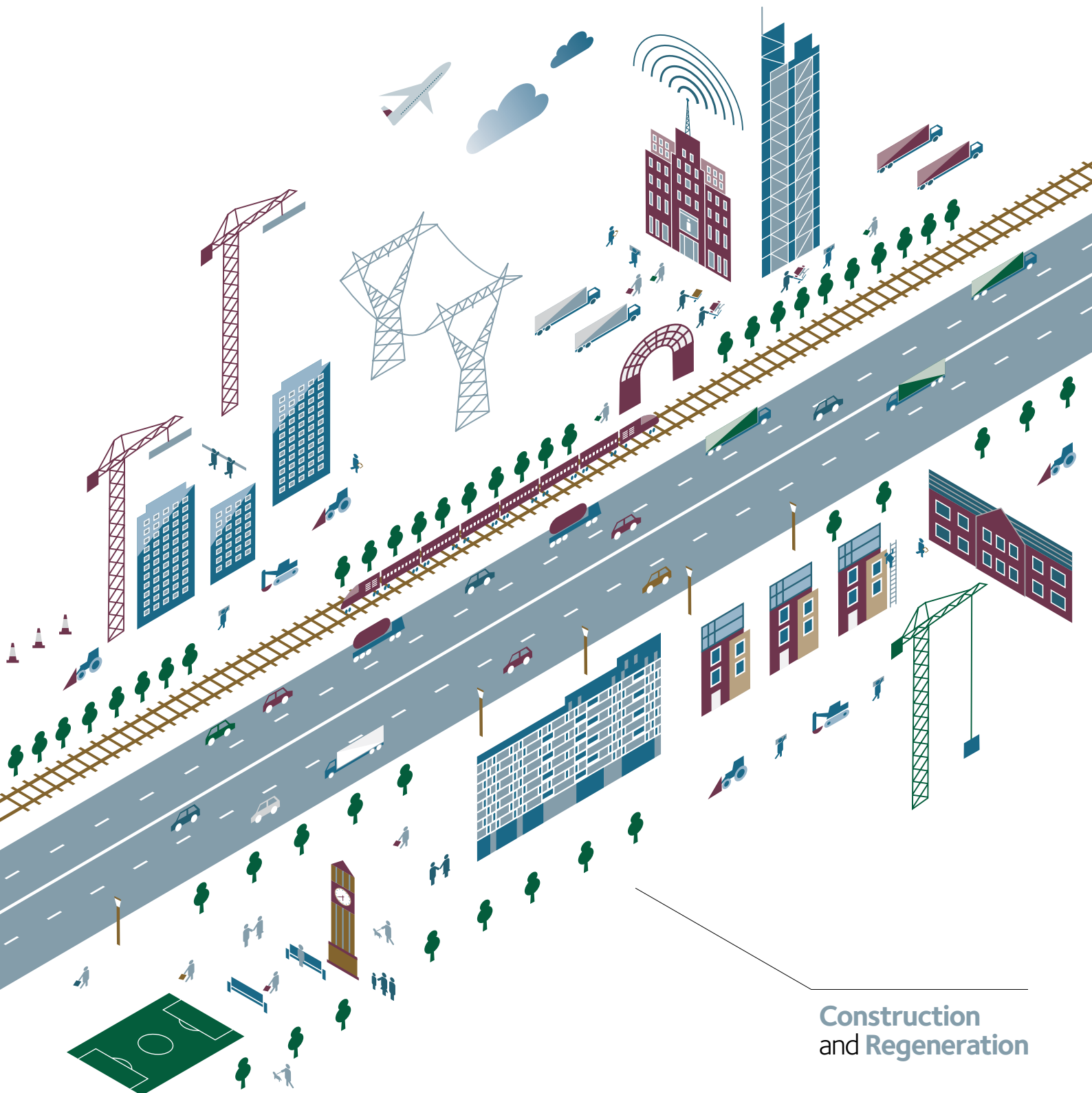


# MORGAN SINDALL GROUP

Annual report  
and accounts  
2013









Construction  
and Regeneration



## User guide

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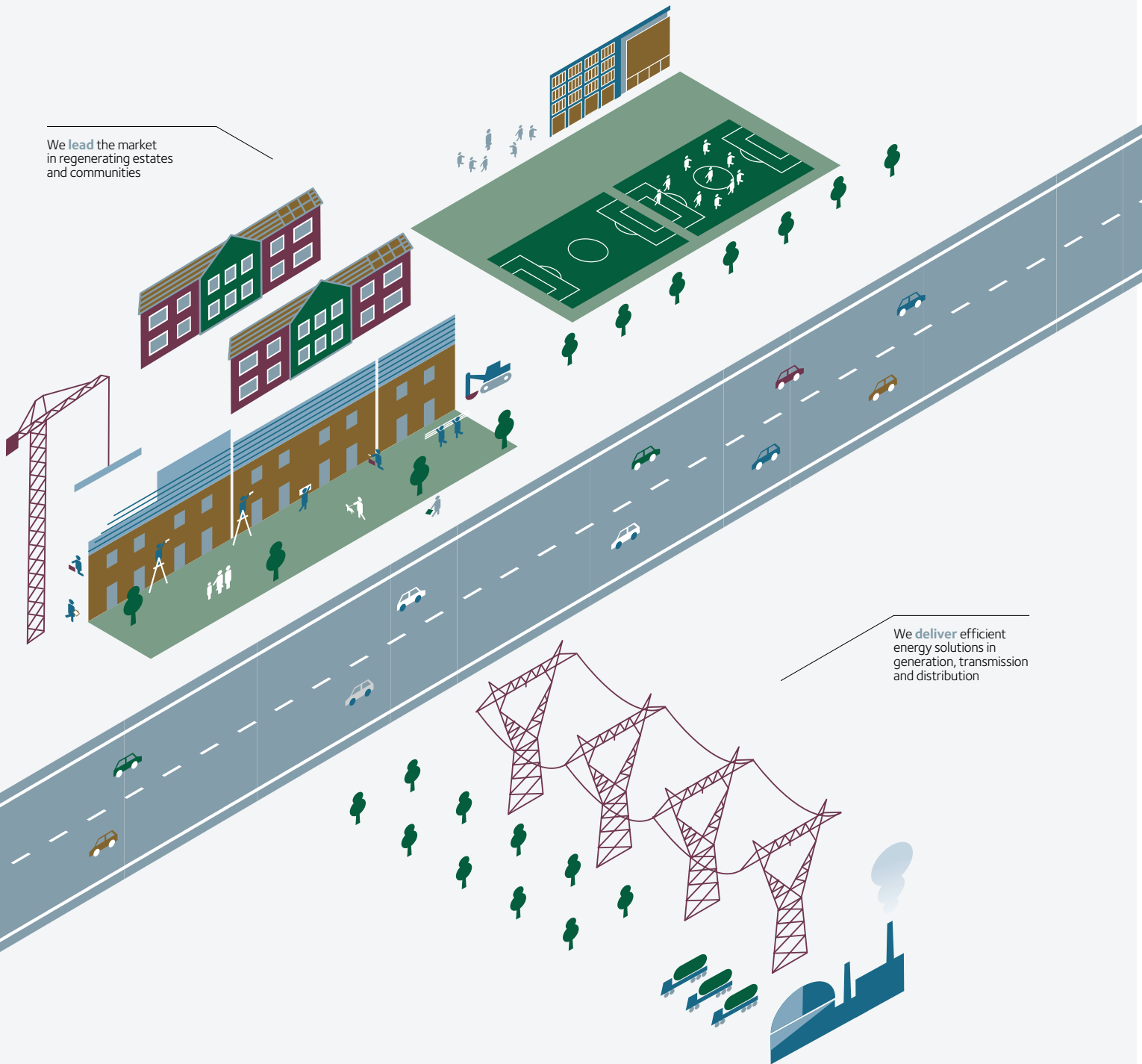
Words and numbers that are underlined are links — clicking on them will take you to further information within the document or to a web page (opens in a new window) if they are a url (e.g [www.morgansindall.com](http://www.morgansindall.com)).

The Group aims to deliver positive and sustainable returns for its shareholders and demonstrable value for all its stakeholders through the delivery of complex construction and regeneration projects.

