the changes made last year, in particular to the policy for long-term incentives and with the challenging market conditions expected to continue, the policy for the executive directors' remuneration remains appropriate.

John Morgan's base salary, which was reviewed both when he moved from executive chairman to chief executive and as part of the normal annual salary review, has remained unchanged since 2011. Paul Whitmore's salary increased by 2.6% in line with average increases across the Group.

The annual bonus has been revised to introduce non-financial strategic and individual targets for 25% of the maximum bonus. The balance will operate on similar terms to 2012, based on stretching profit performance targets for the 2013 financial year. Following the changes made last year, the long-term incentive policy is for an award of performance shares equivalent to up to 100% of base salary based on two equally weighted performance targets of adjusted earnings per share ('EPS') and total shareholder return ('TSR'). As part of his recruitment package, Steve Crummett's award for 2013 will represent 150% of basic salary.

The Committee is satisfied that this remuneration policy will continue to ensure that we can recruit and retain a highly talented senior management team to maximise shareholder value and deliver strong and sustainable growth.

A resolution to approve the directors' remuneration report will be proposed at the AGM to be held on 9 May 2013 and I hope that you will be supportive.

Patrick De Smedt
Chair of the Remuneration Committee

Policy report

Policy overview
In setting the remuneration policy for the executive directors, the Committee takes into account the following general principles:

- the need to attract, retain and motivate the best possible person for each position, without paying more than is necessary
- to ensure the remuneration packages are simple and fair in design so that they are 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 performance
- to recognise the importance of rewarding exceptional 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; financial performance creating a clear line of sight for individuals between performance and reward and providing a focus on sustained improvements in profitability; TSR compared with that of our competitors providing a more direct alignment between the interests of executives and shareholders
- to calibrate carefully all financial and TSR performance metrics and associated sliding scale ranges 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 shares allowing executives to build significant shareholdings in the business, therefore, aligning the executive's interests with those of the Company's shareholders.

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Components of directors' remuneration

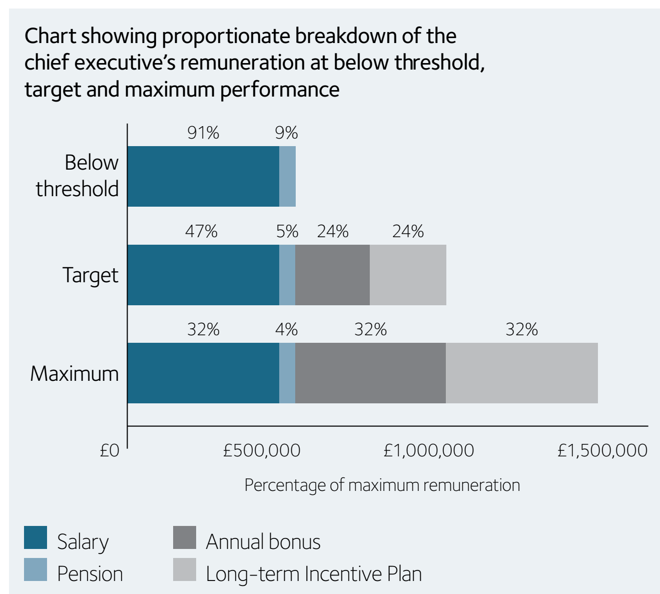
The key elements of the remuneration package for each executive director are set out in the table below. There are no changes to the policy for 2013.

Element	Purpose, link to strategy and operation	Operation for 2013
Base salary	Set to attract, retain and motivate talented individuals Salary levels set by reference to market rates, individual and company performance	Salaries disclosed on the following page
Annual bonus	Rewards the achievement of annual financial and non-financial performance metrics 75% of the bonus based on a target range of profit before tax and amortisation ('PBTA'), set relative to the Group's budget 25% based on non-financial, strategic and personal objectives	Maximum opportunity of 100% of base salary
Long-term incentive	To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance Annual awards of conditional shares with vesting dependent on the achievement of performance conditions over a three-year period 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 TSR compared with eight of our UK-listed peers, over a three-year period	Normally the maximum grant is 100% of base salary (up to 150% in exceptional circumstances)
Pension	Contributions towards retirement planning	10% of base salary
Benefits	To provide a market-competitive level of benefits	Car allowance, private medical insurance, permanent health insurance and life assurance.

Directors' remuneration report

Remuneration scenarios for the chief executive

The chart below shows an estimate of the potential future remuneration payable for the chief executive in 2013 at different levels of performance. The chart highlights that the performance-related elements of the package comprise a highly significant portion of the chief executive's total remuneration at target and maximum performance.



Below threshold performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the Plan; at target, 50% is earned under the annual bonus plan and 50% is achieved under the Plan; and at maximum full vesting under both plans.

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 considering policy in relation to executive directors. When considering the executive directors' remuneration structure and levels for 2013, the Committee reviewed the salaries and proposed annual bonus arrangements for the senior executives in the divisions, to ensure that there was a coherent approach.

Incentive recovery provision

To improve the risk profile of the remuneration policy further, last year the Committee 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 conditions.

Detailed remuneration policy for 2013

Base salaries

The base salary of individual executive directors is determined annually by the Committee or, if appropriate, in the event of a change in an individual's position or responsibilities. It is intended that base salaries should be determined in line with market rates, taking into account individual performance and experience and the Group's results.

In setting the 2013 base salaries, 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 approximately 2.5%, not all divisional management have received an increase in base salary for 2013. Having regard to the above and to the challenging market conditions expected to continue in 2013, the Committee determined that Paul Whitmore should receive an increase in his base salary of 2.6% but John Morgan's salary should not be increased. In view of David Mulligan's forthcoming departure from the Group in April 2013, the Committee decided against awarding him any increase. Accordingly annual base salaries for the executive directors for 2013 will be as follows:

	From 1.01.2013	From 1.01.2012	Increase
John Morgan	£438,000	£438,000	(+0%)
David Mulligan	£315,000	£315,000	(+0%)
Paul Whitmore	£319,000	£311,000	(+2.6%)
Steve Crummett (from 25.02.2013)	£330,000	n/a	n/a

Pension arrangements

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

The Company operates a salary exchange process that allows all employees who are members of the Retirement Plan, flexibility in setting the proportion in which salary and bonus is distributed between cash payments and additional pension contributions. Where additional pension contributions are made through the salary exchange process, the Company enhances the contributions by half of the saved employer's National Insurance Contribution ('NIC').

Annual bonus

For the 2013 annual bonus plan, the Committee has determined that 75% should be based on a PBTA target range set in relation to the Group's budget. The remaining 25% will be based on non-financial personal and strategic targets. This provides a rounded assessment of the Group and management's performance.

The PBTA element of the bonus incorporates an appropriate sliding scale range around a challenging target for executives recognising, however, 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.

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The Committee has discretion to override the formulaic outturn of the bonus to determine the appropriate level of bonus payable.

The maximum potential annual cash bonus for executive directors for 2013 is unchanged from 2012 at 100% of base salary.

Long-term incentives
The Company's current long-term incentive arrangement for senior executives is the Morgan Sindall Executive Remuneration Plan 2005.

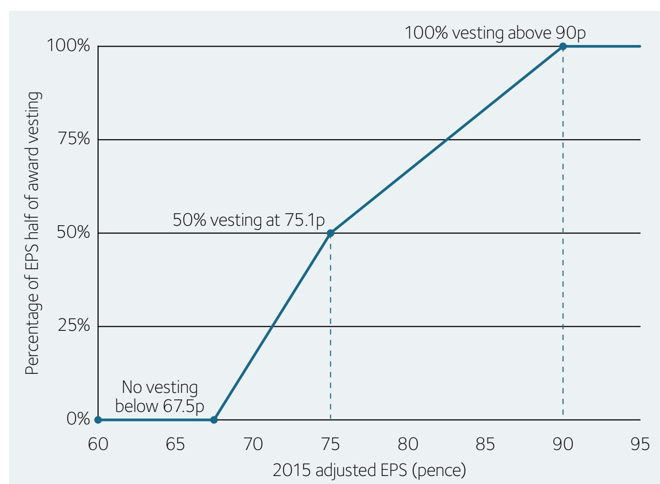
A number of changes were made to the Plan for the 2012 awards and the revised structure is being retained for the 2013 awards. The awards will take the form of performance shares, i.e. a conditional award of shares vesting after three years subject to continued employment and the achievement of challenging performance conditions.

The awards to be made in 2013 will be 100% of salary with the exception of Steve Crummett, whose award, as part of his recruitment package, will be 150% of salary for 2013, reverting in line with the other executive directors in subsequent years.

Last year the Committee introduced a comparative TSR condition in addition to the adjusted EPS condition, both measured over a three-year period. The same approach will be taken for the 2013 awards and, accordingly, 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 TSR compared with eight of our UK listed peers (defined overleaf), over a three-year period.

EPS performance condition
Performance will be assessed by reference to the adjusted EPS performance in 2015. In what remain challenging and uncertain market conditions, the targets are considered an appropriate incentive to preserve and maximise long-term profitability within an appropriate risk framework, thereby providing a strong link with the strategy of the business. In setting the target range, the Committee has narrowed the range between threshold and targets compared with targets set for the 2012 award and has increased the level of stretch between the target and the maximum.

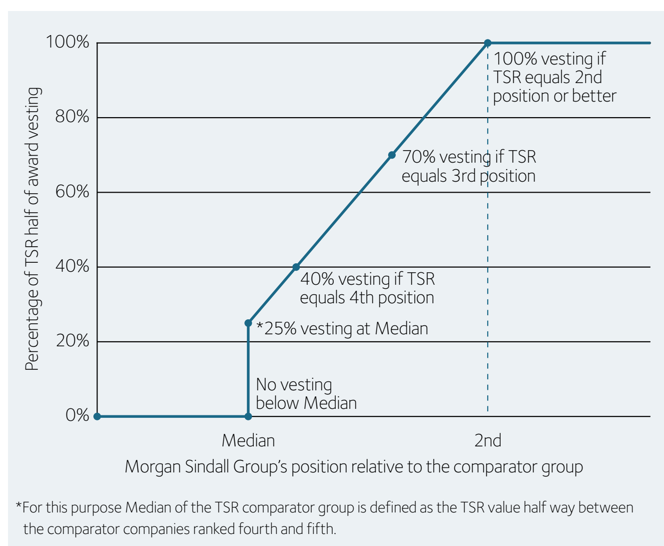
This vesting range for the targets is shown graphically below:



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 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.

The target range for the TSR performance condition is shown graphically below:



*For this purpose Median of the TSR comparator group is defined as the TSR value half way between the comparator companies ranked fourth and fifth.

In addition to the vesting being determined by the sliding scale of TSR performance shown above, there are 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 the Company or any comparator company being considered abnormal.

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.

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.

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Directors' remuneration report

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 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 3.7% of the current issued ordinary share capital under all employee share plans, of which 0.4% relates to discretionary share plans.

Separately, the employee benefit trust currently holds 723,970 shares which may be used to satisfy awards.

Service contracts

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 an equitable compensation package, having regard to the particular circumstances of the case. 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
David Mulligan	20 February 2012
Paul Whitmore	21 March 2000
Steve Crummett	5 February 2013

Fees receivable by the executive directors serving on other boards

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. Steve Crummett is a non-executive director and chair of the audit committee at Consort Medical plc, for which he receives a fee of £44,000 per annum. None of the other executive directors is currently receiving fees for non-executive positions with other companies.

Non-executive directors' terms of engagement

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 to the requirements for re-election and the Listing Rules of the Financial Services Authority and the relevant schedules of the Companies Act 2006 (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.

The base fees for the non-executive directors for 2013 will remain unchanged. Current annual fees are as follows:

	2013 £	2012 £
Chairman*	**135,000**	135,000
Base fee	**41,200**	41,200
Additional fees:		
Audit committee chair	**7,500**	7,500
Remuneration committee chair	**6,000**	6,000

*Adrian Martin's fee was increased upon his appointment as chairman on 5 November 2012 from £49,000. He will remain as chair of the audit committee until the end of the 2013 AGM without taking the additional fee shown above.

Non-executive directors receive no other benefits and do not participate in short-term or long-term reward schemes.

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

Patrick De Smedt	26 November 2009
Geraldine Gallacher	16 August 2007
Adrian Martin	28 November 2008
Simon Gulliford	24 February 2010
Liz Peace	5 November 2012

Implementation report

The directors' remuneration report has been prepared on behalf of the Board by the Committee. The Committee adopts the principles of good governance as set out in the UK Corporate Governance Code ('the Code') and complies with the Listing Rules of the Financial Services Authority, the Act and the directors' Remuneration Report Regulations in Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The Act requires the external auditor 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. Those parts of the directors' remuneration report subject to audit are contained in this implementation report.

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 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.