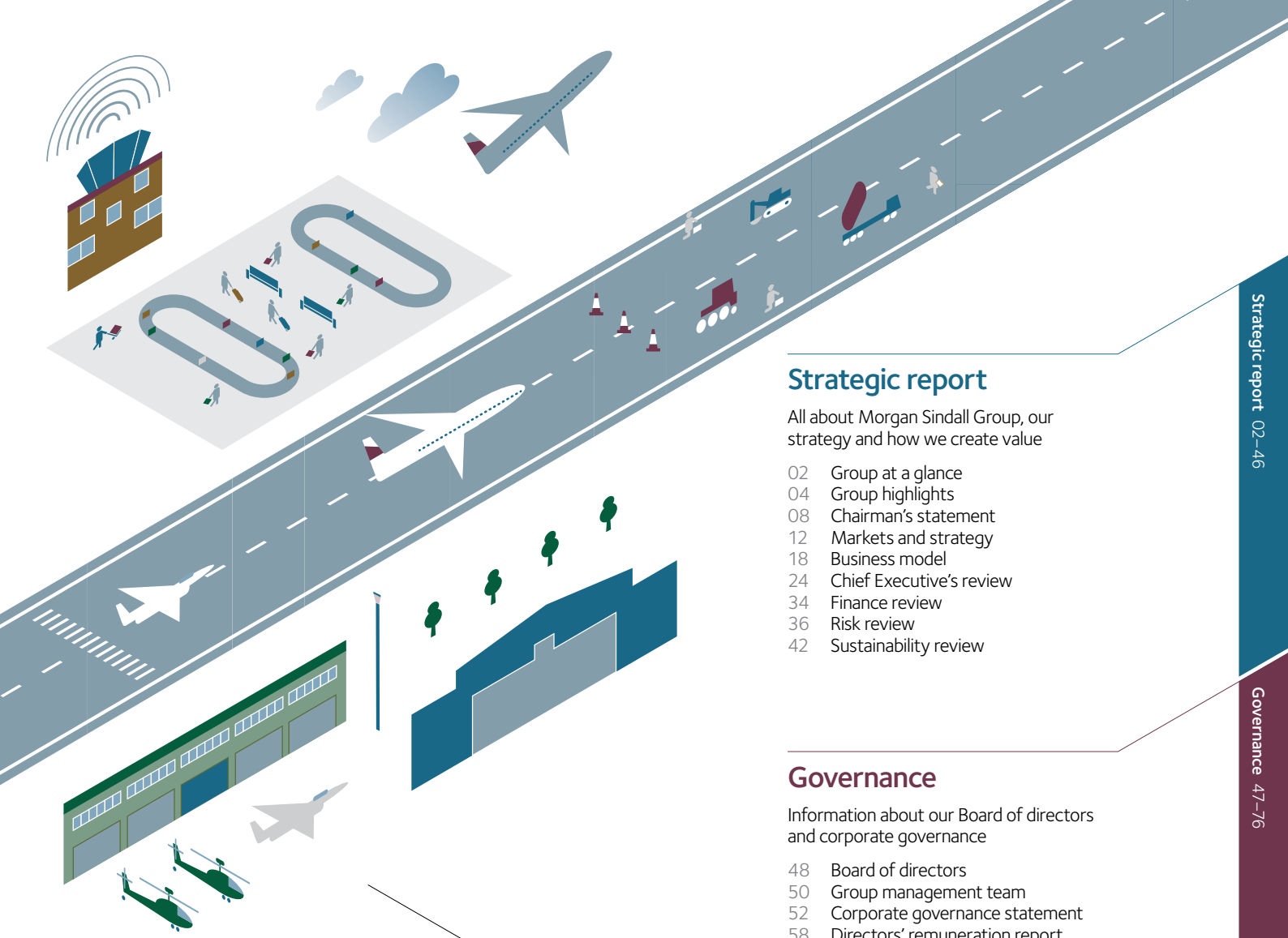


We **build** and refurbish education facilities

We **lead** the market in regenerating estates and communities



We **deliver** efficient energy solutions in generation, transmission and distribution



We **undertake** aviation projects covering terminals, air traffic control centres, runways, hangars and airport infrastructure



**You can find further information on Morgan Sindall Group here:**

A PDF download of our 2013 Annual report  
[www.corporate.morgansindall.com/annual-report-2013](http://www.corporate.morgansindall.com/annual-report-2013)

Our corporate website  
[www.corporate.morgansindall.com](http://www.corporate.morgansindall.com)

Sustainability  
[www.corporate.morgansindall.com/sustainability](http://www.corporate.morgansindall.com/sustainability)

## Strategic report

All about Morgan Sindall Group, our strategy and how we create value

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# Group at a glance



Morgan Sindall Group is a leading UK construction and regeneration group employing circa 5,700 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 that 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.

## Revenue







**£2,095m**

2012: £2,047m

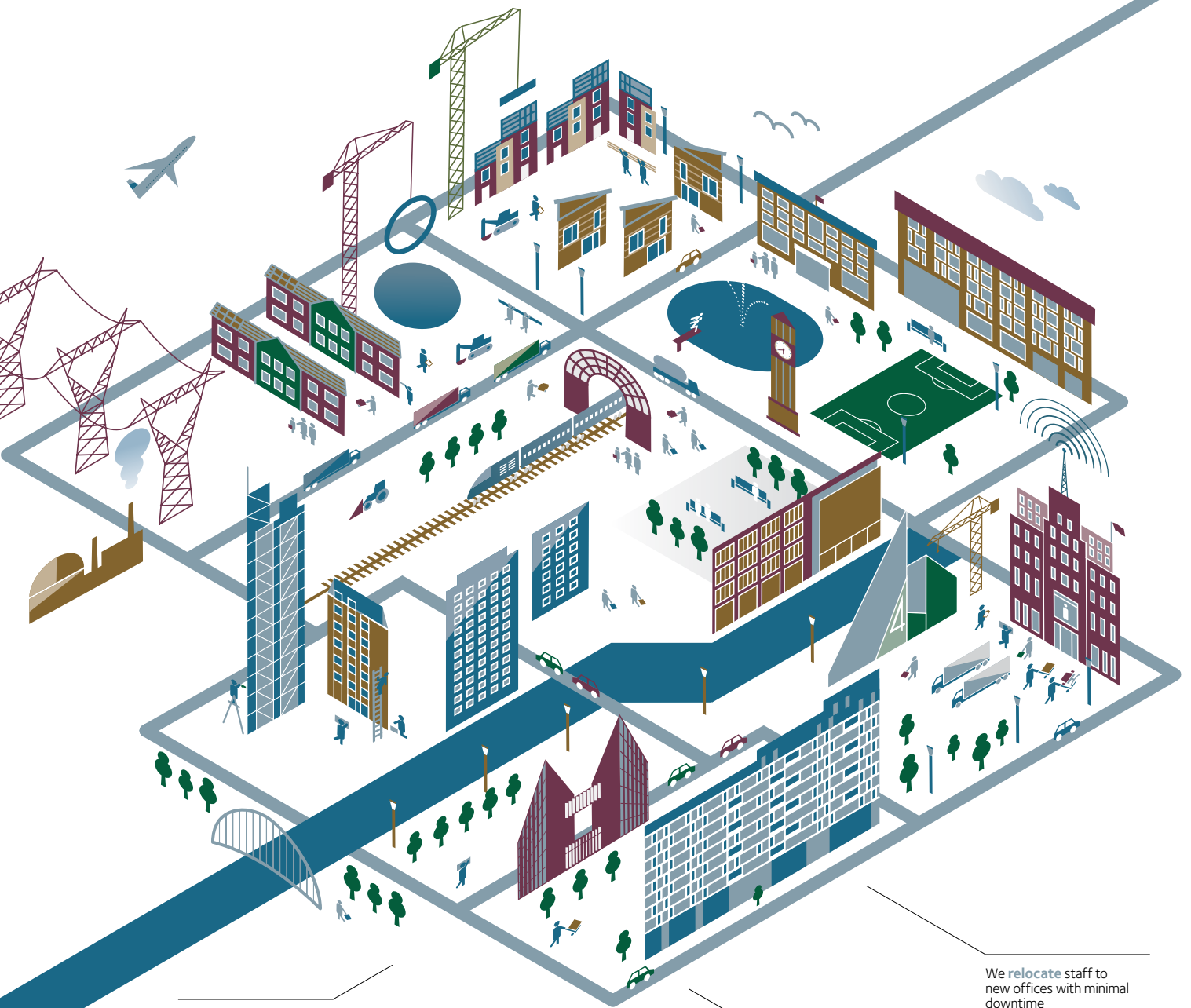
## Operating profit – adjusted\*

**£33.6m**

2012: £48.1m

<b>Construction &amp; Infrastructure</b>	<p>Offers national design, construction and infrastructure services to private and public sector clients. The division works on projects, and in frameworks and strategic alliances of all sizes, across a broad range of markets including commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport and water.</p>		<h2>Revenue</h2> <p><b>£1,234m</b></p> <p>2012: £1,168m</p> <h2>Operating profit – adjusted*</h2> <p><b>£12.7m</b></p> <p>2012: £19.7m</p>
<b>Fit Out</b>	<p>Specialises in fit out and refurbishment projects in the commercial, central and local government office, further education and retail banking markets. Overbury operates as a national fit out company through multiple procurement routes and Morgan Lovell specialises in workplace consultancy and in the interior design and build of offices.</p>	 	<h2>Revenue</h2> <p><b>£427m</b></p> <p>2012: £437m</p> <h2>Operating profit – adjusted*</h2> <p><b>£10.9m</b></p> <p>2012: £11.3m</p>
<b>Affordable Housing</b>	<p>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.</p>		<h2>Revenue</h2> <p><b>£381m</b></p> <p>2012: £386m</p> <h2>Operating profit – adjusted*</h2> <p><b>£8.6m</b></p> <p>2012: £11.5m</p>
<b>Urban Regeneration</b>	<p>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 and residential-led projects. Typically creates commercial, retail, residential, leisure and public realm facilities.</p>		<h2>Revenue</h2> <p><b>£62m</b></p> <p>2012: £62m</p> <h2>Operating profit – adjusted*</h2> <p><b>£1.0m</b></p> <p>2012: £2.7m</p>
<b>Investments</b>	<p>Realises the potential for under-utilised property assets and promotes economic growth, primarily through strategic partnerships with the public sector, by providing flexible structuring and funding solutions and development expertise. The division covers a wide range of markets including asset backed, education, health care and social care, residential, student accommodation, leisure and infrastructure.</p>		<h2>Directors' portfolio valuation</h2> <p><b>£14m</b></p> <p>2012: £32m</p> <h2>Investments carrying value</h2> <p><b>£12.8m</b></p> <p>2012: £18.2m</p>

\*Before intangible amortisation and exceptional operating items.



We **help** keep traffic flowing on the UK's highways

We **carry out** 50% of projects in live working environments

We **work** in the education market by designing, building and fitting out education facilities

We **complete** fit outs for half the FTSE 100 including the nine largest companies

We **help** maintain and improve the UK's water networks

We **won 36** Considerate Constructors awards in 2013

We **revitalise** derelict dockyards into vibrant waterside residential districts

We **offer** opportunities to circa 300 apprentices each year

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

We **relocate** staff to new offices with minimal downtime

We **complete** over 200,000 home repairs every year

We **fit out** office environments for 18 of the top 20 UK law firms

We have **delivered** 37% of all the SKA gold and silver accreditations awarded

# Group highlights

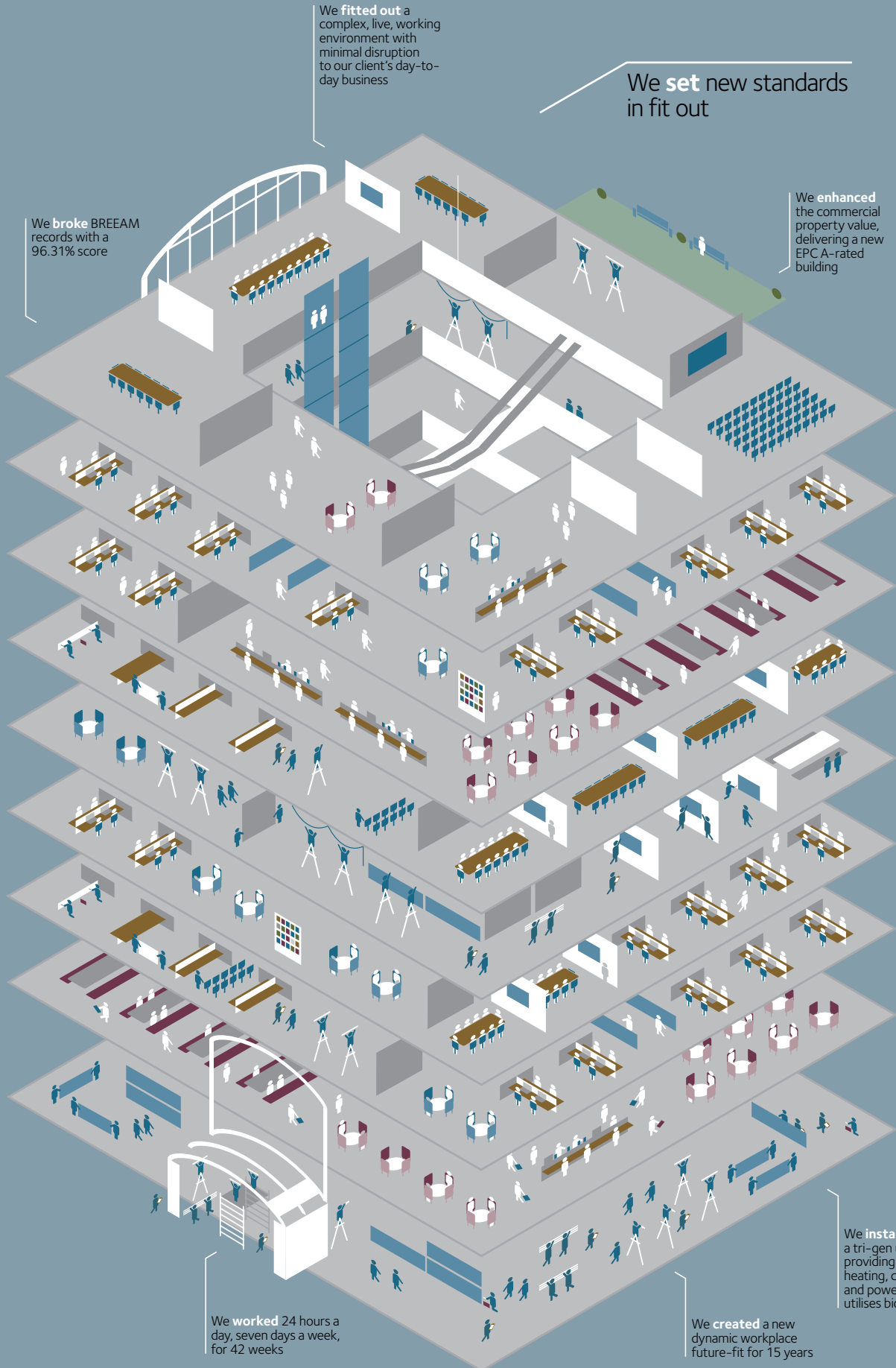


The Group has seen challenging conditions predominate across most of its markets, with competitive pressures impacting on margins and profitability. The Group's track record and integrated offer of design, construction, development and funding solutions has enabled it to win significant construction and regeneration projects and long-term frameworks this year.

<p><b>Revenue</b> £m</p> <p>Revenue increased 2% with limited recovery across the Group's markets.</p> <p><b>£2,095m</b> <math>\uparrow</math> 2%</p> <table border="1"> <tr><td>13</td><td>2,095</td></tr> <tr><td>12</td><td>2,047</td></tr> <tr><td>11</td><td>2,227</td></tr> </table>	13	2,095	12	2,047	11	2,227	<p><b>Adjusted profit before tax*</b> £m</p> <p>Adjusted profit before tax has fallen 34% with competitive pressure adversely impacting margins in Construction &amp; Infrastructure and Affordable Housing. Reported profit before tax was £13.9m (2012: £34.2m).</p> <p><b>£31.3m</b> <math>\downarrow</math> 34%</p> <table border="1"> <tr><td>13</td><td>31.3</td></tr> <tr><td>12</td><td>47.1</td></tr> <tr><td>11</td><td>45.3</td></tr> </table>	13	31.3	12	47.1	11	45.3
13	2,095												
12	2,047												
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13	31.3												
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11	45.3												
<p><b>Dividend</b> pence</p> <p>The dividend has been held despite falling profit reflecting the Board's confidence in the Group's outlook.</p> <p><b>27.0p</b> <math>&gt;</math> 0%</p> <table border="1"> <tr><td>13</td><td>27.0</td></tr> <tr><td>12</td><td>27.0</td></tr> <tr><td>11</td><td>42.0</td></tr> </table>	13	27.0	12	27.0	11	42.0	<p><b>Adjusted EPS*</b> pence</p> <p>Adjusted EPS has fallen 34% in line with the fall in adjusted profit before tax. Basic EPS was 35.4p (2012: 72.5p).</p> <p><b>60.9p</b> <math>\downarrow</math> 34%</p> <table border="1"> <tr><td>13</td><td>60.9</td></tr> <tr><td>12</td><td>92.0</td></tr> <tr><td>11</td><td>80.2</td></tr> </table>	13	60.9	12	92.0	11	80.2
13	27.0												
12	27.0												
11	42.0												
13	60.9												
12	92.0												
11	80.2												
<p><b>Committed order book</b> £bn</p> <p>Increased order book supports the Board's view of the Group's prospects.</p> <p><b>£2.4bn</b> <math>\uparrow</math> 8%</p> <table border="1"> <tr><td>13</td><td>2.4</td></tr> <tr><td>12</td><td>2.2</td></tr> <tr><td>11</td><td>2.3</td></tr> </table> <p>TO READ MORE ABOUT COMMITTED ORDER BOOK: SEE PAGE 26</p>	13	2.4	12	2.2	11	2.3	<p><b>Regeneration and development pipeline</b> £bn</p> <p>The pipeline shows the Group's share of forward development values and demonstrates the growing contribution of the Group's regeneration activities.</p> <p><b>£3.0bn</b> <math>\uparrow</math> 23%</p> <table border="1"> <tr><td>13</td><td>3.0</td></tr> <tr><td>12</td><td>2.5</td></tr> <tr><td>11</td><td>2.1</td></tr> </table> <p>TO READ MORE ABOUT REGENERATION AND DEVELOPMENT PIPELINE: SEE PAGE 26</p>	13	3.0	12	2.5	11	2.1
13	2.4												
12	2.2												
11	2.3												
13	3.0												
12	2.5												
11	2.1												

\*Adjusted is defined as before intangible amortisation of £2.7m (2012: £2.9m, 2011: £3.9m), exceptional operating items of £14.7m (2012: £10.0m, 2011: £1.4m) and (in the case of earnings per share) deferred tax credit of £2.5m (2012: £1.5m, 2011: £2.8m).

# PwC Embankment Place London



We fitted out a complex, live, working environment with minimal disruption to our client's day-to-day business

We set new standards in fit out

We enhanced the commercial property value, delivering a new EPC A-rated building

We broke BREEAM records with a 96.31% score

We worked 24 hours a day, seven days a week, for 42 weeks

We created a new dynamic workplace future-fit for 15 years

We installed a tri-gen unit providing combined heating, cooling and power that utilises biofuel



**Project**  
**Embankment Place, London**

**Client**  
**PwC**

**Division**  
**Fit Out**

The Fit Out division delivered the UK's largest refurbishment in-occupation for PwC at Embankment Place in London which achieved a landmark Building Research Establishment Environmental Assessment Method (BREEAM) Outstanding score. This complex refurbishment has in fact surpassed all other buildings' BREEAM achievements to date in both new build and existing structures.

The ambitious refurbishment programme set out to revitalise the dated, lightless and inefficient workspaces while around 2,000 staff remained in occupation. The end product is a modern, multi purpose, intelligent, flexible and collaborative workplace that reflects PwC's market-leading brand position by completely transforming the perception, performance and reality of the 450,000 sq ft building.



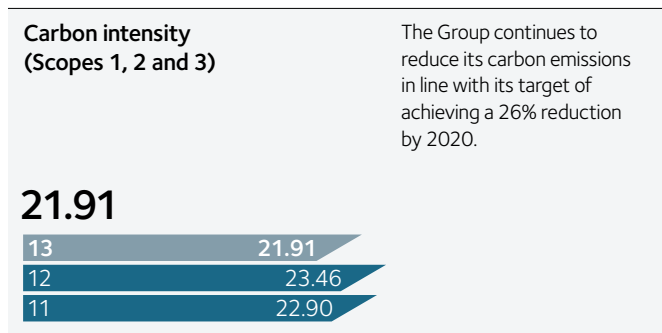
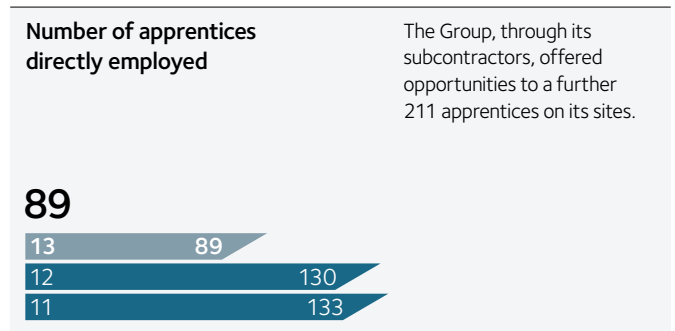
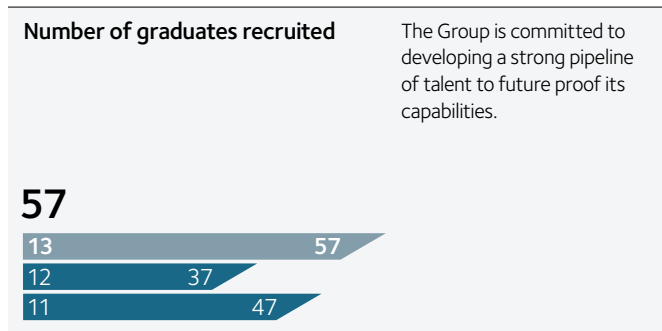
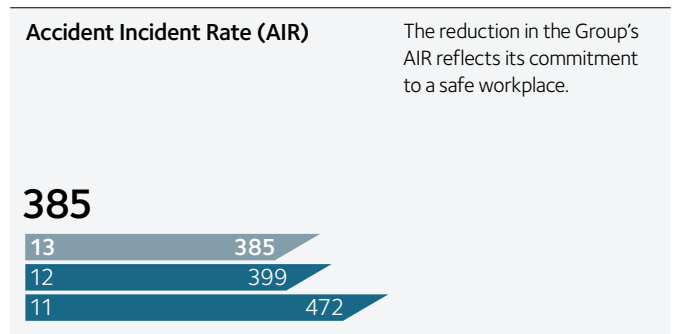
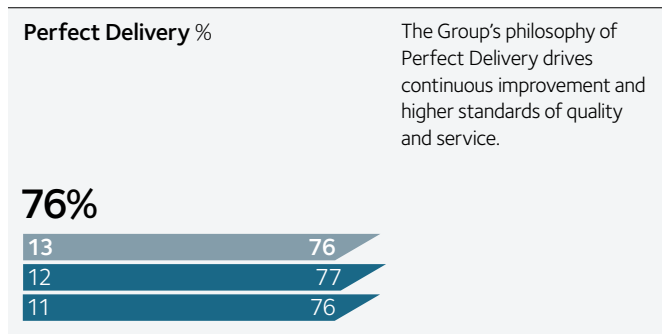
**UK's largest**  
refurbishment in  
occupation