Members and activities of the Committee

The members of the Committee during 2012 were Gill Barr (chair until stepping down from the Board and the Committee on 3 May 2012), Patrick De Smedt (who succeeded Gill as chair), Geraldine Gallacher and Adrian Martin. All members during the year were independent non-executive directors, save Adrian Martin, who became non-executive chair on 5 November 2012. Liz Peace has joined the Committee with effect from 1 February 2013 and, finally, Adrian Martin is intending to step down from the Committee at the forthcoming AGM.

The Committee met on five occasions during the year and attendance at meetings is disclosed in the corporate governance statement on page 48. 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 introduced for 2012 and the changes to the annual bonus being introduced for 2013.

External advice received

During the year, the Committee received independent advice from New Bridge Street ('NBS') an Aon Hewitt subsidiary in relation to its consideration of the structure of the executive directors' remuneration for 2012 and other matters considered by the Committee during the year. 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 and the Committee is comfortable that these services do not prejudice NBS's position as independent advisers to the Committee.

Shareholder voting at AGM

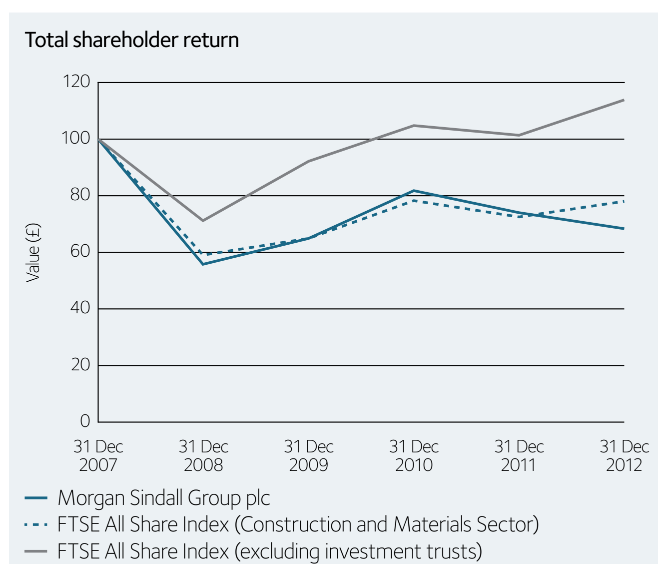
At last year's AGM (2011) the directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast (including withheld votes)
For	30,498,651	96%
Against	457,862	1%
Total votes cast (for and against)	**30,956,513**	**97%**
Votes withheld*	895,411	3%
Total votes cast (including withheld votes)	**31,851,924**	**100%**

*A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'For' and 'Against' a resolution.

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 2012 of £100 invested in Morgan Sindall Group plc on 1 January 2007 compared with the value of £100 invested in the FTSE All Share Index (excluding investment trusts) and the FTSE All Share Index (Construction and Materials Sector). The other points plotted are the values at intervening financial year ends.



Source: Thomson Reuters

Directors' remuneration report

The directors' remuneration for the year was as follows:

Name of director	Fees/basic salary £'000s	Benefits £'000s	Money purchase pension contributions £'000s	Annual cash bonuses[a] £'000s	Employment termination payment £'000s	**Total 2012 £'000s**	Total 2011 £'000s	Value of long-term incentives **2012[h] £'000s**	Value of long-term incentives 2011[i] £'000s	**2012 Single figures £'000s**
Executive										
John Morgan	438	22	43	131	–	**634**	875	**37**	–	**671**
David Mulligan[b]	315	20	34	95	–	**463**	616	**70**	–	**533**
Paul Whitmore	311	20	30	93	–	**454**	605	**105**	–	**559**
Paul Smith (resigned 5 Nov 2012)[c]	515	22	48[d]	132	501	**1,218**	1,025	**109**	–	**1,327**
	1,579	84	155	451	501	**2,769**	3,121	**321**	–	**3,090**
Chairman										
Adrian Martin[e]	65	–	–	–	–	**65**	49	**–**	–	**65**
Non-executive										
Patrick De Smedt	45	–	–	–	–	**45**	41	**–**	–	**45**
Geraldine Gallacher	41	–	–	–	–	**41**	41	**–**	–	**41**
Simon Gulliford	41	–	–	–	–	**41**	41	**–**	–	**41**
Liz Peace[f]	7	–	–	–	–	**7**	–	**–**	–	**7**
Gill Barr[g]	16	–	–	–	–	**16**	47	**–**	–	**16**
	215	–	–	–	–	**215**	219	**–**	–	**215**
Total	1,794	84	155	451	501	**2,984**	3,340	**321**	–	**3,305**

[a] For the 2012 cash bonus awards, adjusted PBTA of £37.8m was required for threshold performance rising to £44.8m at maximum. The Committee adjusted the Group PBTA of £37.1m for the £10.0m of non-recurring reorganisation costs and also for the £7.0m gain on disposal of the Group's medical properties investment. However, it considered that the resulting bonus should be reduced to reflect the Committee's overriding assessment of the Company's performance during the year and it has, therefore, awarded an annual bonus of 30% of maximum. The annual bonus for John Morgan, David Mulligan and Paul Whitmore is subject to final approval by the Committee.

[b] David Mulligan's employment with the Company will cease on 10 April 2013. The Company has agreed to pay £315,126 in cash for payment in lieu of notice for nine months' salary, pension contributions and other benefits plus an element in respect of his bonus entitlement for the portion of the 2013 year worked. In respect of his outstanding long-term incentive awards under the Plan, the Committee has determined, in accordance with the rules of the Plan, that the awards may remain capable of vesting on their normal vesting dates, subject to a pro-rata reduction in the number of shares comprised in the awards based on the number of months from the date of grant to the date of termination of his employment and subject to satisfaction of performance conditions. Further details are shown in the paragraph headed The Plan.

[c] Paul Smith's employment with the Company ceased on 31 December 2012. The Company has agreed to pay him £500,936 in cash for payment in lieu of notice representing approximately 10 months' salary, pension contributions and other benefits. Approximately one half was paid on 2 January 2013; the other half is payable on 1 June 2013, subject to a reduction in respect of any earnings from any alternative position obtained prior to 1 June 2013. He will be paid a pro-rata annual bonus in respect of the period from 1 January 2012 to 5 November 2012 on the same basis as other executives in the bonus plan. In respect of his outstanding long-term incentive awards under the Plan, the Committee has determined, in accordance with the rules of the Plan, that the awards may remain capable of vesting on their normal vesting dates, subject to a pro-rata reduction in the number of shares comprised in the awards based on the number of months from the date of grant to the date of termination of his employment and subject to satisfaction of the performance conditions. Further details are shown in the paragraph headed The Plan.

[d] Paul Smith was paid a cash allowance in lieu of pension contribution in 2012 and this is shown in the column headed 'Money purchase pension contributions'.

[e] Adrian Martin was appointed as non-executive chairman on 5 November 2012.

[f] Liz Peace was appointed as a director on 5 November 2012.

[g] Gill Barr ceased to be a director on 3 May 2012.

[h] This represents gains on awards under the Plan which vest by reference to performance for the year ended 31 December 2012.

[i] No awards under the Plan vested by reference to performance for the year ended 31 December 2011.

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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 2012 and 18 February 2013.

	31 December 2012 No. of shares	31 December 2011 No. of shares
Adrian Martin	**2,000**	2,000
John Morgan	**4,497,508**	4,497,508
David Mulligan	**24,544**	24,544
Paul Whitmore	**62,840**	62,840
Geraldine Gallacher	**7,772**	7,772
Patrick De Smedt	**2,000**	–
Simon Gulliford	**–**	–
Liz Peace	**–**	–

The Plan

Details of the executive directors' interests in long-term incentive awards under the 2005 Plan as at 31 December 2012 and movements during the year are as follows:

Performance shares

	Date of award	No. of awards outstanding as at 1 Jan 2012	No. of shares awarded	No. of shares lapsed	No. of awards outstanding as at 31 Dec 2012	Date awards vest	Market price on award
John Morgan	21.5.2012	–	68,224	–	68,224	21.05.2015	£6.42
David Mulligan	30.03.2009	19,073	–	(19,073)	–	–	–
	17.03.2010	19,932	–	–	19,932	17.03.2013	£5.52
	30.03.2011	34,703	–	–	34,703	30.03.2014	£6.57
	21.05.2012	–	49,065	(19,073)	49,065	21.05.2015	£6.42
Total		73,708	49,065	(19,073)	103,700		
Paul Whitmore	30.03.2009	34,914	–	(34,914)	–	–	–
	17.03.2010	36,486	–	–	36,486	17.03.2013	£5.52
	30.03.2011	34,247	–	–	34,247	30.03.2014	£6.57
	21.05.2012	–	–	–	48,442	21.05.2015	£6.42
Total		105,647	48,442	(34,914)	119,175		
Paul Smith (resigned 5 November 2012)	30.03.2009	32,328	–	(32,328)	–	–	–
	17.03.2010	33,784	–	(2,816)	30,968	17.03.2013	£5.52
	30.03.2011	58,790	–	(24,496)	34,294	30.03.2014	£6.57
	21.05.2012	–	80,218	(64,621)	15,597	21.05.2015	£6.42
Total		124,902	80,218	(124,261)	80,859		

Notes

- No shares vested in the year
- The threshold performance condition for the performance shares awarded on 30 March 2009 was not met and the awards have lapsed
- In respect of the performance shares awarded on 17 March 2010, the Company's achieved EPS for the year ended 31 December 2012 adjusted for amortisation, the non-recurring reorganisation costs of £10.0m and for the £7.0m profit on the disposal of the Group's medical properties investment, of 80.7p. As a result 48.8% of the performance shares will vest on the 17 March 2013 and the remaining performance shares will lapse
- As described above, Paul Smith's awards are subject to a pro-rata reduction (based on the number of complete months from the date of grant to the date of termination of his employment relative to 36 months) in the number of shares in the awards.

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Share options

	Date of grant	No. of options outstanding as at 1 Jan 2012	No. of options lapsed	No. of options outstanding as at 31 Dec 2012	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
	30.03.2009	219,828	(219,828)	–	–	–
	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		838,308	(219,828)	618,480		
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
	30.03.2009	76,294	(76,294)	–	–	–
	17.03.2010	79,730	–	79,730	£5.55	17.03.2013
Total		219,838	(76,294)	143,544		
Paul Smith (resigned 5 Nov 2012)	20.05.2005	68,370	–	68,370	£7.24	20.05.2008
	5.04.2006	47,656	–	47,656	£12.59	5.04.2009
	30.03.2009	129,310	(129,310)	–	–	–
	17.03.2010	135,136	(11,262)	123,874	£5.55	17.03.2013
Total		380,472	(140,572)	239,900		

Notes

- No options were granted or 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 30 March 2009 was not met and the options lapsed
- In respect of the options granted on 17 March 2010, the Company achieved adjusted EPS of 80.7p (as explained under performance shares above). As a result 46.3% of the options will become exercisable on the 17 March 2013 and the remaining options will lapse.
- As described above, Paul Smith's options are subject to a pro-rata reduction (based on the number of complete months from the date of grant to the date of termination of his employment relative to 36 months) in the number of options
- The outstanding options detailed above will, if not lapsed or exercised earlier, lapse 10 years from the date of grant.

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 awards of performance shares made in 2012 are subject to an absolute adjusted EPS performance target and a TSR performance condition with full vesting of 50% of the awards for achieving adjusted EPS of 106p or more for the year ending 31 December 2014, reducing on a sliding scale to 50% vesting for achieving 91.9p and reducing on a sliding scale to 0% vesting for achieving 80p or less. The other 50% of the award is subject to a condition measuring the Company's TSR compared with eight of the Company's UK listed peers over a three-year period, with full vesting at 2nd position or higher, 25% vesting at median and 0% at less than median, further details are given in the policy report.

The mid-market price of a share on 31 December 2012 was £5.15 and the range during the year was £5.08 to £7.25.

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 27 on pages 102 to 104.

	Date of grant	Outstanding as at 1 Jan 2012	Lapsed during the year	**Outstanding as at 31 Dec 2012**	Option exercise price	Date within which exercisable
John Morgan	27.09.2011	1,814	–	**1,814**	£4.96	1.11.2014–1.05.2015
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	(1,338)	**1,814**		
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	(1,338)	**1,814**		
Paul Smith (resigned 5 Nov 2013)	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	(3,152)	**–**		

Note
No options were granted or exercised during the year.

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

Patrick De Smedt
Chair of the Remuneration Committee
19 February 2013

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 2012 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 43 to 66 and in the business review section of the directors' report on pages 4 to 42, 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 Group is a construction and regeneration group with five divisions: Construction and Infrastructure, Fit Out, Affordable Housing, Urban Regeneration and Investments. The principal subsidiary companies and joint ventures operating within this divisional structure are listed in note 13 of the Company financial statements on pages 90 to 92.