**Landmark**  
**BREEAM**  
Outstanding score





The Group's commitment to sustainability is a key element of its strategy and good progress has been made in strengthening its status as a responsible and economically sustainable organisation.



TO READ MORE ABOUT SUSTAINABILITY:  
SEE PAGES 42 TO 46

# Chairman's statement



We **continue**  
to develop our  
strengths

## Statement in summary

- > A drive on efficiency
- > Ongoing investment to take advantage of more positive industry outlook
- > UK-focused strategy remains the same
- > Building collaboration across our teams

“More than ever our focus is now on providing an exciting and rewarding workplace culture to attract and retain the best.”



# Slough Regeneration Partnership Slough Borough Council



We build education facilities

We construct libraries

We build new homes

Our divisions **work together** to deliver complex projects for clients

We **create** long-term community regeneration

**Project**  
**Slough Regeneration Partnership**

**Client**  
**Slough Borough Council**

**Division**  
**Investments**

In 2013 the Group's Investments division signed a Local Asset Based Vehicle (LABV) joint venture agreement with Slough Borough Council. The LABV will deliver a series of developments up to a total value of £1bn over a period of 15 years. The partnership is managed by Investments and benefits from the strength of the Group's integrated capability. It will procure work from the Affordable Housing and Construction & Infrastructure divisions.

The first phase of development 'The Curve' is now being built by the Construction & Infrastructure division. It will house a new library, education facilities for adults, a café and a cultural centre. Other community developments in the pipeline are a new-build secondary school and a new-build leisure centre with ice rink.

The first tranche of residential developments will provide 525 new homes, ranging from two- to four-bedrooms, across five sites with a gross development value of £105m.



**£1bn**  
 value over 15 years

**525**  
 new homes to be delivered

**£16m**  
 The Curve – first scheme signed

**15-year**  
 joint venture





2013 has been a year of transition for the Group. There have been a number of changes to the Board and the Group executive team has been strengthened. We have focused on securing greater collaboration across the Group to drive efficiency and improve our offering to clients.

Trading conditions remain tough for construction markets. Although there are clear signs of a return to growth, competition remains fierce and upward pressure on supply chain costs is suppressing margin growth.

Our people remain at the heart of our business. They have shown great resilience and dedication during the construction industry's prolonged period of adverse conditions. As we begin to emerge into a period of growth, our employees will be critical to ensuring our success. We need to remain an employer of choice and, more than ever, our aim is to provide an exciting and rewarding workplace culture. We have set this as a key challenge for the executive directors.

This is my first full year as Chairman and it has been a year of significant change for the Board, with John Morgan as chief executive, a new finance director in Steve Crummett and a new non-executive director, Liz Peace. At the end of the year, Paul Whitmore left the Group after 13 years of service as commercial director. He has worked tirelessly and made an immense contribution. I would like to take this opportunity to thank Paul and to wish him well with his future plans.

Given the extent of changes to the Board, I was keen to take a fresh approach to enhancing its effectiveness. To this end I commissioned an external Board evaluation, further details of which can be found in the corporate governance section.

The results for this year reflect the challenging market conditions. Turnover has been maintained but profits have been impacted by competitive pressures with exceptional operating items being charged in relation to four construction contracts held on the balance sheet. Despite this, significant progress has been made in cash and working capital management and I commend the team for this achievement in demanding conditions.

The Board proposes that the final dividend of 15.0p per share is held level with the prior year (2012: 15.0p), resulting in a total dividend for the year of 27.0p (2012: 27.0p).

Our strategy remains unchanged and we continue to seek opportunities in UK construction and regeneration markets, particularly those with high barriers to entry. Our focus is on investing in key skills and resources to ensure the Group is well positioned to capitalise on recovery in our markets.

We now look ahead to a more optimistic industry forecast whilst not underestimating the challenges that lie ahead. As at 31 December 2013, both the Group's committed order book and the regeneration and development pipeline has increased, since the previous year end, by 8% and 23% respectively. I believe that under the entrepreneurial leadership of John Morgan and his team, the Group is now in the right shape to capitalise on the future growth and investment opportunities that will arise as markets improve.

**Adrian Martin**

Chairman

18 February 2014

# 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 at 2005 prices was forecast to be approximately £99bn in 2013, an increase of 1% 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 £59bn in 2013, which are also slightly ahead of the previous year. The size and forecast movements of these targeted key markets are as follows:

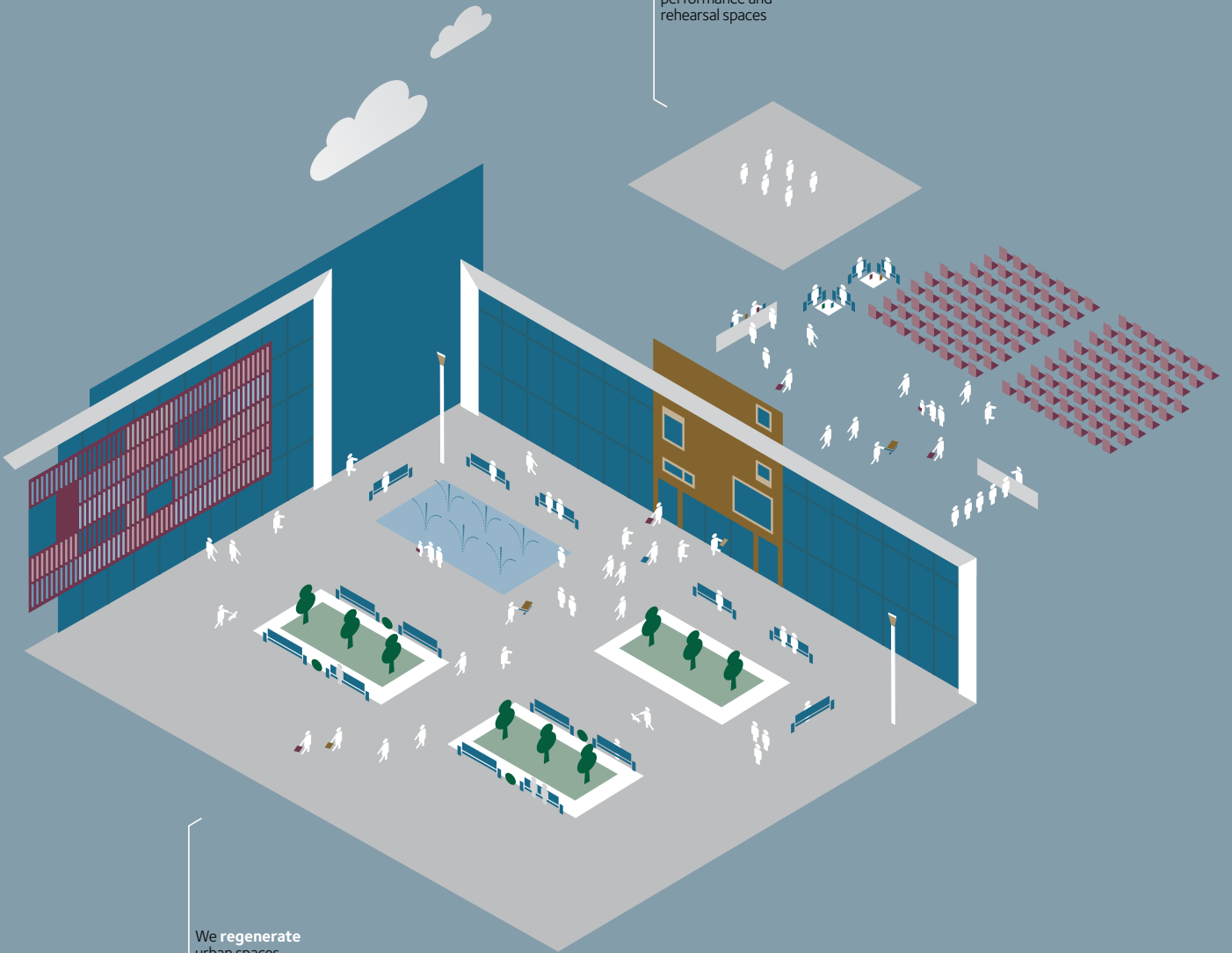
Targeted key markets (2005 prices)	Construction market				Group revenue				
	2012-13 growth	2013 market £bn	2014-17 growth	% of 2013 revenue	Construction & Infrastructure	Fit Out	Affordable Housing	Urban Regeneration	Investments
Social housing	>	3.8	>	13%					
Education	v	7.3	>	17%					
Healthcare	v	3.0	>	1%					
Community, Defence, Other	v	1.8	>	5%					
<b>Public</b>				<b>36%</b>					
Transport	^	5.7	^	16%					
Energy	^	3.8	^	5%					
Water	v	1.7	^	8%					
<b>Regulated</b>				<b>29%</b>					
Commercial	>	5.7	^	24%					
Open market housing	^	14.7	^	5%					
Retail	>	4.6	^	2%					
Leisure	^	4.1	>	2%					
Industrial, Pharmachem, Other	v	3.2	^	2%					
<b>Private</b>				<b>35%</b>					
<b>Total</b>		<b>59.4</b>		<b>100%</b>					

Source: ONS, Construction Products Association (Winter 2013/14 edition) – 2005 prices.

# 'Cast' performance venue, Doncaster



We **create** flexible performance and rehearsal spaces



We **regenerate** urban spaces

We **create** dynamic, intelligent spaces for clients



**Project**  
**'Cast' performance venue, Doncaster**

**Partner**  
**Doncaster Metropolitan Borough Council**

**Division**  
**Urban Regeneration**

The Urban Regeneration division's Cast performance venue in Doncaster has an innovative 'toolbox' design, creating a range of performance and education spaces. Providing professional-level experience in a cutting edge venue, it includes two auditoria as well as dance and drama studios, rehearsal spaces, a foyer and café/bar.

The front elevation features a great glass wall with large door openings, allowing the building's flexible performance areas to spill out into Sir Nigel Gresley Square, a major new piece of public realm also delivered by the division. With extensive community programmes and full multi-media capabilities, Cast also provides a valuable teaching facility for Doncaster College.



**1,020**  
 total audience capacity

**91%**  
 Considerate  
 Constructors Monitor's  
 Report score

**£300m**  
 Civic and Cultural  
 Quarter scheme





Market conditions have remained tough over the past 12 months but are expected to improve modestly in 2014. The public sector, which accounts for one-third of total construction, continues to be adversely affected by fiscal constraints. Continued market recovery is expected during 2015-17, driven primarily by infrastructure and private sector construction growth.

Forecasts for the next three years show the Group's targeted key markets outperforming the construction market as a whole, with growth in commercial and transport markets expected to be circa 30% over the period 2014-17. The Group is well positioned to take full advantage of these opportunities, thereby 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.

The Group's strategy is focused on two distinct business activities: construction and regeneration.

Construction activities currently represent 92% of Group revenue, generated from the following divisions:

- > Construction & Infrastructure 59% of revenue
- > Fit Out 20% of revenue
- > Construction and services work within Affordable Housing 13% of revenue.

Regeneration activities include the Urban Regeneration and Investments divisions and mixed-tenure development within Affordable Housing. Regeneration is currently 8% of Group revenue.

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 made and identify any additional actions required. Of the key markets that the Group targets, there are five that each contribute more than 5% of its annual revenue: social housing, education, transport, water and commercial.

## Markets and strategy



### Targeted key markets

### Value

<p><b>Social housing</b></p> <p>Increased consumer confidence in open market housing has seen more mixed-tenure projects coming to the market. However, the social housing sector still presents challenges as funding grant rates have been reduced.</p>	<p><b>Market size</b></p> <p><b>£3.8bn</b></p> <p>2012: £3.7bn</p>	<p><b>Group revenue</b></p> <p><b>£388m</b></p> <p>2012: £400m (includes £112m open market sales (2012: £72m))</p>
<p><b>Education</b></p> <p>The outlook for the public sector education market improved significantly in 2013, with the launch of the Priority Schools Building Programme (PSBP) (£2.2bn), the Construction Procurement North Wales framework (£400m framework) and the Education Funding Agency Regional Frameworks in addition to the more traditional procurement routes.</p>	<p><b>Market size</b></p> <p><b>£7.3bn</b></p> <p>2012: £7.5bn</p>	<p><b>Group revenue</b></p> <p><b>£359m</b></p> <p>2012: £304m</p>
<p><b>Transport</b></p> <p>Rail outputs continue to increase and this is supported through the Rail Freight Operators' Association Control Period 5.</p> <p>Consistent investment is anticipated in airports (in particular Heathrow) although volumes may be less predictable as a result of the next five-year period procurement process.</p> <p>Spending in highways looks encouraging and the National Infrastructure Plan gives greater confidence of sustained investment.</p>	<p><b>Market size</b></p> <p><b>£5.7bn</b></p> <p>2012: £5.3bn</p>	<p><b>Group revenue</b></p> <p><b>£346m</b></p> <p>2012: £254m</p>
<p><b>Water</b></p> <p>It is expected that the transition from Asset Management Programme (AMP) 5 to AMP6 will result in relatively stable volumes. In 2013 Thames Water began the procurement process for Thames Tideway.</p>	<p><b>Market size</b></p> <p><b>£1.7bn</b></p> <p>2012: £2.2bn</p>	<p><b>Group revenue</b></p> <p><b>£170m</b></p> <p>2012: £166m</p>
<p><b>Commercial</b></p> <p>The commercial market recovery in late 2013 exceeded analysts' expectations with GDP at 1.7%, a rate of growth not seen since 2007. It was largely driven by demand for office space in London and leading cities across the UK. This trend is expected to continue through to 2016 with an increase in pre-letting opportunities coming to market.</p>	<p><b>Market size</b></p> <p><b>£5.7bn</b></p> <p>2012: £5.7bn</p>	<p><b>Group revenue</b></p> <p><b>£491m</b></p> <p>2012: £516m</p>
<p><b>Regeneration</b></p> <p>Public sector funding and the institutional private rented sector have stimulated the residential market and growth is spreading from London and the South.</p> <p>Speculative office development continues to prevail in London only, with regional markets dominated by pre-lets.</p> <p>Retail and leisure sectors dominated by larger property companies and specialist developers.</p> <p>Industrial and distribution markets are beginning to experience an undersupply of product.</p>	<p><b>Group regeneration and development pipeline</b></p> <p><b>£3.0bn</b></p> <p>2012: £2.5bn</p>	



## Progress against 2013 strategic priorities

- > Won major regeneration projects, especially in the London region
- > Commenced on site in Derby with the Compendium Living joint venture
- > Open market sales volumes increased by 36%, supported by the Government's Help to Buy scheme
- > Entered a new market providing homes for MOD families
- > Expanded joint work with other Group divisions including the Towcester Regeneration scheme
- > Won response maintenance contracts in London, Midlands and Scotland which emphasised the national nature of Affordable Housing's offer.

- > Shortlisted for the first batch of the PSBP PF2 Programme (Hertfordshire, Luton and Reading)
- > Prequalified for the North West batch of the PSBP PF2 Programme
- > Maintained positions and renewed a number of frameworks
- > Grown market share.

- > Good progress made in 2013 on a number of Network Rail and Crossrail schemes
- > Successful delivery of runway resurfacing at Heathrow
- > Completed a number of strategic contracts for the Highways Agency ahead of planned timescales. New awards secured on further Smart motorway schemes.

- > Ongoing discussions with existing clients in relation to AMP6 renewals
- > Pre-qualified for all three Thames Tideway sections
- > Good progress being made on the Lee Tunnel project for Thames Water.

- > Maintained market share of around 25% in fit out and refurbishment
- > Construction & Infrastructure saw growth in London, Manchester, Leeds, Midlands and Scotland
- > Completed the UK's largest refurbishment in occupation for PwC in London achieving a landmark BREEAM Outstanding rating
- > Morgan Lovell successfully launched its workplace consultancy service.

- > 158 residential completions as well as 216 investment sales
- > Pipeline includes 3.3m sq ft of offices and 2,900 residential units
- > Appointed developer on £100m+ schemes in Aberdeen and South Shields
- > Selected as partner on £140m scheme in Lambeth
- > Over £250m construction works currently on site.

## 2014 strategic priorities

- > Continued focus on larger long-term regeneration projects
- > Obtain land in partnership with public sector partners via joint ventures
- > Secure long-term repair and refurbishment contracts
- > Collaborate with other Group divisions.

- > Maintain strategic approach to key clients
- > Focus on winning a number of the PSBP PF2 batches
- > Further exploit and sell the standard design model approach to schools
- > Continue to find funding solutions to otherwise non-viable opportunities.

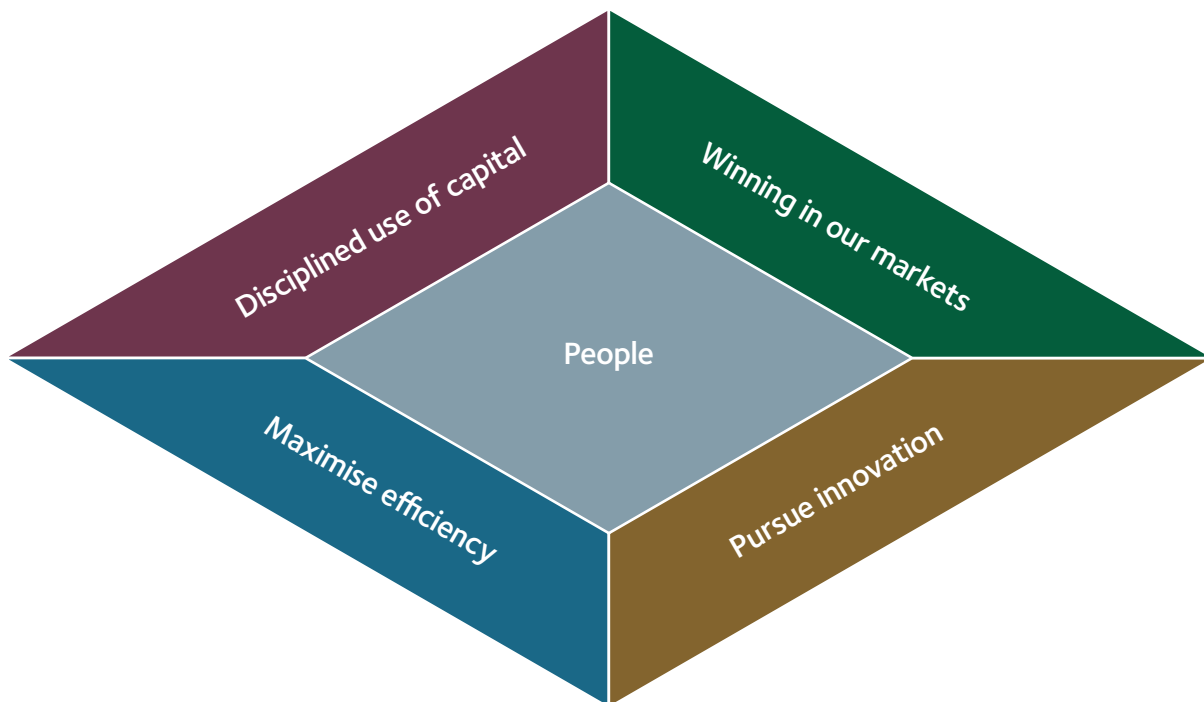
- > Continue to expand scope of works and market share in rail
- > Secure a place at Heathrow for the next five-year procurement period
- > Maintain position as a 'partner of choice' for both client and potential joint venture partners.