Results and dividends
The Group's profit before income tax expense for the year amounted to £34.2m (2011: £40.0m).

An interim dividend of 12.0p (2011: 12.0p) per share amounting to £5.1m (2011: £5.1m) was paid on 26 October 2012. The directors recommend a final dividend for the year of 15.0p (2011: 30.0p) per share amounting to £6.4m (2011: £12.8m) payable on 24 May 2013 to shareholders on the register at close of business on 3 May 2013. Together with the interim dividend, this makes a total dividend of 27.0p (2011: 42.0p) for the year.

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 9 of the consolidated 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 3 May 2012 to allot relevant securities up to a nominal amount of £108,048. 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 75% 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 holder 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 (the first-named being the most senior).

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.

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Purchase of own shares

At the AGM on 3 May 2012, a resolution was passed giving the directors authority to make market purchases of its shares up to 4,321,915 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 3 August 2013 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 1.7% of the issued share capital of the Company as at 31 December 2012 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 25 to the consolidated financial statements on page 100.

Appointment and replacement of directors

The directors shall be not less than two and not more than 12 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 him/herself for reappointment by the members. The Company may, by special resolution, remove any director before the expiration of his/her period of office. The office of a director shall be vacated if: (i) he/she resigns or offers to resign and the Board resolves to accept such offer; (ii) his/her resignation is requested by all of the other directors and all of the other directors are not less than three in number; (iii) he/she is or has been suffering from mental ill health and the Board resolves that his/her office be vacated; (iv) he/she is absent without the permission of the Board from meetings of the Board (whether or not an alternate director appointed by him/her attends) for six consecutive months and the Board resolves that his/her office is vacated; (v) he/she becomes bankrupt or compounds with his/her creditors generally; (vi) he/she is prohibited by law from being a director; (vii) he/she ceases to be a director by virtue of the Act; or (viii) he/she is removed from office pursuant to the Articles.

However, at the forthcoming AGM of the Company to be held on 9 May 2013, notwithstanding the provisions of the Articles, each of the directors will offer themselves for 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

The directors, who served throughout the year except as noted, were as follows:

Adrian Martin (non-executive chairman)
John Morgan (chief executive)
David Mulligan (finance director)
Paul Whitmore (commercial director)
Patrick De Smedt (senior independent director)
Geraldine Gallacher
Simon Gulliford
Liz Peace (appointed 5 November 2012)

Paul Smith resigned on 5 November 2012. David Mulligan will step down from the Board on 25 February 2013 and Steve Crummett will be appointed as finance director with effect from 25 February 2013.

Biographical details of the directors of the Company are set out on pages 44 to 45.

Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on pages 52 to 61.

Other statutory and regulatory information

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 19 February 2013, 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
John Morgan	4,497,508	10.40
Franklin Templeton Institutional, LLC	3,646,900	8.44
Standard Life Group	3,025,295	7.00
John James Clifford Lovell	2,415,273	5.59
Aberdeen Asset Management plc	2,234,219	5.17
JP Morgan Chase & Co	2,123,287	4.92
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 33 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

- Details of the Group's Sustainability Roadmap are set out on page 31 of the chief executive's review and in the sustainability review on pages 40 to 44. The 2012 online Sustainability Report will provide further details of the Group's approach and its performance against its six 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 4 to the consolidated financial statements on page 84.

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 note 27 of the consolidated financial statements on pages 102 to 104.

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. The Company does not adopt different policies with respect to different suppliers.

As at 31 December 2012, the Group's number of creditor days outstanding was equivalent to 28 days' purchases (2011: 28 days), based on the average daily amount invoiced by suppliers during the year.

Political and charitable contributions

During the year, the Group made charitable donations of £83,682 (2011: £47,134), 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 2012 Sustainability Report at www.morgansindall.com/sustainability.

No contributions were made to any political parties during the current or preceding year.

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

Disclosure of information to the external auditor
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 Jefferies Hoare Govett, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ on 9 May 2013 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 4 to 66 inclusive was approved by the Board and signed on its behalf by:

Mary Nettleship
Company Secretary
19 February 2013

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('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 (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable United Kingdom 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- 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

John Morgan
Chief Executive
19 February 2013

David Mulligan
Finance Director
19 February 2013

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Group consolidated financial statements

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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 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the significant accounting policies and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('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 2012 and of its profit for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union
- 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
- 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
- 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 2012 and on the information in the directors' remuneration report that is described as having been audited.

Mark Beddy
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
19 February 2013

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Consolidated income statement

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Continuing operations			
Revenue	1, 2	**2,047.1**	2,226.6
Cost of sales		**(1,860.4)**	(2,010.9)
Gross profit		**186.7**	215.7
Amortisation of intangible assets	2, 3, 10	**(2.9)**	(3.9)
Non-recurring items	3	**(10.0)**	(1.4)
Other administrative expenses		**(153.7)**	(170.3)
Total administrative expenses		**(166.6)**	(175.6)
Share of net profit of equity accounted joint ventures	2, 13	**5.7**	0.3
Other gains and losses	13	**9.4**	0.4
Profit from operations	2	**35.2**	40.8
Finance income	6	**2.3**	1.6
Finance costs	6	**(3.3)**	(2.4)
Net finance expense		**(1.0)**	(0.8)
Profit before income tax expense	2	**34.2**	40.0
Income tax expense	7	**(3.5)**	(7.2)
Profit for the year	3	**30.7**	32.8
Attributable to:			
Owners of the Company		**30.8**	32.9
Non-controlling interests		**(0.1)**	(0.1)
		30.7	32.8
Earnings per share			
From continuing operations			
Basic	9	**72.5p**	77.5p
Diluted	9	**72.0p**	76.5p

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

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Profit for the year		**30.7**	32.8
Other comprehensive income/(expense):			
Actuarial loss arising on defined benefit obligation	20	**(0.8)**	–
Deferred tax on defined benefit obligation	21	**0.1**	(0.1)
Movement on cash flow hedges in equity accounted joint ventures	13	**(0.4)**	(0.7)
Reclassification adjustments for loss on cash flow hedges included in profit	13	**2.1**	–
Other movement on cash flow hedges		**–**	(0.2)
Other comprehensive income/(expense) for the year, net of income tax		**1.0**	(1.0)
Total comprehensive income for the year		**31.7**	31.8
Attributable to:			
Owners of the Company		**31.8**	31.9
Non-controlling interests		**(0.1)**	(0.1)
		31.7	31.8

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Consolidated balance sheet

at 31 December 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Goodwill	10	**213.9**	214.1
Other intangible assets	10	**9.3**	12.5
Property, plant and equipment	11	**20.1**	21.6
Investment property	12	**11.3**	11.1
Investments in equity accounted joint ventures	2, 13	**62.2**	49.8
Investments		**0.4**	0.4
Shared equity loan receivables	14	**19.2**	17.6
		336.4	327.1
Current assets			
Inventories	15	**159.4**	146.0
Amounts due from construction contract customers	17	**217.3**	228.6
Trade and other receivables	16	**187.6**	186.5
Cash and cash equivalents	29	**50.4**	108.9
		614.7	670.0
Total assets	2	**951.1**	997.1
Current liabilities			
Trade and other payables	18	**(572.1)**	(620.9)
Amounts due to construction contract customers	17	**(47.4)**	(78.8)
Current tax liabilities		**(5.2)**	(8.7)
Finance lease liabilities	19	**(1.2)**	(0.8)
Provisions	22	**(3.0)**	(4.6)
		(628.9)	(713.8)
Net current liabilities		**(14.2)**	(43.8)
Non-current liabilities			
Trade and other payables	18	**(22.9)**	(0.3)
Finance lease liabilities	19	**(5.0)**	(4.3)
Retirement benefit obligation	20	**(1.5)**	(1.3)
Deferred tax liabilities	21	**(19.0)**	(19.8)
Provisions	22	**(24.5)**	(22.0)
		(72.9)	(47.7)
Total liabilities		**(701.8)**	(761.5)
Net assets		**249.3**	235.6
Equity			
Share capital	25	**2.2**	2.2
Share premium account		**26.7**	26.7
Capital redemption reserve		**0.6**	0.6
Own shares		**(5.6)**	(5.8)
Hedging reserve		**(2.3)**	(4.0)
Retained earnings		**228.1**	216.2
Equity attributable to owners of the Company		**249.7**	235.9
Non-controlling interests		**(0.4)**	(0.3)
Total equity		**249.3**	235.6

The consolidated financial statements of Morgan Sindall Group plc (company number 00521970) were approved by the Board and authorised for issue on 19 February 2013 and signed on its behalf by:

John Morgan
Chief Executive

David Mulligan
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Profit from operations for the year		**35.2**	40.8
Adjusted for:			
Amortisation of fixed life intangible assets	3, 10	**2.9**	3.9
Share of net profit of equity accounted joint ventures	13	**(5.7)**	(0.3)
Depreciation of property, plant and equipment	3, 11	**6.5**	9.5
Expense in respect of share options	27	**0.2**	0.5
Defined benefit obligation payment	20	**(0.7)**	(0.7)
Defined benefit obligation charge	20	**0.1**	0.1
Gain on disposal of interests in joint ventures	13	**(8.8)**	–
Gain on disposal of property, plant and equipment	3	**(0.6)**	(1.0)
Revaluation of investment properties	12	**0.5**	0.2
Movement in fair value of shared equity loan receivables	14	**(0.2)**	0.9
Operating cash flows before movements in working capital		**29.4**	53.9
Net increase in investment properties	12	**(0.7)**	(7.0)
Increase in shared equity loan receivables	14	**(1.5)**	(4.9)
Redemptions of shared equity loan receivables	14	**0.1**	0.3
Increase in inventories		**(10.9)**	(3.2)
Decrease/(increase) in receivables		**10.8**	(7.5)
Increase in non-current provisions	22	**2.5**	6.6
Decrease in payables and short-term provisions		**(78.4)**	(41.2)
Movements in working capital		**(78.1)**	(56.9)
Cash utilised in operations		**(48.7)**	(3.0)
Income taxes paid		**(8.1)**	(6.8)
Interest paid		**(3.0)**	(2.0)
Net cash outflow from operating activities		**(59.8)**	(11.8)
Cash flows from investing activities			
Interest received		**2.2**	1.4
Dividend from joint ventures	13	**1.3**	0.3
Proceeds on disposal of property, plant and equipment		**1.6**	4.6
Purchases of property, plant and equipment		**(4.0)**	(5.4)
Net payments to acquire or increase interests in joint ventures	13	**(7.0)**	(6.3)
Proceeds on disposal of interests in joint ventures		**26.2**	–
Payments for the acquisition of subsidiaries and other businesses	26	**(0.1)**	(0.4)
Net cash inflow/(outflow) from investing activities		**20.2**	(5.8)
Cash flows from financing activities			
Dividends paid	8	**(17.8)**	(17.8)
Repayments of obligations under finance leases		**(1.1)**	(4.3)
Net cash outflow from financing activities		**(18.9)**	(22.1)
Net decrease in cash and cash equivalents		**(58.5)**	(39.7)
Cash and cash equivalents at the beginning of the year		**108.9**	148.6
Cash and cash equivalents at the end of the year			
Bank balances and cash		**50.4**	108.9

Consolidated statement of changes in equity

for the year ended 31 December 2012

	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 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:									
Deferred tax on defined benefit obligation (note 21)	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Movement on cash flow hedges in equity accounted joint ventures (note 13)	–	–	–	–	(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 (note 27)	–	–	–	–	–	0.5	0.5	–	0.5
Exercise of share options (note 27)	–	–	–	0.1	–	(0.1)	–	–	–
Movement on deferred tax asset on share-based payments (note 21)	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Dividends paid:									
Second interim dividend for 2010 (note 8)	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Interim dividend for 2011 (note 8)	–	–	–	–	–	(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
Balance at 1 January 2012	**2.2**	**26.7**	**0.6**	**(5.8)**	**(4.0)**	**216.2**	**235.9**	**(0.3)**	**235.6**
Total comprehensive income for the year:									
Net profit	–	–	–	–	–	30.8	30.8	(0.1)	30.7
Other comprehensive income:									
Actuarial loss arising on defined benefit obligation (note 20)	–	–	–	–	–	(0.8)	(0.8)	–	(0.8)
Deferred tax on defined benefit obligation (note 21)	–	–	–	–	–	0.1	0.1	–	0.1
Movement on cash flow hedges in equity accounted joint ventures (note 13)	–	–	–	–	(0.4)	–	(0.4)	–	(0.4)
Reclassification adjustments for gains included in profit (note 13)	–	–	–	–	2.1	–	2.1	–	2.1
Total comprehensive income for the year, net of income tax	**–**	**–**	**–**	**–**	**1.7**	**30.1**	**31.8**	**(0.1)**	**31.7**
Share-based payments	–	–	–	–	–	0.2	0.2	–	0.2
Exercise of share options (note 27)	–	–	–	0.2	–	(0.2)	–	–	–
Movement on deferred tax asset on share-based payments (note 21)	–	–	–	–	–	(0.4)	(0.4)	–	(0.4)
Dividends paid:	–	–	–	–	–	–	–	–	–
Final dividend for 2011 (note 8)	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Interim dividend for 2012 (note 8)	–	–	–	–	–	(5.1)	(5.1)	–	(5.1)
Balance at 31 December 2012	**2.2**	**26.7**	**0.6**	**(5.6)**	**(2.3)**	**228.1**	**249.7**	**(0.4)**	**249.3**

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

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

Reserve for own shares held
The shares are held as 'treasury shares' and represent the cost to Morgan Sindall 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 2012 was 723,970 (2011: 776,714).

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. Cumulative movements recognised through the hedging reserve are recycled through the income statement on disposal of the associated joint ventures.

Significant accounting policies

for the year ended 31 December 2012

Reporting entity

Morgan Sindall Group plc (the 'Company') is domiciled and incorporated in the United Kingdom. The nature of the Group's operations and its principal activities are set out in note 2 and in the directors' report: business review on pages 4 to 42.

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 32 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) Adoption of new and revised standards

(i) New and revised accounting standards adopted by the Group

During the year, the Group has adopted the following new and revised standards and interpretations. Their adoption has not had any significant impact on the amounts reported in these financial statements.

- Amendment to IFRS 7 'Disclosure – Transfer of Financial Assets'. IFRS 7 has been amended such that enhanced disclosures are required for transactions involving the transfer of financial assets. The Group has not transferred any financial assets during the current year and accordingly no additional disclosures have been included in these financial statements.

(ii) New and revised accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early by the Group

At the date of publishing these financial statements the following new and revised standards and interpretations were in issue but were not yet effective (and in some cases had not yet been adopted by the EU). None of these new and revised standards and interpretations have been adopted early by the Group:

- annual improvements to IFRSs 2009-2011 Cycle
- IFRS 1 (amended) 'Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters'
- IFRS 1 (amended) 'Government Loans'
- IFRS 7 (amended) 'Disclosure – Offsetting Financial Assets and Financial Liabilities'
- IFRS 9 'Financial Instruments'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 10 (amended) 'Investment Entities'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosures of Interests in Other Entities'
- IFRS 12 (amended) 'Investment 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 27 (amended) 'Investment Entities'
- IAS 28 (revised) 'Investments in Associates and Joint Ventures'
- IAS 32 (amended) 'Offsetting Financial Assets and Liabilities'.

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.

(e) 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.

Significant accounting policies

(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, judgment 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. Judgment is required to determine which items are disclosed as non-recurring. 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, judgment 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.

(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 other contracts and related relationships, 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 10.
- 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). 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 14 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 as other gains and losses.
- 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 20.
- 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 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.

Significant accounting policies

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. This is measured through an internal assessment of work carried out based on time incurred and materials utilised or percentage of completion depending upon the nature of the service.

(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.

(h) Leases

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are expensed to the income statement as incurred.

The Group does not have any finance leases as lessor.

The Group as lessee

(i) 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.

(ii) 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.

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.

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Significant accounting policies

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) 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.

(ii) 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:

- other contracts and related relationships — 1–12 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 the loan term (10 or 25 years depending upon the scheme), 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.

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.

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Significant accounting policies

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.

Share-based payments
The Group issues equity-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.

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.

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1 Revenue

An analysis of the Group's revenue is as follows:

	2012 £m	2011 £m
Revenue from construction contracts	**2,021.5**	2,203.0
Revenue from professional services	**23.4**	19.7
Equipment leasing income	**1.6**	3.5
Property rental income (note 12)	**0.6**	0.4
Total revenue as stated in the consolidated income statement	**2,047.1**	2,226.6
Finance income (note 6)	**2.3**	1.6
Total revenue	**2,049.4**	2,228.2

2 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 clients. The division works on projects and frameworks of all sizes across a broad range of sectors including commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport and water.
- Fit Out: specialises in fit out and refurbishment projects in the commercial and government office, education, retail, technology and leisure markets. Overbury operates as a national fit out company through multiple procurement routes and Morgan Lovell specialises in the design and build of offices.
- Affordable Housing: specialises in the design and build, refurbishment and maintenance of homes and the regeneration of 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 projects create 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. The division covers 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 such as treasury management, corporate tax coordination, insurance management, pension administration and company secretarial services. The divisions are the basis on which the Group reports its segmental information as presented below:

2012

	Construction and Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
Revenue: external	1,168.1	426.8	385.8	62.3	4.1	–	–	2,047.1
Revenue: inter-segment	0.1	10.0	–	–	–	–	(10.1)	–
Included in profit/(loss) below: Share of results of associates and joint ventures after tax	–	–	(0.3)	0.3	5.7	–	–	5.7
Profit/(loss) from operations before amortisation and non-recurring items	19.7	11.3	11.5	2.7	7.4	(4.5)	–	48.1
Amortisation of intangible assets (note 10)	–	–	(0.8)	(2.1)	–	–	–	(2.9)
Non-recurring items (note 3)	(6.8)	–	(2.5)	–	(0.2)	(0.5)	–	(10.0)
Profit/(loss) from operations	12.9	11.3	8.2	0.6	7.2	(5.0)	–	35.2
Net finance expense								(1.0)
Profit before income tax expense								34.2

During the year ended 31 December 2012 and the year ended 31 December 2011, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

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2 Business segments continued

2011

	Construction and Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
Revenue: external	1,267.8	438.0	462.3	56.6	1.9	–	–	2,226.6
Revenue: inter-segment	0.2	7.0	3.2	–	–	–	(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
Profit/(loss) from operations before amortisation and non-recurring items	21.1	12.4	18.5	3.9	(3.9)	(5.9)	–	46.1
Amortisation of intangible assets (note 10)	–	–	(0.9)	(3.0)	–	–	–	(3.9)
Non-recurring items (note 3)	(1.4)	–	–	–	–	–	–	(1.4)
Profit/(loss) from operations	19.7	12.4	17.6	0.9	(3.9)	(5.9)	–	40.8
Net finance expense								(0.8)
Profit before income tax expense								40.0

2012

	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**	**16.0**	**–**	**–**	**213.9**
Other intangible assets	**–**	**–**	**2.8**	**6.5**	**–**	**–**	**9.3**
Equity accounted joint ventures	**–**	**–**	**0.3**	**41.5**	**20.4**	**–**	**62.2**
Other assets	**382.1**	**123.2**	**200.2**	**50.3**	**2.5**	**(92.6)**	**665.7**
Total assets	**533.2**	**123.2**	**250.1**	**114.3**	**22.9**	**(92.6)**	**951.1**
Total liabilities	**(403.8)**	**(101.8)**	**(125.8)**	**(51.7)**	**(17.8)**	**(0.9)**	**(701.8)**
Other information:							
Amortisation of intangible assets (note 10)	**–**	**–**	**0.8**	**2.1**	**–**	**–**	**2.9**
Depreciation (note 11)	**4.3**	**0.7**	**0.7**	**0.1**	**–**	**0.7**	**6.5**
Property, plant and equipment additions (note 11)	**3.8**	**0.5**	**0.2**	**–**	**0.1**	**1.3**	**5.9**

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 10)	–	–	0.9	3.0	–	–	3.9
Depreciation (note 11)	5.8	0.8	2.1	0.2	–	0.6	9.5
Property, plant and equipment additions (note 11)	3.1	0.5	2.4	–	–	0.6	6.6

Notes to the consolidated financial statements

3 Profit for the year

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

	2012 £m	2011 £m
Non-recurring items (see below)	10.0	1.4
Depreciation of property, plant and equipment (note 11)	6.5	9.5
Gain on disposal of plant, property and equipment	(0.6)	(1.0)
Staff costs (note 5)	341.7	378.4
Amortisation of intangible assets (note 10)	2.9	3.9
Decrease in fair value of investment property (note 12)	0.5	0.2
Government grants	3.3	0.8
Increase/(decrease) in provision for impairment losses on trade receivables (note 29)	2.6	(0.3)
Auditor's remuneration for audit and other services (see below)	0.8	1.0

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

	2012 £m	2011 £m
Integration costs	–	1.4
Reorganisation costs	10.0	–
Total non-recurring items	**10.0**	1.4
Total non-recurring items post income tax	**7.6**	1.0

In response to market conditions, the Group undertook a reorganisation during 2012. The non-recurring items relate to the cost of reorganising its network of offices and comprise redundancy and property related costs. In 2011, non-recurring items were incurred in merging the Construction and Infrastructure Services divisions.

In 2011 there was also a non-recurring credit to the tax charge of £2.8m (note 7).

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

	2012 £m	2011 £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	0.6	0.8
Total audit fees	**0.7**	0.9
Other services	0.1	0.1
Total non-audit fees	**0.1**	0.1
Total auditor's remuneration	**0.8**	1.0

4 Employees

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

	2012 No.	2011 No.
Construction and Infrastructure	3,661	3,899
Fit Out	605	596
Affordable Housing	1,975	2,136
Urban Regeneration	52	50
Investments	68	40
Group Activities	23	23
	6,384	6,744

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5 Staff costs

	2012 £m	2011 £m
Wages and salaries	**301.6**	335.4
Social security costs	**31.3**	33.4
Other pension costs (note 20)	**8.8**	9.6
	341.7	378.4

6 Finance income and costs

	2012 £m	2011 £m
Interest income on bank deposits	**0.5**	0.2
Other interest income	**0.3**	0.5
Interest receivable from joint ventures	**1.5**	0.9
Finance income	**2.3**	1.6
Interest payable on bank overdrafts and borrowings	**(2.3)**	(0.7)
Interest payable on finance leases	**(0.3)**	(0.5)
Loan arrangement and commitment fees	**(0.7)**	(1.2)
Finance costs	**(3.3)**	(2.4)
Net finance costs	**(1.0)**	(0.8)

7 Income tax expense

	2012 £m	2011 £m
Current tax expense/(credit):		
UK corporation tax	**5.4**	10.0
Adjustment in respect of prior years as set out below	**(0.8)**	(25.1)
	4.6	(15.1)
Deferred tax (credit)/expense:		
Current year	**(1.3)**	(1.0)
Adjustment in respect of prior years as set out below	**0.2**	23.3
	(1.1)	22.3
Income tax expense for the year	**3.5**	7.2

Corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit for the year.

Notes to the consolidated financial statements

7 Income tax expense continued

The total tax charge for the year of £3.5m is lower than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%).
The difference can be reconciled as follows:

	2012 £m	2011 £m
Current tax expense:		
Profit before tax	**34.2**	40.0
Less: post-tax share of profits from joint ventures	**(5.7)**	(0.3)
	28.5	39.7
UK corporation tax rate	**24.5%**	26.5%
Income tax expense at UK corporation tax rate	**7.0**	10.6
Tax effect of:		
Gain on disposal of equity accounted joint ventures not giving rise to a tax liability	**(2.2)**	–
Expenses that are not deductible in determining taxable profits	**0.9**	0.3
Agreement with HMRC (see below)	**–**	(2.8)
Other adjustments in respect of prior years	**(0.6)**	(0.5)
Other effect of expected forthcoming change in tax rates upon closing deferred tax balance	**(1.5)**	(0.1)
Other	**(0.1)**	(0.3)
Income tax expense for the year	**3.5**	7.2
Effective tax rate for the year	**12.3%**	18.1%

The low effective tax rate for 2012 arises primarily as a result of there being no expected tax liabilities upon the gains on disposals of investments during the year, together with the effect of revaluing the deferred tax liabilities to reflect changes in the statutory rate of corporation tax from 25% to 23%. After adjusting for these two items the tax charge is approximately equal to tax at the UK corporation tax rate on profit before tax excluding joint venture profit, which is reported after tax.

During 2011 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 gave rise to a net £2.8m reduction in the 2011 tax charge.

8 Dividends

Amounts recognised as distributions to equity holders in the year:

	2012 £m	2011 £m
Final dividend for the year ended 31 December 2011 of 30.0p (2010: second interim dividend 30.0p) per share	**12.7**	12.7
Interim dividend for the year ended 31 December 2012 of 12.0p (2011: 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 2012 of 15.0p (2011: final dividend of 30.0p) per share	**6.4**	12.8

The proposed final dividend of 15.0p (2011: final 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 24 May 2013 to shareholders on the register at 3 May 2013. The ex-dividend date will be 1 May 2013.

9 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	2012 £m	2011 £m
Earnings			
Earnings before tax		**34.2**	40.0
Deduct tax expense per the income statement	7	**(3.5)**	(7.2)
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		**30.8**	32.9
Add back:			
Amortisation expense	3, 10	**2.9**	3.9
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		**33.7**	36.8

	2012 No. '000s	2011 No. '000s
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**42,497**	42,442
Effect of dilutive potential ordinary shares:		
Share options	**238**	204
Conditional shares not vested	**45**	357
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**42,780**	43,003

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 £6.41 (2011: £6.30).