- > Build on existing client relationships to maintain market share in water
- > Secure at least one Thames Tideway package
- > Complete successful delivery of Lee Tunnel for Thames Water.

- > 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
- > Increase collaboration across the Group.

- > New business
- > Expand into private rented sector
- > Recycle assets when appropriate.

# Business model



The Group is a leading construction and regeneration group operating within the UK. It works with its clients and partners to deliver, renew and maintain their land, property and infrastructure assets. Its specialist divisions provide design, construction, development and funding solutions to create value, simplify procurement for clients and deliver the most complex large-scale projects.

The Group's business model comprises five components that demonstrate how the Group aligns its thinking across its businesses. Collectively the components provide a framework for every division, team and individual to create added value. Relevant and meaningful key performance indicators (KPIs) are used to monitor progress where appropriate.

Protecting the Group's reputation is of vital importance to realise its strategy to create leading positions in all its chosen markets. Thorough risk management procedures are in place to ensure the highest standards of integrity and conduct towards all stakeholders are maintained from employees at all times.

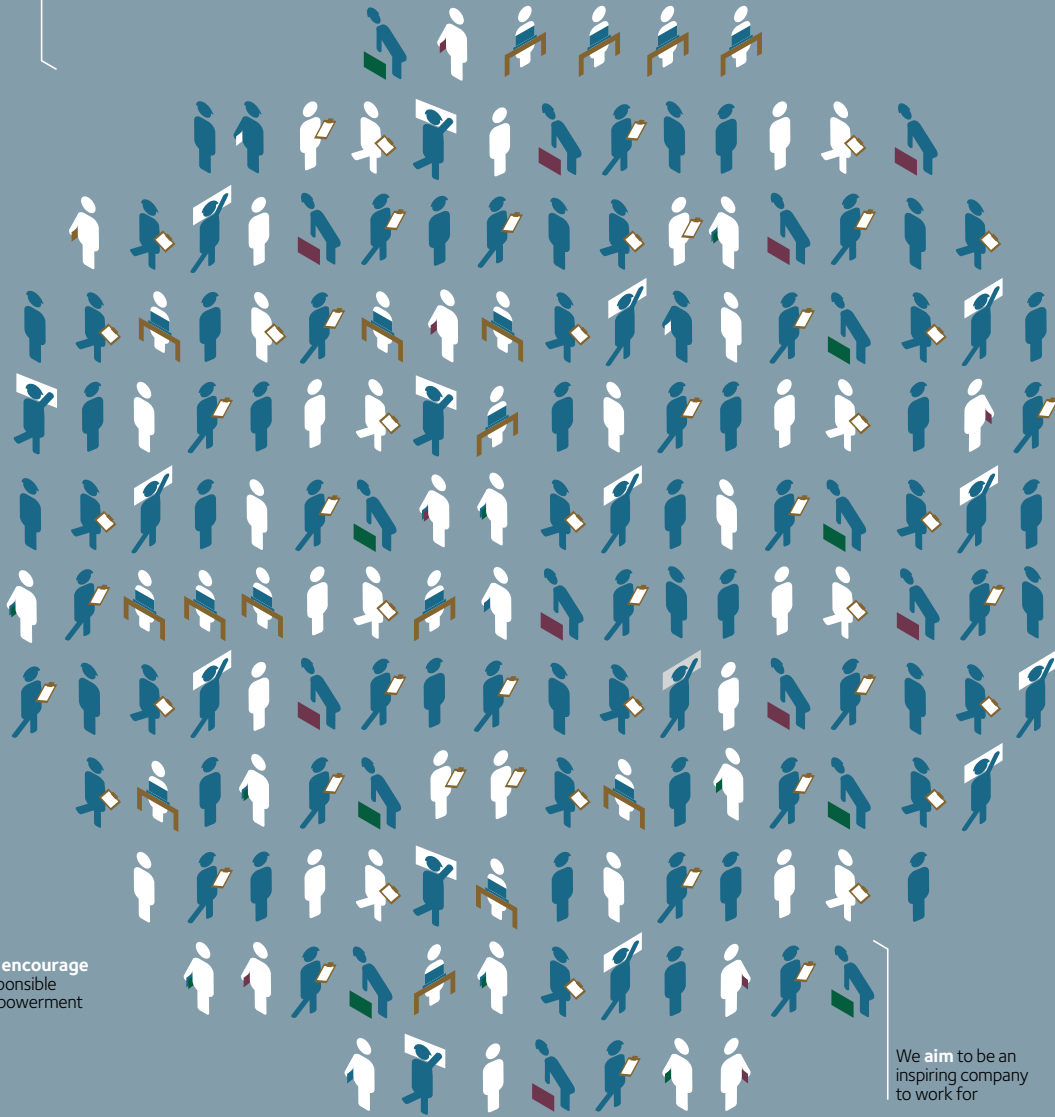
The foundation supporting the Group's business model is its people – talented people who have the skills and creativity to successfully deliver the Group's strategy.

# Generation Talent



We seek to continually develop our staff

We **support** young people by giving them the skills to secure a place on the career ladder



We encourage responsible empowerment

We **aim** to be an inspiring company to work for

We **offer** work and study opportunities

**Project**  
**Generation Talent**

**Division**  
**Construction & Infrastructure**

Construction & Infrastructure has worked collaboratively with Job Centre Plus to create and deliver an innovative training programme designed for young people, aged 18-24, who are not in education, employment or training. Through Job Centre Plus, places were offered to those who demonstrated an interest in working in the rail sector. The division's rail electrification team delivered the programme which not only enabled those who attended to secure qualifications but also led to over half being offered a contract with the division.



**Strong**

partnership with  
Job Centre Plus

**50%**

of unemployed young  
people who took part  
in our Job Centre Plus  
programme in 2013  
secured employment  
as a direct result





## People

Underpinning the success of the business is its people. Ensuring the Group attracts, develops and retains talented people from diverse backgrounds is fundamental to the successful implementation of its strategy and the ability to deliver industry-leading performance. Leading the Group's talent agenda is a recently appointed director of people whose Group-wide remit is to create the people strategy required to enable delivery of the Group's strategy.

The people strategy involves significant emphasis on processes to identify high potential staff and develop them into the Group's future leaders, building the Group's bench strength of talent. Planning the professional and personal development of people plays an important role in attracting and retaining talent and positioning the Group as the employer of choice. With the anticipated economic recovery in sight, the Group continues to focus on its graduate recruitment and apprentice schemes to ensure a strong pipeline of talent is maintained to future-proof the Group's capabilities and to offer clear competitive advantage if skill shortages develop as construction activity accelerates.

**TO READ MORE ABOUT DEVELOPING TALENT:  
SEE PAGES 19 AND 20**

Creating a safe environment is a priority. Health and safety policies and procedures are in place across the Group and employees are fully engaged to meet the highest of safety standards and performance targets. These include effective risk management and engagement with all stakeholders including the communities within which the Group operates.

**TO READ MORE ABOUT RISK REVIEW PEOPLE:  
SEE PAGE 39**



## Winning in our markets

The Group's approach is shaped by its unrelenting commitment to clients and its drive to consistently deliver projects of all scales and levels of complexity. It works closely with clients to develop an understanding of their needs and aligns its resources to provide the best skills to identify and deliver innovative and cost-effective solutions.

The Group understands the constraints within which its clients operate and is focused on identifying opportunities to reduce complexity and deliver greater value. It has a breadth of specialist capabilities and is able to provide a single solution which maximises the benefits that it can offer clients through divisions working collaboratively. This ability to respond to clients' changing requirements overcomes barriers to success and enables the Group to win some of the UK's most ambitious construction and regeneration projects and long-term frameworks.

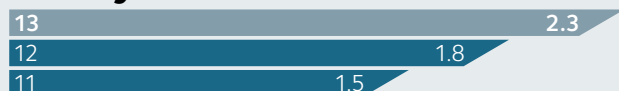
**TO READ MORE ABOUT COLLABORATION:  
SEE PAGES 9 AND 10**

The Group targets key markets with barriers to entry that offer the best potential for growth and superior returns. Its rigorous approach to contract selectivity enables the Group to identify opportunities that best suit its specialist skills and market knowledge.

## Key performance indicators

### Average training days per employee

**2.3 days**



### Number of graduates recruited

**57**



### Committed order book £bn

**£2.4bn** ▲ 8%



### Regeneration and development pipeline £bn

**£3.0bn** ▲ 23%



**TO READ MORE ABOUT THE COMMITTED ORDER BOOK  
AND REGENERATION AND DEVELOPMENT PIPELINE:  
SEE PAGE 26**





### Maximise efficiency

Market-leading positions will only be achieved through delivering exceptional levels of service, therefore client experience feedback is sought to identify strengths and areas that require improvement. The Group's philosophy of Perfect Delivery drives continuous improvement and higher standards of quality and service.

The Group spends a high percentage of its cost of sales on goods and subcontractor services. Careful management of the supply chain is therefore essential to drive efficiency and suppliers are monitored to ensure maximum benefits are delivered to clients and the Group. Long-term relationships are built with suppliers and subcontractors who share the Group's philosophy of Perfect Delivery and who can meet the Group's standards in quality and sustainability. By working with fewer high performing and trusted subcontractors and suppliers, disputes are minimised, projects are delivered consistently and cost savings secured. The Group's approach enables it to use its scale to procure as effectively as possible whilst retaining a level of flexibility to meet changing economic and client requirements.

The Group's sustainability performance also impacts on efficiency. A Group-wide approach to safety, reducing energy consumption, waste and carbon emissions have directly translated into cost savings. The principles of sustainability are also placed at the heart of the supply chain and across all projects the Group delivers to ensure that economic, social and environmental benefits are shared across a wide spectrum of stakeholders.