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

	2012	2011
Basic earnings per share	**72.5p**	77.5p
Diluted earnings per share	**72.0p**	76.5p

Earnings per share adjusted for amortisation expense:

	2012	2011
Basic earnings per share adjusted for amortisation expense	**79.3p**	86.7p
Diluted earnings per share adjusted for amortisation expense	**78.8p**	85.6p

A total of 1,030,688 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 2012 (2011: 2,311,976).

Notes to the consolidated financial statements

10 Goodwill and other intangible assets

	Other intangible assets			
	Other contracts and related relationships £m	Non-compete agreements £m	Total other intangible assets £m	Goodwill £m
Cost or valuation				
Balance at 1 January 2011	30.7	5.8	36.5	223.3
Additions in the year	0.9	–	0.9	–
Disposals during the year	(1.6)	(5.0)	(6.6)	(0.2)
Balance at 31 December 2011	30.0	0.8	30.8	223.1
Balance at 1 January 2012	30.0	0.8	30.8	223.1
Disposals during the year	(0.9)	–	(0.9)	(0.2)
Balance at 31 December 2012	**29.1**	**0.8**	**29.9**	**222.9**
Accumulated amortisation				
Balance at 1 January 2011	(14.7)	(5.2)	(19.9)	(9.0)
Amortisation charge for the year	(3.6)	(0.3)	(3.9)	–
Disposals during the year	0.5	5.0	5.5	–
Balance at 31 December 2011	(17.8)	(0.5)	(18.3)	(9.0)
Balance at 1 January 2012	(17.8)	(0.5)	(18.3)	(9.0)
Amortisation charge for the year	(2.6)	(0.3)	(2.9)	–
Disposals during the year	0.6	–	0.6	–
Balance at 31 December 2012	**(19.8)**	**(0.8)**	**(20.6)**	**(9.0)**
Carrying amount				
Carrying amount at 31 December 2012	**9.3**	**–**	**9.3**	**213.9**
Carrying amount at 31 December 2011	12.2	0.3	12.5	214.1

Other contracts and related relationships arise from valuing the relationship with a number of clients where there is a secured pipeline of work or historical 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.

Goodwill represents the value of people, track record and expertise acquired within acquisitions that are not capable of being individually identified and separately recognised. Goodwill is allocated at acquisition to the cash-generating units that are expected to benefit from the business combination. Each of the operating segments disclosed in note 2 represents a single cash-generating unit.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. In testing goodwill and other intangible assets for impairment, the recoverable amount of each cash-generating unit has been determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the forecast revenue and margin, discount rates and long-term growth rates by market sector. Forecast revenue and margin are based 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.

Cash flow forecasts have been determined by using Board approved budgets for the next three years. Cash flows beyond three years have been extrapolated using an estimated nominal growth rate of 2.4% (2011: 2.3%). This growth rate does not exceed the long-term average for the relevant markets.

Discount rates are pre-tax and reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. The risk-adjusted nominal rates used are 12% (2011: 12%) for Construction and Infrastructure, 13% (2011: 13%) for Affordable Housing and 15% (2011: 15%) for Urban Regeneration.

In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified.

11 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 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
Balance at 1 January 2012	38.2	7.9	2.4	10.0	58.5
Additions in the year	2.9	1.9	–	1.1	5.9
Transfers	0.3	(0.3)	–	–	–
Disposals during the year	(11.0)	–	–	(3.1)	(14.1)
Balance at 31 December 2012	**30.4**	**9.5**	**2.4**	**8.0**	**50.3**
Accumulated depreciation					
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)
Balance at 1 January 2012	(28.5)	(2.0)	–	(6.4)	(36.9)
Depreciation charge for the year	(4.7)	(0.6)	–	(1.2)	(6.5)
Transfers	(0.3)	0.3	–	–	–
Disposals during the year	10.6	–	–	2.6	13.2
Balance at 31 December 2012	**(22.9)**	**(2.3)**	**–**	**(5.0)**	**(30.2)**
Net book value					
Net book value at 31 December 2012	**7.5**	**7.2**	**2.4**	**3.0**	**20.1**
Net book value at 31 December 2011	9.7	5.9	2.4	3.6	21.6

Within the carrying value of property, plant and equipment, there are no assets under construction (2011: £nil).

Contractual commitments for the acquisition of property, plant and equipment are £nil (2011: £nil).

The Group's obligations under finance leases are secured by the lessor's title to the leased assets, which have a carrying amount of £7.2m (2011: £5.9m). No other assets have been pledged to secure borrowings.

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12 Investment property

	2012 £m	2011 £m
Valuation		
At 1 January	**11.1**	4.3
Additions in the year	**0.8**	7.0
Revaluation in the year	**(0.5)**	(0.2)
Disposals in the year	**(0.1)**	–
At 31 December	**11.3**	11.1

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 property rental income earned by the Group from its investment property, which is leased out under operating leases with terms of between six months and two years, amounted to £0.6m (2011: £0.4m). Direct operating expenses arising on properties generating rent and vacant properties in the year amounted to £0.1m (2011: £0.2m).

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. At the balance sheet date the Group had contracted with tenants for future minimum lease payments of £0.1m (2011: £0.3m), all of which was receivable within one year. The average committed lease term is 2.1 months (2011: 5.4 months).

The Group does not have any contractual obligations for the repairs or maintenance of its investment properties.

The fair value of the Group's investment property at 31 December 2012 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 fair value measurement is classified as Level 2 as defined by IFRS 7 'Financial Instruments: Disclosures'.

13 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.

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 (Roads) Limited and is responsible for the upgrade and operation of the A92 between Dundee and Arbroath in Scotland.

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.

HB Community Solutions Holdco Limited 50% joint control
HB Community Solutions Holdco Limited is a joint venture with HB Villages Limited and is developing supported living solutions for disabled adults across the United Kingdom. Joint control is exercised through the board of directors which includes two members from each of the joint venture partners.

HUB West Scotland Limited 33⅓% share
HUB West Scotland Limited is a joint venture between Wellspring Partnership Limited (a subsidiary of Morgan Sindall Investments Limited), Scottish Futures Trust, East Dunbartonshire Council, East Renfrewshire Council, West Dunbartonshire Council, Greater Glasgow Health Board and Clydebank Property Company Limited. The joint venture is delivering a pipeline of public sector health and education projects in the Glasgow area.

13 Investments in equity accounted joint ventures continued

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

ISIS Waterside Regeneration 50% equity participation
The Group increased its stake in ISIS Waterside Regeneration, which is a limited partnership between British Waterways and Warp 4 Limited Partnership (a subsidiary of Muse Developments Limited) during the year from 25% to 50%. The partnership is to undertake regeneration of waterside sites.

Lewisham Gateway Developments Limited
Lewisham Gateway Developments Limited was a joint venture with Taylor Wimpey and is redeveloping a mixed-use site comprising retail, office, hotel, residential, education, health and leisure space. On 20 December 2012, this joint venture became a wholly owned subsidiary of the Group (note 26).

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.

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.

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:

	2012 £m	2011 £m
At 1 January	**49.8**	45.4
Equity accounted share of net profits for the year	**5.7**	0.3
Increase in investment	**28.7**	6.0
Investment repayment	**(2.9)**	–
Disposals (see below)	**(16.9)**	(0.9)
Dividends received	**(1.8)**	(0.3)
Movement on cash flow hedges	**(0.4)**	(0.7)
At 31 December	**62.2**	49.8

Additions
The increase in investments in joint ventures during the year was mainly due to an additional equity investment in ISIS Waterside Regeneration Partnership of £18.5m on 22 November 2012, which increased the Group's interest in the joint venture from 25% to 50% and additional debt investment of £4.7m in Taycare Health (Holdings) Limited, £2.7m in Renaissance Miles Platting Limited and £2.4m in HB Community Solutions Holdco Limited.

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13 Investments in equity accounted joint ventures continued

Disposals

The disposals of investments in joint ventures principally relate to the three following transactions:

(i) On 16 February 2012 the Group sold its 33.5% holding in the Dorset Fire and Rescue PFI Project for cash consideration of £3.8m. The gain on disposal was £1.8m.

(ii) On 20 July 2012 the Group sold its NHS LIFT and medical properties interests in Community Solutions Investment Partners Limited and CSPC (3PD) Limited, both equity accounted joint ventures in which the Group held a 50% share, for cash consideration of £23.9m. The gain on disposal was £7.0m, comprising a gain of £9.1m in respect of the investments and a loss of £2.1m in respect of the hedging reserve which was recycled to the income statement. The transaction costs were £1.5m.

The disposals are in line with the Group's strategy of realising investments as they mature, in order to redeploy capital into new projects.

(iii) On 20 December 2012 the Group, through its subsidiary Muse Developments Limited, acquired from Taylor Wimpey UK Limited its 50% interest in the jointly owned Lewisham Gateway Developments Limited for £0.4m. As a result of the transaction, Muse Developments Limited now owns the entire issued share capital of Lewisham Gateway Developments Limited. This transaction has been accounted for as a step acquisition under IFRS 3 'Business Combinations' and accordingly is shown as a disposal of an investment in a joint venture. Further details of the acquisition are included in note 26.

The Group's share of the results of all of these joint ventures up to the dates of their disposal is included within the Investments operating segment as the criteria to be included as discontinued operations were not met.

Of the dividends received in the year, £1.3m (2011: £0.3m) were paid in cash and £0.5m (2011: £nil) were dividends in specie.

Financial information related to equity accounted joint ventures:

	2012 £m	2011 £m
Non-current assets (100%)	**486.5**	476.2
Current assets (100%)	**228.8**	363.7
Current liabilities (100%)	**(81.8)**	(134.2)
Non-current liabilities (100%)	**(519.6)**	(574.5)
Net assets reported by equity accounted joint ventures (100%)	**113.9**	131.2
Revenue (100%)	**198.0**	96.9
Expenses (100%)	**(185.0)**	(96.6)
Net profit (100%)	**13.0**	0.3

Results of equity accounted joint ventures:

	2012 £m	2011 £m
Group share of profit before tax	**6.9**	1.8
Group share of income tax expense	**(1.2)**	(1.5)
Group share of profit after tax	**5.7**	0.3

Commitments in respect of interests in joint ventures:

	2012 £m	2011 £m
Commitment to provide further equity and subordinated debt to PFI/PPP joint ventures	**2.3**	7.4
	2.3	7.4

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14 Shared equity loan receivables

	2012 £m	2011 £m
Balance at 1 January	**17.6**	13.9
Additions arising from the sale of properties	**1.5**	4.9
Net change in fair value recognised in the income statement	**0.2**	(0.9)
Repayments	**(0.1)**	(0.3)
Balance at 31 December	**19.2**	17.6

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. The net change in fair value shown above includes accreted interest.

During the year, there were repayments of shared equity loan receivables of £0.1m (2011: £0.3m). 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. The Group's credit risk is partially mitigated as the shared equity loan receivables are secured by way of a second charge over the property. The change in the fair value attributable to a change in the credit risk during the year was £0.2m (2011: £nil). There was one default during the year (2011: no defaults).

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:

	2012	2011
Assumption		
Period over which shared equity loan receivables are discounted – First Buy and Home Buy schemes	**25 years**	25 years
Period over which shared equity loan receivables are discounted – other schemes	**7 years**	7 years
Weighted average nominal annual property price increase	**2.5%**	2.5%
Nominal discount rate applied to initial shared equity loan receivable	**6.4%**	5.8%
Rate of delinquency assumed in valuation of shared equity loan portfolio	**1.0%**	–

At 31 December 2012, a total of 730 (2011: 618) properties had been sold under the shared equity scheme for which a loan was outstanding at the year end.

At 31 December 2012, 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% (2011: 24%). The maximum loan contribution by the Group under the shared equity scheme is 25% (2011: 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 2012, if the nominal interest rate had been 1.1% higher at 7.5% 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 2012, if the period over which the shared equity loan receivables (excluding those relating to the First Buy and Home Buy schemes) 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 £2.0m with a corresponding reduction in both the result for the year and equity.

15 Inventories

	2012 £m	2011 £m
Work in progress	**159.4**	146.0

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

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16 Trade and other receivables

	2012 £m	2011 £m
Trade receivables (note 29)	**173.5**	168.2
Provision for impairment losses (note 29)	**(3.5)**	(0.9)
	170.0	167.3
Amounts owed by joint ventures (note 28)	**5.5**	3.6
Prepayments	**5.5**	6.4
Other receivables	**6.6**	9.2
	187.6	186.5

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

The average credit period on revenue is 18 days (2011: 15 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 £56.0m (2011: £47.0m) 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 178 days (2011: 161 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 (2011: £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.

17 Construction contracts

	2012 £m	2011 £m
Amounts due from construction contract customers	**217.3**	228.6
Amounts due to construction contract customers	**(47.4)**	(78.8)
Carrying amount at the end of the year	**169.9**	149.8
Contract costs incurred plus recognised profits less recognised losses to date	**9,155.8**	9,227.7
Less: progress billings	**(8,985.9)**	(9,077.9)
	169.9	149.8

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 historical 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 2012, retentions held by customers for contract work amounted to £53.7m (2011: £58.4m). These will be recovered in the normal operating cycle of the Group.

18 Trade and other payables

	2012 £m	2011 £m
Trade payables	**170.2**	182.3
Amounts owed to joint ventures (note 28)	**0.7**	0.8
Other tax and social security	**14.0**	11.3
Accrued expenses	**356.7**	409.6
Deferred income	**7.3**	–
Other payables	**23.2**	16.9
	572.1	620.9

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 (2011: 28 days). No interest was incurred on outstanding balances. The Group has financial risk management policies in place to ensure that all payables are paid when due except in cases of genuine dispute.

Non-current liabilities include trade and other payables of £22.9m (2011: £0.3m) that fall due between two and five years. This principally relates to the deferred consideration due on the additional equity investment in ISIS Waterside Regeneration Partnership (note 13).

19 Finance lease liabilities

	Minimum lease payments		Capital element of lease payments	
	2012 £m	2011 £m	2012 £m	2011 £m
Amounts payable under finance leases:				
Within one year	**1.6**	1.0	**1.2**	0.8
In the second to fifth years inclusive	**5.2**	4.1	**4.7**	3.5
After more than five years	**0.3**	0.8	**0.3**	0.8
	7.1	5.9	**6.2**	5.1
Less: future finance charges	**(0.9)**	(0.8)	**n/a**	n/a
Present value of lease obligations	**6.2**	5.1	**6.2**	5.1
Current lease liability			**1.2**	0.8
Non-current lease liability			**5.0**	4.3
			6.2	5.1

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 (2011: six years). For the year ended 31 December 2012, the average effective borrowing rate was 5% (2011: 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.

20 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 £8.2m (2011: £9.2m) represents contributions payable to the defined contribution section of the Plan by the Group.

As at 31 December 2012, contributions of £1.0m (2011: £0.9m) 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.

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20 Retirement benefit schemes continued

(ii) Local Government Pension Schemes

The Group makes contributions to a number of Local Government Pension Schemes ('LGPS') for employees who have transferred to the Group from other employers under TUPE arrangements. The assets of these plans are held separately from those of the Group under the control of the Trustees of the LGPS. The amount of any liabilities to fund these deficits on termination of the Contractor Admission Agreement is capped at £0.2m (2011: £0.2m). The Group accounts for these schemes as though they were defined contribution schemes. The total cost charged to the income statement of £0.5m (2011: £0.3m) represents contributions payable to these LGPS by the Group.

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

	2012 %	2011 %
Key assumptions used:		
Discount rate	**4.1**	4.7
Expected return on the Plan assets	**3.5**	3.8
Expected rate of salary increases	**4.0**	4.1
Future pension increases[a]	**3.5**	3.5
Inflation increases	**3.0**	3.1

[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 2012, the S1NXA series of tables (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:

	2012	2011
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:

	2012	2011
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:

	2012 £m	2011 £m
Present value of the Plan liabilities	**(10.4)**	(9.4)
Fair value of the Plan assets	**8.9**	8.1
Deficit in the Plan liability recognised in the balance sheet	**(1.5)**	(1.3)

20 Retirement benefit schemes continued

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

	2012 £m	2011 £m
Interest cost	**(0.4)**	(0.4)
Expected return on the Plan assets	**0.3**	0.3
Net periodic cost	**(0.1)**	(0.1)

The charge for the year has been included in administrative expenses. Actuarial gains and losses have been reported in the statement of comprehensive income. The actual return on the Plan assets was a gain of £0.2m (2011: £0.8m).

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

	2012 £m	2011 £m
Liabilities at 1 January	**(9.4)**	(8.5)
Interest cost	**(0.4)**	(0.4)
Actuarial loss	**(1.0)**	(0.7)
Benefits paid	**0.4**	0.2
Liabilities at 31 December	**(10.4)**	(9.4)

The liabilities in respect of pensions in payment account for around 30% of the total liabilities (2011: 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) (2011: 7.4 years) and 6.3 years (2011: 6.3 years) for deferred members.

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

	2012 £m	2011 £m
Assets at 1 January	**8.1**	6.6
Expected return on the Plan assets	**0.3**	0.3
Actuarial gain	**0.2**	0.7
Contributions from sponsoring company	**0.7**	0.7
Benefits paid	**(0.4)**	(0.2)
Assets at 31 December	**8.9**	8.1

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	**(1.7)**	2.1
Inflation rate		
Effect on interest cost	**–**	–
Effect on the defined benefit obligation	**0.9**	(0.8)
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 2013. The sensitivities to the defined benefit obligation relate to the liability as at 31 December 2012.

	2012 £m	2011 £m
Actuarial loss recognised in the statement of comprehensive income	**0.8**	–
Cumulative actuarial loss recognised in the statement of comprehensive income	**3.8**	3.0

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20 Retirement benefit schemes continued

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

	Fair value of assets		Expected return	
	2012 £m	2011 £m	**2012 %**	2011 %
Fixed interest gilts	**4.1**	4.1	**3.0**	3.0
Corporate bonds	**4.6**	3.9	**4.1**	4.7
Other assets	**0.2**	0.1	**2.0**	2.0
	8.9	8.1		

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 the Group, and does not hold any property or other assets used by the Group.

The history of experience adjustments is as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of the Plan liabilities	**(10.4)**	(9.4)	(8.5)	(8.9)	(8.0)
Fair value of the Plan assets	**8.9**	8.1	6.6	5.7	5.0
Deficit in the Plan	**(1.5)**	(1.3)	(1.9)	(3.2)	(3.0)
Experience adjustments on the Plan liabilities:					
Amount	**(1.0)**	(0.7)	0.6	(0.8)	0.2
Percentage of the Plan liabilities	**9.5%**	7.7%	6.7%	8.9%	(1.9%)
Experience adjustments on the Plan assets:					
Amount	**0.2**	0.7	0.2	0.2	(0.3)
Percentage of the Plan assets	**2.6%**	9.3%	3.6%	2.6%	(6.6%)

The amount of contributions expected to be paid to the Plan during 2013 is £0.7m (2012: £0.7m).

21 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 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)
At 1 January 2012	**(20.4)**	**(0.4)**	**0.3**	**0.7**	**(19.8)**
Charge to income statement	(0.2)	(0.1)	(0.1)	–	(0.4)
Credit/(charge) to equity	–	–	0.1	(0.4)	(0.3)
Effect of change in tax rate:					
Income statement	1.5	–	–	–	1.5
At 31 December 2012	**(19.1)**	**(0.5)**	**0.3**	**0.3**	**(19.0)**

Certain deferred tax assets and liabilities, as shown above, have been offset as the Group has a legally enforceable right to do so.

At 31 December 2012, the Group had unused tax losses of £1.0m (2011: £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 23% in April 2013, affecting the closing deferred tax balances as shown above. Further reductions in the UK corporation tax rate to 21% are expected but not yet legislated. The closing net deferred tax liability would reduce by £1.7m to £17.3m if these further expected changes were taken into account.

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22 Provisions

Current liabilities

	Contract provisions £m	Employee provisions £m	Total £m
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
At 1 January 2012	**1.2**	**3.4**	**4.6**
Additions	–	0.5	0.5
Utilised	(1.2)	(0.9)	(2.1)
At 31 December 2012	**–**	**3.0**	**3.0**

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 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
At 1 January 2012	**0.7**	**12.2**	**9.1**	**22.0**
Utilised	–	(2.5)	(0.9)	(3.4)
Additions	–	3.2	3.8	7.0
Released	(0.3)	(0.8)	–	(1.1)
At 31 December 2012	**0.4**	**12.1**	**12.0**	**24.5**

Employee provisions comprise obligations to former employees other than retirement or post-retirement obligations.

Insurance provisions comprise the Group's self insurance of certain risks and include £1.4m (2011: £1.9m) held in the Group's captive insurance company, Newman Insurance Company Limited.

Other provisions include onerous lease commitments and legal claims.

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

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23 Operating lease commitments

	2012 £m	2011 £m
Minimum lease payments under operating leases recognised as an expense for the year	**12.4**	11.0

At 31 December 2012, the Group had outstanding commitments for minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012			2011		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	**6.8**	**4.1**	**10.9**	6.0	1.6	7.6
Within two to five years	**14.9**	**7.1**	**22.0**	15.2	1.5	16.7
After more than five years	**3.4**	**–**	**3.4**	1.9	–	1.9
At 31 December	**25.1**	**11.2**	**36.3**	23.1	3.1	26.2

Operating lease payments represent rentals payable by the Group for certain properties and other items. Other lease commitments increased during the year as a result of the Group introducing a new car scheme.

Leases are negotiated for an average term of four years (2011: five years) and rentals are fixed for an average of four years (2011: four years).

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2012 is £0.2m (2011: £0.4m).

24 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 2012, contract bonds in issue under uncommitted facilities covered £186.5m (2011: £204.1m) of contract commitments of the Group.

25 Share capital

	2012		2011	
	No. '000s	£'000s	No. '000s	£'000s
Issued and fully paid:				
At the beginning of the year	**43,215**	**2,160**	43,188	2,159
Exercise of share options	**10**	**–**	27	1
At the end of the year	**43,225**	**2,160**	43,215	2,160

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

10,149 shares were issued during 2012 in respect of options exercised under the Company's SAYE Scheme for a total consideration of £58,268 (2011: no shares were issued). No shares were issued in respect of the Company's 1995 Scheme (2011: 27,019 shares for a total consideration of £1,351). All options exercised under the 1995 Scheme during the prior year were settled on a net basis.

No other shares were issued during the year.

Own shares

Own shares at cost represent 723,970 (2011: 776,714) 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 2012 of £5.15 (2011: £5.94), the market value of the shares was £3,728,446 (2011: £4,554,281).

26 Acquisition of investment from partner in a joint venture

On 20 December 2012 the Group, through its subsidiary Muse Developments Limited, acquired from Taylor Wimpey UK Limited its 50% interest in the jointly owned Lewisham Gateway Developments Limited. As a result of the transaction, Muse Developments Limited now owns the entire issued share capital of Lewisham Gateway Developments Limited. The fair value of the consideration payable to Taylor Wimpey UK Limited for the purchase was £0.4m. Of this, £0.1m was paid in cash during the year and the remaining consideration will be paid upon reaching specified project milestones. There were no acquisition-related costs.

This transaction has been accounted for as a step acquisition under IFRS 3 'Business combinations'. Due to the proximity of the acquisition date to the balance sheet date, the fair values assigned to the identifiable assets and liabilities acquired are provisional.

The provisional fair value of the Group's existing 50% interest in Lewisham Gateway Development Limited was £1.4m, comprising equity of £1.2m and goodwill of £0.2m. The directors determined that the provisional fair value of the pre-existing interest in the joint venture was different from its previous carrying value of £1.7m, which resulted in a loss on remeasurement of £0.3m.

The provisional fair values of the identifiable net assets of the whole of Lewisham Gateway Developments Limited were as follows:

	Fair value £m
Inventories	2.5
Other creditors	(0.4)
Identifiable net assets	2.1

On disposal of original interest:

	Equity £m	Goodwill £m	Intangible asset £m	Total £m
Fair value	1.2	0.2	–	1.4
Book value	(1.2)	(0.2)	(0.3)	(1.7)
Loss on remeasurement of original interest recognised in other gains and losses				(0.3)

On acquisition of controlling interest:

	£m
Fair value of original interest	1.4
Consideration	0.4
	1.8
Fair value acquired	(2.1)
Gain on a bargain purchase recognised in other gains and losses	(0.3)

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

	£m
Loss on remeasurement of original interest	(0.3)
Gain on a bargain purchase	0.3
	–

Lewisham Gateway Developments Limited contributed revenue and profit of £nil for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on the first day of the financial year, Group revenues for the period would have been £2,047.1m and Group profit before tax would have been £34.1m.