TO READ MORE ABOUT SUSTAINABILITY:  
SEE PAGES 42 TO 46



### Disciplined use of capital

The Group exercises a rigorous approach to cash management. The disciplined use of capital is essential to ensure that the Group has the available funds to realise its strategy of investing cash generated from its construction-related activities into profitable regeneration opportunities and to pay dividends to shareholders.

The Group's cash position is closely monitored to ensure the Group is generating the cash expected from its operations. Good relationships with banks and other financial institutions help ensure that sufficient and competitively priced debt facilities are available. Allocation of debt and equity in the Group's capital structure is regularly reviewed to ensure the right balance between maximising shareholder return and being able to respond appropriately to changes in the Group's operating environment.

In construction activities, working capital is tightly managed to ensure that minimal funds are invested in customer receivables. The Group's performance is key to ensuring swift payment from clients. Its strategy of working in long-term joint ventures and strategic alliances reduces the need to draw on the Group's debt facilities and allows the Group to mitigate risks that might be associated with complex large-scale projects.

The Group develops schemes for major regeneration projects that minimise the use of its funds, for example by working collaboratively with landowners, avoiding the need to purchase land on the open market and using opportunities to forward sell schemes with leading financial institutions when favourable to do so. The Group's track record enables it to secure funding, revive schemes and kick-start regeneration programmes.

### Key performance indicators

#### Gross margin %

**8.2%** ▼ 90bps



#### Overhead as a proportion of revenue %

**7.1%** ▼ 40bps



#### Working capital as a proportion of revenue %

**(3.2)%** ▼ 20bps



#### Operating cash flow as a percentage of operating profit %

**44%** ▲ 129bps





**Pursue innovation**

Providing added value through innovation is a strategic priority for the Group to ensure the future growth of the business. It brings a fresh approach to challenges through developing innovative practices that deliver more cost-effective solutions, create competitive advantage and drive efficiency across all divisions.

The Group recognises the need to identify and develop new technologies and find smarter ways of working. Building Information Modelling (BIM) is being progressively deployed across the Group to achieve better outcomes for clients, enhance sustainability and to improve whole life asset performance. Group investment in research and development to push the boundaries of BIM has seen the Construction & Infrastructure division embark on a strategic five-year agreement with Glasgow Caledonian University to develop a safety dimension using BIM models to map a three dimensional risk assessment of projects and help reduce accidents on sites.

Through harnessing internal skill sets and its proven track record, the Group has an acknowledged reputation for identifying innovative commercial funding solutions that enable public sector clients and landowners to unlock stalled regeneration projects and allows the Group to share in the financial, social and economic success of projects.

Knowledge transfer and sharing best practice with clients and across project teams are vital to drive Group performance and improve its overall offering. Having been one of the first organisations to achieve BS11000: Collaborative Business Relationships certification, systems are in place to enable teams to apply best practice principles and achieve long-term benefits from collaborative working.

The Group undertakes research and development activity in creating innovative construction techniques and designs integral to the delivery of its projects. The spending incurred on research and development is generally contained within project work performed for clients and not therefore separately identifiable.

**Project**  
**BIM**  
**Division**  
**Construction & Infrastructure**

A visualisation of the new station concourse at Whitechapel Station in London. The division is providing the architecture and building services design within a fully integrated 3D BIM environment as part of the £110m C512 Whitechapel Main Station Works Crossrail project which the division is undertaking in joint venture.



We use **evolving technology** to improve working processes



# Chief Executive's review



We **continue** to target opportunities in the UK construction and regeneration markets

## Statement in summary

- > Significant progress achieved despite challenging conditions
- > Further investment made in key skills and resources
- > Senior management team strengthened to drive efficiency
- > Tight financial discipline maintained
- > Emerging signs of improving conditions

“We remain confident that our robust order book and ongoing disciplined approach to contract selectivity will support the delivery of growth in this year and beyond.”





2013 has seen challenging conditions predominate across most of our markets, with competitive pressures impacting on margins and profitability. Notwithstanding this, the positive operating cash flow generated by the business has allowed us to make further investment in strategic assets, key skills and resources, which positions the Group well to benefit from future growth opportunities.

My priorities are to maintain the drive to improve margins and the Group's cash position. I aim to achieve this through maximising efficiencies across all operations, capitalising on the strength of the Group's integrated capability and identifying long-term opportunities that best suit our expertise and track record.

To help achieve our objectives, I have strengthened the senior management team with the appointment of a managing director of Investments and Group strategy, a director of people and a Group commercial director all of whom sit on the Group executive team. In addition to this, I have also introduced a Group management team comprising the Group executive team and the divisional managing directors to consider opportunities and challenges affecting the Group as a whole.

### The Group's performance in 2013

Revenue for the period was 2% up on the prior year at £2,095m. The adjusted\* gross margin reduced 90bps to 8.2% (2012: 9.1%), impacted by competitive market pressures mainly across the Construction & Infrastructure and Affordable Housing divisions. Adjusted\* operating profit of £33.6m was 30% down on the prior year, with adjusted\* operating margin of 1.6% (2012: 2.3%). This included profit from the sale of investments totalling £9.9m (2012: £8.8m).

Exceptional operating items of £14.7m have been charged in the year representing an impairment to trade and other receivables in relation to four old construction contracts held on the balance sheet.

At the half year, an impairment of £13.0m was made in respect of these items, which was based on an assessment of progress made at that time towards recovering these amounts and the expected time, cost and associated risk of pursuing legal remedies to achieve recovery. During the second half, there has been commercial resolution achieved on one of these contracts, whilst another has been impaired to reduce the carrying value to nil. In relation to the remaining two contracts, the Board believes it is appropriate to provide against these balances to an amount it considers is a balanced estimate of overall likely resolution based upon its current assessment of progress made towards recovering these amounts and the expected time, cost and associated risk of pursuing legal remedies to achieve recovery.

The result is that after charging exceptional operating items, the reported profit before tax for the year was £13.9m (2012: £34.2m). Basic earnings per share was 35.4p (2012: 72.5p).

The ongoing focus on cash and working capital management has continued to deliver positive progress. Operating cash flow of £14.9m was generated, compared to an operating cash outflow of £42.7m in the prior year. A key component of this is working capital, where a working capital outflow of £8.4m in the year compared to an outflow of £76.9m in 2012.

### A focus on growth

We remain committed to our strategy of targeting growth infrastructure markets where we can increase market share and investing in long-term major regeneration projects. Both markets command high barriers to entry. We are encouraged by the Government's continuing investment in infrastructure, allowing our Construction & Infrastructure division to capitalise on its proven track record of operating in highly regulated markets and providing high levels of quality and safety. We have increased our investment in regeneration. Our development expertise and ability to identify innovative structuring and financing solutions remain in demand from local authorities committed to delivering urban and social renewal. The 2013 Spending Review re-affirmed the Government's commitment to release public land to stimulate local economies and promote job creation. This approach allows us to play to our strengths. Local authorities and landowners can unlock land values without significant impact on the public purse and we can invest our capital effectively as land is often retained by our partners and we avoid the need to buy land on the open market.

### Competitive advantage

The challenging competitive environment is likely to continue in the short term so we have maintained our focus on areas where we can secure competitive advantage. Our philosophy of Perfect Delivery drives us to offer ever higher standards in quality and safety. Our integrated capability also provides competitive advantage, allowing us to offer clients added value and reduced complexity. We continue to experience an increased demand from clients and partners who recognise the benefits we can offer from two or more of our divisions working collaboratively.

### Sustainability performance

We have made good progress in our sustainability performance across the Group. Our six Total Commitments focus on safety, developing talent, reducing energy consumption, carbon emissions and waste, improving sustainable procurement and creating local economic growth.

TO READ MORE ABOUT SUSTAINABILITY:  
SEE PAGES 42 TO 46

### Basis of preparation:

\*The term 'adjusted' excludes the impact of intangible amortisation, exceptional operating items and the deferred tax credit arising due to the change in the UK corporation tax rate. Exceptional operating items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in the understanding of the financial performance of the Group.



### Rigorous management

We have maintained tight financial discipline across the Group through robust management of overheads, cash and working capital to ensure we can invest cash from our construction activities into best quality regeneration opportunities. Rigorous credit checks are undertaken to scrutinise the financial health of clients to minimise bad debt risk and supply chain partners are also carefully assessed to ensure that together we provide superior, safe and sustainable services.

Looking ahead to 2014, although there are signs of improving conditions in some of our markets, it is anticipated that upward pressure on supply chain costs and skills availability will provide additional management challenges. Against this backdrop, we remain confident that our robust order book and ongoing disciplined approach to contract selectivity will support the delivery of growth in this year and beyond.

### Business review

The following business review is given on an adjusted basis, unless otherwise stated.

#### Committed order book and regeneration and development pipeline

The Group's committed order book at 31 December 2013 was £2.4bn, an increase of 8% from the previous year end. The divisional split is shown below.

	2013 £m	2012 £m	% change
<b>Committed order book*</b>			
Construction & Infrastructure	1,499	1,519	-1%
Fit Out	142	170	-16%
Affordable Housing	581	466	+25%
Urban Regeneration	143	65	+120%
Investments	38	-	n/a
<b>Group committed order book</b>	<b>2,403</b>	<b>2,220</b>	<b>+8%</b>

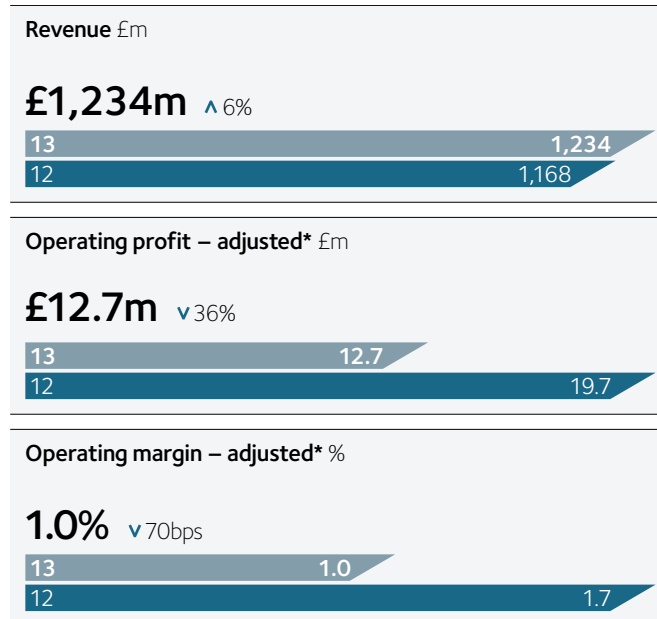
\*Committed order book comprises the secured order book and framework order book. The secured order book represents the Group's share of future revenue that will be derived from signed contracts or letters of intent. The framework order book represents the Group's expected share of revenue from the frameworks on which the Group has been appointed. This excludes prospects where confirmation has been received as preferred bidder only, with no formal contract or letter of intent in place.