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27 Share-based payments

The Group recognised a total remuneration expense of £0.2m (2011: £0.5m) related to equity-settled share-based payment transactions. The Group has four share option schemes:

- The Morgan Sindall 1995 Executive Share Option Scheme ('the 1995 Scheme') received shareholders' approval on 24 May 1995. All options outstanding were exercised or lapsed during 2011.
- The Morgan Sindall Employee Share Option Plan 2007 ('the ESOP 2007') received approval from the Board on 7 June 2007. The ESOP 2007 did not require shareholder approval because all options granted and to be granted under it will be settled with market purchased shares. Options granted under the ESOP 2007 are exercisable between three and ten years from the date of grant. The period for granting options under the ESOP 2007 expires on 6 June 2017.
- The Morgan Sindall Executive Remuneration Plan ('the 2005 Plan'), details of which are disclosed in the directors' remuneration report on pages 52 to 61.
- The Morgan Sindall Savings Related Share Option Scheme ('the SAYE scheme'). The SAYE scheme was approved by shareholders on 22 April 2008 and by HMRC on 9 May 2008. 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 period for granting options under the SAYE scheme expires on 21 April 2018.

The weighted average share price at the date of exercise for share options exercised during the year was £6.63 (2011: £7.08). The options outstanding at 31 December 2012 had a weighted average exercise price of £6.49 (2011: £6.09) and a weighted average remaining contractual life of 1.2 years (2011: 2.1 years).

Share awards under the 2005 Plan were granted on 21 May 2012. The estimated fair value of the awards granted was £2.5m (2011: £0.8m for options and £1.5m for share awards). Options were granted under the ESOP 2007 on 2 April 2012. The estimated fair value of the options was £0.1m (2011: £0.3m).

A modified Black-Scholes model has been used to value the options under the ESOP 2007 and the share awards under the 2005 Plan with EPS and ROCE conditions. A Stochastic valuation model has been used to value the share awards under the 2005 Plan with a TSR condition. The inputs into these models are as follows:

		Share awards under 2005 Plan[a]		
	Options under 2007 ESOP	Awards with TSR condition	Awards with EPS condition	Awards with ROCE condition
2005 Plan shares				
Number of shares granted	40,000	192,522	192,522	112,693
Weighted average fair value at date of grant (per share)	£1.39	£4.50	£6.50	£6.50
Weighted average share price at date of grant	£6.78	£6.50	£6.50	£6.50
Expected term (from date of grant)	3 years	3 years	3 years	3 years
Expected volatility[b]	29.20%	29.20%	n/a	n/a
Expected dividend yield[c]	0.00%	0.00%	0.00%	0.00%
Risk-free rate	0.40%	0.40%	n/a	n/a

[a] On 21 May 2012, 385,044 share awards were granted to Group and divisional management under the 2005 Plan. Of these, 192,522 had a TSR performance condition and 192,522 had an EPS performance condition. On the same date, 112,693 share awards with a ROCE performance condition were granted to other divisional management.

[b] For the options under the 2007 ESOP and the share awards under the 2005 Plan with TSR performance conditions this is assumed to be equal to historical volatility of the Company's share price over the period prior to grant equal in length to the expected term.

[c] 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.

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27 Share-based payments continued

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

2012

	Grant date	Exercisable 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)
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	32,000	–	–	–	–	32,000	32,000	–
	20 Dec 07	20 Dec 10	19 Dec 17	10.51	54,000	–	–	–	–	54,000	54,000	–
	15 Apr 08	15 Apr 11	14 Apr 18	10.03	50,000	–	5,000	–	–	45,000	45,000	–
	27 May 08	27 May 11	26 May 18	9.92	50,000	–	5,000	–	–	45,000	45,000	–
	28 Oct 08	28 Oct 11	27 Oct 18	4.36	37,500	–	–	–	22,500	15,000	20,000	96,339
	3 Mar 09	3 Mar 12	2 Mar 19	5.35	94,000	–	–	–	57,605	36,395	36,395	110,467
	28 May 09	28 May 12	27 May 19	6.36	76,110	–	16,110	–	–	60,000	60,000	–
	17 Mar 10	17 Mar 13	16 Mar 20	5.55	58,000	–	–	–	–	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	–	–
	2 Apr 12	2 Apr 15	1 Apr 22	6.77	–	40,000	–	–	–	40,000	–	–
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	–
	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	–	18,192	–	–	612,584	–	–
	30 Mar 11	30 Mar 14	29 Mar 21	6.57	325,570	–	22,893	–	–	302,677	–	–
	16 May 11	16 May 14	15 May 21	6.90	224,536	–	–	–	–	224,536	–	–
2008 SAYE Scheme												
	1 Jul 08	1 Sep 11	28 Feb 12	7.02	887,435	–	883,586	–	3,849	–	–	27,020
	27 Sep 11	1 Nov 14	1 May 15	4.96	1,579,342	–	–	209,596	6,300	1,363,446	–	31,248
Total					5,477,063	40,000	1,453,799	209,596	90,254	3,763,414	862,171	265,074

The 80,105 options exercised in the year (2007 scheme) were settled by a distribution from the Morgan Sindall Employee Benefit Trust.

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27 Share-based payments continued

2011

	Grant date	Exercisable 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	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	28 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

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 in relation to joint ventures are as follows:

	Provision of goods and services		Amounts owed by/(to) related parties	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Joint venture:				
Claymore Roads (Holdings) Limited	**–**	–	**–**	0.4
Community Solutions Investment Partners Limited[(a)]	**1.7**	2.1	**–**	0.3
Renaissance Miles Platting Limited	**0.1**	0.1	**–**	–
Blue Light Holdings Limited[(a)]	**–**	0.3	**–**	–
Ashton Moss Developments Limited	**–**	–	**(0.1)**	(0.2)
Bromley Park Limited	**–**	–	**(0.6)**	(0.6)
ECf (General Partner) Limited	**1.4**	2.0	**–**	–
Lewisham Gateway Developments Limited[(b)]	**–**	–	**–**	0.2
The Compendium Group Limited	**4.5**	3.7	**2.0**	0.6
Access for Wigan (Holdings) Limited	**–**	19.5	**0.1**	0.3
Hull Esteem Consortium PSP Limited	**44.1**	46.7	**1.9**	1.2
St Andrews Brae Developments Limited	**–**	2.8	**0.1**	0.1
Taycare Health (Holdings) Limited	**0.2**	–	**0.1**	–
The Bournemouth Development Company LLP	**0.1**	0.1	**1.3**	0.5
	52.1	77.3	**4.8**	2.8

(a) During the year the Group disposed of its interests in Community Solutions Investment Partners Limited and Bluelight Holdings Limited (note 13).

(b) In 2012 Lewisham Gateway Developments Limited became a wholly owned subsidiary of the Group (note 26).

	Amounts owed by/(to) related parties	
	2012 £m	2011 £m
Amounts owed by related parties (note 16)	**5.5**	3.6
Amounts owed to related parties (note 18)	**(0.7)**	(0.8)
	4.8	2.8

In addition, during the year, consultancy services were provided to the Company by a wholly owned subsidiary of Chime Communications plc, of which Simon Gulliford is a director, for an amount of £0.1m. There were no amounts outstanding at the balance sheet date.

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.

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28 Related party transactions continued

Remuneration of key management personnel

The remuneration of the directors, who are key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

Further information about the remuneration of individual directors is provided in the implementation report section of the directors' remuneration report on pages 52 to 61.

	2012 £m	2011 £m
Emoluments	2.3	3.2
Social security contributions	0.4	0.4
Termination benefits	0.5	–
Post-employment benefits	0.2	0.2
	3.4	3.8

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 19 February 2013.

Directors' material interests in contracts with the Company

No director held any material interest in any contract with the Company or any Group company in the year or in the subsequent period to 19 February 2013.

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 £29.4m (2011: £35.4m) which is the Group's share of cash held within jointly controlled operations.

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 2012 were £53.7m (2011: £58.4m).

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.

29 Financial instruments continued

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.

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

	2012		2011	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	**114.0**	**–**	120.3	–
Past due 1 to 30 days	**20.7**	**–**	19.1	–
Past due 31 to 120 days	**9.2**	**0.4**	7.6	0.2
Past due 121 to 365 days	**5.2**	**0.9**	3.8	0.1
Past due greater than one year	**24.4**	**2.2**	17.4	0.6
	173.5	**3.5**	168.2	0.9

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

	2012 £m	2011 £m
Balance at beginning of the year	**0.9**	2.0
Amounts recovered during the year	**–**	(0.8)
Increase/(decrease) in provision recognised in the income statement	**2.6**	(0.3)
Balance at 31 December	**3.5**	0.9

(b) Liquidity risk

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

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

The Group actively manages its liquidity profile whilst ensuring that the return achieved on cash and investments is maximised. The Group had no drawn down debt facilities as at 31 December 2012 (2011: £nil).

The Group does not have any material derivative or non-derivative financial liabilities with the exception of trade and other payables, current tax liabilities, finance lease liabilities and retirement benefit obligations. Trade and other payables and current tax liabilities 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. Trade and other payables are due to be settled in the Group's normal operating cycle. An analysis of the maturity profile for finance lease liabilities is contained in note 19.

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 £110m 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.

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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.

(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 £96.2m (2011: £154.4m) have fixed interest payments at an average rate of 4.79% (2011: 4.55%) for periods up until 2041.

The Group's share of the fair value of swaps entered into at 31 December 2012 by joint ventures is estimated at a £2.3m liability (2011: £4.0m 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. 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.

A construction project joint venture in which the Group participates maintains 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 £2.4m (2011: £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 value measurement is classified as Level 2 as defined by IFRS 7 'Financial Instruments: Disclosures'.

A 5% reduction in the value of the euro against sterling would result in a £0.1m reduction (2011: £0.3m) in the fair value of the contracts, which would be shown in cash flow hedging reserve.

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 32.

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 the consolidated statement of changes in equity. The cash and cash equivalents are supplemented by the £110m 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

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

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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 2012 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 12. 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 2012 and of its loss for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- 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
- 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
- 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
- certain disclosures of directors' remuneration specified by law are not made
- 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 2012.

Mark Beddy
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
19 February 2013

Company balance sheet

at 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Tangible assets	2	**1.2**	0.8
Investments	3	**374.1**	374.1
		375.3	374.9
Current assets			
Trade debtors		**0.1**	0.1
Amounts owed by subsidiary undertakings			
– due within one year		**52.4**	46.7
– due after one year		**19.0**	19.0
Other debtors		**0.3**	1.1
Prepayments and accrued income		**1.1**	1.5
Deferred tax asset	4	**0.6**	1.1
Cash at bank and in hand		**0.1**	60.2
		73.6	129.7
Creditors: amounts falling due within one year			
Bank overdraft		**(100.3)**	(128.7)
Trade creditors		**(1.0)**	(1.9)
Amounts owed to subsidiary undertakings		**(227.8)**	(226.6)
Corporation tax payable		**(2.2)**	(2.8)
Other tax and social security		**(0.1)**	(0.8)
Other creditors		**(1.2)**	(0.7)
Accruals		**(2.5)**	(6.2)
		(335.1)	(367.7)
Net current liabilities		**(261.5)**	(238.0)
Total assets less current liabilities		**113.8**	136.9
Creditors: amounts falling due after more one year			
Finance lease obligations		**(0.3)**	–
Provision for liabilities	8	**(11.2)**	(11.1)
Net assets excluding retirement benefit obligation		**102.3**	125.8
Retirement benefit obligation	5	**(1.2)**	(1.0)
Net assets including retirement benefit obligation		**101.1**	124.8
Shareholders' funds			
Share capital	6	**2.2**	2.2
Share premium account		**26.7**	26.7
Capital redemption reserve		**0.6**	0.6
Own shares		**(5.6)**	(5.8)
Special reserve		**13.7**	13.7
Profit and loss account		**63.5**	87.4
Shareholders' funds		**101.1**	124.8

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 19 February 2013 and signed on its behalf by:

John Morgan
Chief Executive

David Mulligan
Finance Director

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Company combined statement of movements in reserves and shareholders' funds

for the year ended 31 December 2012

	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 2012	2.2	26.7	0.6	(5.8)	13.7	87.4	124.8
Loss for the year	–	–	–	–	–	(5.0)	(5.0)
Recognition of share-based payments	–	–	–	–	–	0.2	0.2
Final dividend for 2011	–	–	–	–	–	(12.7)	(12.7)
Interim dividend for 2012	–	–	–	–	–	(5.1)	(5.1)
Exercise of share options	–	–	–	0.2	–	(0.2)	–
Deferred tax charge arising on recognition of share-based payments (note 4)	–	–	–	–	–	(0.4)	(0.4)
Actuarial loss on retirement benefit obligation (note 5)	–	–	–	–	–	(0.8)	(0.8)
Deferred tax charge arising on actuarial loss on retirement benefit obligation (note 4)	–	–	–	–	–	0.1	0.1
Balance at 31 December 2012	**2.2**	**26.7**	**0.6**	**(5.6)**	**13.7**	**63.5**	**101.1**

Significant accounting policies

for the year ended 31 December 2012

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 32, under the historical 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 2012 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 4.

(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 5.

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.

(a) Current tax

Current tax is the Company's expected tax liability on taxable profit for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years. Taxable profit differs from that reported in the profit and loss account because it is adjusted for items of income or expense that are assessable or deductible in other years and is adjusted for items that are never assessable or deductible.

(b) Deferred tax

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

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Significant accounting policies

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

When the benefits of the plan are improved, the portion of increased benefit relating to past service by employees is recognised in the profit and loss account on a straight-line basis over the average period until the benefits 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 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.

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.

Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future lease obligations are recorded as liabilities, whilst the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

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. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

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.

Notes to the Company financial statements

1 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 £5.0m (2011: loss of £5.9m).

2 Tangible assets

	Owned plant, machinery and equipment £m	Leased plant, machinery and equipment £m	Freehold property £m	Total £m
Cost				
Balance at 1 January 2012	3.9	–	0.1	4.0
Additions in the year	0.9	0.4	–	1.3
Disposals during the year	(1.9)	–	–	(1.9)
Balance at 31 December 2012	**2.9**	**0.4**	**0.1**	**3.4**
Accumulated depreciation				
Balance at 1 January 2012	(3.2)	–	–	(3.2)
Depreciation charge for the year	(0.8)	(0.1)	–	(0.9)
Disposals during the year	1.9	–	–	1.9
Balance at 31 December 2012	**(2.1)**	**(0.1)**	**–**	**(2.2)**
Net book value				
Net book value at 31 December 2012	**0.8**	**0.3**	**0.1**	**1.2**
Net book value at 31 December 2011	0.7	–	0.1	0.8

The Company's obligations under finance leases are secured by the lessor's title to the leased assets, which have a carrying amount of £0.3m (2011: £nil). No other assets have been pledged to secure borrowings.

3 Investments

	Subsidiary undertakings Shares £m	Other investments £m	Total £m
Cost			
Balance at 1 January 2012	377.3	0.3	377.6
Balance at 31 December 2012	**377.3**	**0.3**	**377.6**
Provisions			
Balance at 1 January 2012	(3.5)	–	(3.5)
Balance at 31 December 2012	**(3.5)**	**–**	**(3.5)**
Net book value			
Net book value at 31 December 2012	**373.8**	**0.3**	**374.1**
Net book value at 31 December 2011	373.8	0.3	374.1

4 Deferred tax

	Accelerated allowances and other short-term timing differences £m	Retirement benefit obligation £m	Share-based payments £m	Total £m
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
At 1 January 2012	**0.3**	**0.3**	**0.8**	**1.4**
Charge to income	(0.1)	(0.1)	–	(0.2)
Credit/(charge) to equity	–	0.1	(0.4)	(0.3)
At 31 December 2012	**0.2**	**0.3**	**0.4**	**0.9**

Notes to the Company financial statements

4 Deferred tax continued

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:

	2012 £m	2011 £m
Deferred tax within current assets	**0.6**	1.1
Deferred tax within retirement benefit obligation	**0.3**	0.3
	0.9	1.4

At 31 December 2012, the Company had unused tax losses of £0.3m (2011: £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 23% in April 2013, affecting the closing deferred tax balance as shown above. Further reductions in the corporation tax rate to 21% are expected but not yet legislated. The closing deferred tax asset would reduce by a further £0.1m to £0.8m if these changes were taken into account.

5 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 (2011: £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 2012, contributions of £0.1m (2011: £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 2012. The present value of the defined benefit liabilities, the related current service cost and past service cost were measured using the projected unit credit method.

Key assumptions used:

	2012 %	2011 %	2010 %
Discount rate	**4.1**	4.7	5.4
Expected rate of salary increases	**4.0**	4.1	4.6
Expected return on Plan assets	**3.5**	3.8	4.8
Rate of inflation	**3.0**	3.1	3.6
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%.

5 Retirement benefit schemes continued

Life expectancy

For the disclosures as at 31 December 2012, 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:

	2012	2011
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:

	2012	2011
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% (2011: 3.0%).

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

	2012 £m	2011 £m	2010 £m
Present value of the Plan liabilities[(a)]	**(10.4)**	(9.4)	(8.5)
Fair value of the Plan assets[(b)]	**8.9**	8.1	6.6
Deficit in the Plan	**(1.5)**	(1.3)	(1.9)
Related deferred taxation at 23% (2011: 25%)	**0.3**	0.3	0.5
Liability recognised in the balance sheet	**(1.2)**	(1.0)	(1.4)

(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:

	2012 £m	2011 £m
Interest cost	**(0.4)**	(0.4)
Expected return on the Plan assets	**0.3**	0.3
Net return	**(0.1)**	(0.1)
Total amount charged to profit and loss (total operating charge less net return)[(a)]	**0.1**	0.1

(a) There are no amounts to be included within the operating profit for current or past service costs in 2012 or 2011

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

	2012 £m	2011 £m
Deficit at 1 January	**(1.3)**	(1.9)
Interest cost	**(0.4)**	(0.4)
Actuarial 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	**(1.5)**	(1.3)

(a) The minimum amount of contributions the Company expects to be paid to the defined benefit section of the Plan in 2013 is £0.7m.

Notes to the Company financial statements

5 Retirement benefit schemes continued

Liabilities in respect of pensions in payment account for 30% of the total (2011: 35%). The average term to retirement is 7.4 years (2011: 7.4 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 (2011: 6.3 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		
	2012 £m	2011 £m	2010 £m	**2012 %**	2011 %	2010 %
Fixed interest gilts	**4.1**	4.1	3.3	**3.0**	3.0	4.2
Corporate bonds	**4.6**	4.0	3.3	**4.1**	4.7	5.4
Cash	**0.2**	–	–	**2.0**	2.0	2.0
	8.9	8.1	6.6			

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.

History of experience adjustments is as follows:

	2012		2011		2010		2009		2008	
	£m	**% asset or liability value**	£m	% asset or liability value	£m	% asset or liability value	£m	% asset or liability value	£m	% asset or liability value
Difference between the expected and actual return on the Plan assets	**0.2**	**2.2**	0.7	8.6	0.2	2.5	0.2	3.5	(0.4)	(6.6)
Experience (loss)/gain arising on the Plan liabilities	**(1.0)**	**(9.6)**	(0.7)	(7.4)	0.6	6.4	(0.8)	(9.0)	0.2	1.9
Total actuarial (loss)/gain	**(0.8)**		–		0.8		(0.6)		(0.2)	

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

	2012 £m	2011 £m	2010 £m
Actuarial (losses)/gains recognised during the year	**(0.8)**	–	0.8
Cumulative actuarial losses recognised during the year	**(3.8)**	(3.0)	(3.0)

6 Share capital

	2012		2011	
	No. '000s	**£'000s**	No. '000s	£'000s
Issued and fully paid:				
At the beginning of the year	**43,215**	**2,160**	43,188	2,159
Exercise of share options	**10**	**–**	27	1
At the end of the year	**43,225**	**2,160**	43,215	2,160

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.

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6 Share capital continued

Shares

10,149 shares were issued during 2012 in respect of options exercised under the Company's SAYE Scheme for a total consideration of £58,268 (2011: no shares were issued). No shares were issued in respect of the Company's 1995 Scheme (2011: 27,019 shares for a total consideration of £1,351). All options exercised under the 1995 Scheme during the prior year were settled on a net basis.

No other shares were issued during the year.

Share options

The weighted average share price at the date of exercise for share options exercised during the year was £6.63 (2011: £7.08). The options outstanding at 31 December 2012 had a weighted average exercise price of £6.49 (2011: £6.09) and a weighted average remaining contractual life of 1.2 years (2011: 2.1 years).

Share awards under the 2005 Plan were granted on 21 May 2012. The estimated fair value of the awards granted was £2.5m (2011: £0.8m for options and £1.5m for share awards). Options were granted under the ESOP 2007 on 2 April 2012. The estimated fair value of the options was £0.1m (2011: £0.3m).

Own shares

Own shares at cost represent 723,970 (2011: 776,714) 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 2012 of £5.15 (2011: £5.94), the market value of the shares was £3,728,446 (2011: £4,554,281).

7 Dividends

For details of dividends paid during the year and proposed but not approved by shareholders at the balance sheet date, refer to note 8 of the consolidated financial statements.

8 Provisions

	Employee provisions £m	Insurance provisions £m	Total £m
At 1 January 2012	**0.7**	**10.4**	**11.1**
Utilised	–	(2.4)	(2.4)
Additions	–	2.8	2.8
Released	(0.3)	–	(0.3)
At 31 December 2012	**0.4**	**10.8**	**11.2**

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.

9 Lease commitments

The Company has finance lease commitments due between two and five years for £0.3m (2011: £nil).

The Company has an operating lease commitment in respect of land and buildings expiring in two to five years for £0.2m (2011: £0.1m expiring in less than one year). Lease payments recognised as an expense in the year amounted to £0.2m (2011: £0.2m).

10 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.

11 Subsequent events

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

Notes to the Company financial statements

12 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 Lovell plc	Specialist in office design and build
Morgan Sindall plc	Construction and infrastructure
Morgan Sindall Investments Limited	Project investments
Morgan Sindall Professional Services Ltd	Design services
Morgan Sindall Underground Professional Services Ltd	Infrastructure design services
Muse Developments Limited	Urban regeneration
Newman Insurance Company Limited	Insurance
Overbury plc	Fitting out and refurbishment specialists
Joint Ventures	
Access for Wigan (Holdings) Limited (50%)*	Investment in public services centre
Ashton Moss Developments Limited (50%)*	Inner city regeneration
Bromley Park Limited (50%)*	Residential development
Claymore Roads (Holdings) Limited (50%)*	Infrastructure services
English Cities Fund (12.5%)*	Inner city regeneration
HB Community Solutions Holdco Limited (50%)*	Development of supported living facilities
HUB West Scotland Limited (33⅓%)*	Delivering public sector health and education projects in the Glasgow area
Hull Esteem Consortium PSP Limited (33⅓%)*	Investment in the development of education facilities
ISIS Waterside Regeneration (50%)*	Waterside 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 Bournemouth Development Company LLP (50%)*	Mixed-tenure development
The Compendium Group Limited (50%)*	Investment in affordable housing

All subsidiary undertakings are wholly owned unless shown otherwise and, with the exception of companies marked *, all shareholdings are in the name of Morgan Sindall Group plc. The proportion of ownership interest is the same as the proportion of voting power held except for English Cities Fund, details of which are shown in the consolidated financial statements note 13. 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.

Shareholder information

Financial calendar 2013

Financial year end	31 December 2012
Preliminary results announcement	19 February 2013
Annual general meeting	9 May 2013
Interim management statement	9 May 2013
Final dividend:	
Ex-dividend date	1 May 2013
Record date	3 May 2013
Payment date	24 May 2013
Half year results announcement	August 2013
Interim dividend payable	October 2013
Interim management statement	November 2013

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: Computershare Investor Services PLC, The Pavilions, Bridgwater Road BS99 6ZZ.

By telephone: +44 (0) 870 707 1695. Lines are open from 8.30am to 5.30pm (UK time), Monday to Friday).

By email: webcorres@computershare.com

Online: www.investorcentre.co.uk/contactus

Registering on the Registrar's website enables you to view your shareholding in Morgan Sindall Group plc including an indicative share price and valuation, check your holding balance and transactions, change your address or bank details and view or request outstanding payments. If you wish to view your shareholding, please log on to www.investorcentre.co.uk and select Sign In if you already have an Investor Centre user ID or click Register if you are a new user, then follow the instructions.

Dividend mandates

Shareholders who do not currently have their dividends paid directly to a UK bank or building society account and wish to do so should complete a mandate instruction available from the Registrar on request or at www.investorcentre.co.uk, within the Downloadable Forms section.

Website and electronic communications

The 2012 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.investorcentre.co.uk.

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.

Shareholder information

If you receive any unsolicited mail or investment advice:

- make sure you get the correct name of the person and organisation
- check the FSA Register at www.fas.gov.uk/fasregister
- use the details on the FSA Register to contact the firm
- call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register or you are told they are out of date
- search the list of unauthorised firms and individuals to avoid doing business with
- report a share scam by telling the FSA using the share fraud reporting form at www.fsa.gov.uk/scams
- 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. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

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 also 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 2012

	Number of accounts	% of total accounts	Number of shares	% of total shares
Up to 1,000	877	53.38	434,110	1.01
1,001 to 5,000	470	28.6	1,102,305	2.55
5,001 to 100,000	228	13.88	5,753,033	13.31
100,001 to 1,000,000	59	3.59	18,156,595	42.00
Over 1,000,000	9	0.55	17,779,411	41.13
	1,643	100.00	43,225,454	100.00

Shareholder communication

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Telephone: 020 7307 9200

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Numis Securities Limited

Solicitors
Slaughter and May
Wragge & Co LLP

Bankers
Lloyds TSB Bank plc
The Royal Bank of Scotland plc
Santander UK plc

Independent auditor
Deloitte LLP
London

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 dispositions.

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.

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