The Group's regeneration and development pipeline was £3.0bn, an increase of 23% from the previous year end.

	2013 £m	2012 £m	% change
<b>Regeneration and development pipeline*</b>			
Affordable Housing	715	354	+102%
Urban Regeneration	1,953	1,941	+1%
Investments	368	179	+106%
<b>Group regeneration and development pipeline</b>	<b>3,036</b>	<b>2,474</b>	<b>+23%</b>

\*Regeneration and development pipeline represents the Group's share of the gross development value of secured schemes including the development value of open market housing schemes.

### Construction & Infrastructure



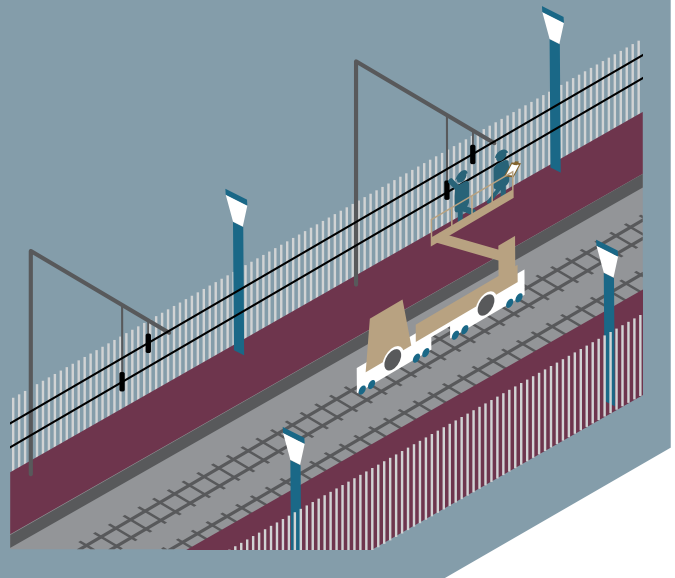
The Construction & Infrastructure division has experienced challenging market conditions through the year, which has significantly impacted on overall profitability. Although divisional revenue of £1,234m was up 6% on the prior year (2012: £1,168m), operating margin reduced to 1.0% impacted by competitive pressures and more latterly by cost inflation, which resulted in operating profit of £12.7m (2012: £19.7m). The committed order book of £1,499m has decreased by 1% since the end of 2012 and of this total, 54% is committed in 2014.

In terms of markets served, the largest market sector for the division is Transport (Highways, Aviation and Rail), which accounted for 28% of divisional revenue. Other significant markets served are Education (26%) and Water (14%). By type of activity, Construction accounted for 56% of divisional revenue (2012: 57%) and Infrastructure accounted for 44% (2012: 43%).

Within Infrastructure, the division has made strong progress in Transport, where continuing Government investment has helped the division increase its profile in the highways sector. This has included significant activity on Highways Agency smart motorway schemes, such as the award, in joint venture, of the M1 upgrade between junctions 39 and 42. The Aviation sector particularly values the benefits of the division's integrated design and build offering, with work being undertaken on a range of projects covering terminals, air traffic control centres, runways, hangars and airport infrastructure. The division has furthered its expertise in safe and consistent delivery in these challenging environments with the completion of the rehabilitation of Heathrow Airport's southern runway – activity on the northern runway is scheduled

**Project****Rail electrification****Division****Construction & Infrastructure**

The Construction & Infrastructure division's rail electrification team has provided overhead line electrification and isolation support on rail lines across the UK for 15 years. The team carries out safety critical roles and upholds exemplary safety standards. In addition to the division's 100% Safe approach which underpins all that it does, the team has also applied behavioural safety and behavioural vector analysis programmes to ensure the creation of high performing and safe teams.

**We help keep trains running**

for 2014. At Stansted Airport, the division has secured a new framework agreement for the provision of design, engineering, planning and architectural services. The division has positioned itself for further growth in Rail by combining its rail electrification capabilities with its main rail offering and is now addressing the market with a more comprehensive range of services through a simplified structure. In January 2014, the division was awarded alliancing contracts by Network Rail in relation to the £650m Edinburgh–Glasgow Improvement Programme (EGIP). The division has already successfully delivered the new £25m station at Haymarket in Edinburgh through EGIP.

The Energy sector remains attractive as the division delivers efficient energy solutions in generation, transmission and distribution through strategic alliances and frameworks. The division continues to deliver projects on National Grid's Electricity Alliance Central (EAC) framework which provides major enhancements to the UK's electrical transmission infrastructure as part of a five-year agreement which runs until March 2017. The EAC has recently been awarded a £10m scheme at Middleton Substation, near Heysham, Lancashire and work will start on site in March 2014. The EAC also continues to deliver the £110m project at Connah's Quay which involves the construction of a new 400kV Gas Insulated Switchgear substation. Both of these projects play a vital role in the reinforcement of the high voltage transmission infrastructure in north-west England. In the nuclear sector, work has commenced at Sellafield following last year's appointment as delivery partner in joint

venture on the potential 15-year £1.1bn contract, and further levels of activity will be undertaken in 2014.

During 2013, the division continued to help maintain and improve the UK's Water networks through positions on three frameworks. It remains committed to growing its presence further in this market; as the water industry starts procurement for its next asset management period, Severn Trent Water and Yorkshire Water have already confirmed the division's position on their AMP6 frameworks.

In addition, its specialist tunnelling capability on large-scale civil engineering schemes was demonstrated by further progress on Crossrail projects and Thames Water's Lee Tunnel. Further investment will be made in 2014 to secure, in joint venture, a contract within the Thames Tideway Tunnel project, following pre-qualification success.

The Construction business has worked on projects alongside all other Group divisions, demonstrating how the Group's integrated approach can help reduce complexity for clients and overcome barriers to success. It has continued to increase its foothold in the Commercial sector, not least in London where it was appointed by The Crown Estate in June to refurbish 1–3 Regent Street, a Grade II listed building in St. James's. It is well positioned as the sector's recovery gains traction. In Education, £264m awards were secured across the country during the year.



Importantly, the division has secured a place on the Defence Infrastructure Organisation design and build framework covering the East Midlands and Eastern England. The framework, estimated to be worth between £100m and £250m over an initial four year period, and potentially for a further three years, is the first of seven Capital Works Frameworks procured under the Next Generation Estates Contracts programme for the delivery of construction projects on the Defence Estate.

Exceptional operating items of £14.7m have been charged in the year representing impairments to trade and other receivables in relation to four old construction contracts held on the balance sheet. During the second half, there has been commercial resolution achieved on one of these contracts, whilst another has been impaired to reduce the carrying value to nil.

Looking ahead, the division is focused on building its integrated offering to its key strategic sectors, with a view to securing more complex and long-term projects that offer enhanced returns through strategic alliances, frameworks and working collaboratively across the Group. At the same time, ongoing investment in developing the division's skill base and supply chain will further enhance its ability to deliver the highest operational standards to its customers.

Although increasing market confidence in future construction output has become apparent in the latter part of the year, as evidenced by increased activity and bidding levels, this has been accompanied by upward pressure on supply chain costs and availability, which will impact on full margin recovery. Against this backdrop, continued stringent bid selection and rigorous management of working capital will underpin performance and will further position the division to benefit from future growth opportunities as they arise.

## Fit Out

Revenue £m	
<b>£427m</b> ▼ 2%	
13	427
12	437

Operating profit – adjusted* £m	
<b>£10.9m</b> ▼ 4%	
13	10.9
12	11.3

Operating margin – adjusted* %	
<b>2.6%</b> > 0%	
13	2.6
12	2.6

Market conditions for Fit Out have remained broadly stable throughout the year, with strong competition resulting in a price sensitive market. In the final quarter of the year though, early indications of growing confidence in market improvement were noted in London and across the regions.

Although revenue was down 2% on the prior year, the operating margin was held level at 2.6% (2012: 2.6%) resulting in an operating profit of £10.9m (2012: £11.3m). The committed order book of £142m was down 16% compared to the prior year end, however the current level of expected orders and high quality prospects in the bid pipeline suggest an increasing level of overall sales activity going into 2014.

The London office market, which accounts for 74% of revenue, has experienced improving occupier confidence with customers in professional services and the technology, media and telecoms sectors all driving demand. Activity has been weighted towards refurbishment of offices whilst in occupation and the division's flagship project, the fit out of PwC's 450,000 sq ft headquarters at Embankment Place, London has been successfully delivered. This ambitious and highly technical refurbishment programme set out to revitalise dated and inefficient workspaces and was carried out with around 2,000 staff in occupation. The complex refurbishment of the building achieved an Outstanding BREEAM score and the building now boasts some of the highest sustainability credentials in Europe.



**Project**

**Mill Brook, Liverpool**

**Division**

**Affordable Housing**

This development of 71 new homes for rent, shared ownership and purchase in south Liverpool was named Best Affordable Housing Development in the LABC North West Building Excellence Awards. The scheme was commended for achieving, "high quality and sustainable buildings fit for the future."

The award was made to the Mill Brook development because the relationship between Compendium Living – a partnership between the Group's Affordable Housing division, and housing association Riverside Group – and Liverpool City Council's building control department led to cost savings and improved standards of construction.



We **save** money and improve standards



In other regions (26% of revenue), high profile completions include ITV's new high specification facilities at MediaCityUK in Salford whilst the integrated services of the Fit Out and Construction & Infrastructure divisions delivered a highly technical and strategic project for National Grid.

Beside the commercial office market sector which accounts for 88% of revenue, higher education (8% of revenue) and retail banking (1% of revenue) remain other strategic growth sectors. As major universities embark on significant capital spend programmes, the division has increased its sector presence with noteworthy wins from five of London's leading universities and three major regional universities. Within retail banking, market opportunities are expected to increase as banks undergo consolidation and estate rationalisation.

The year has also seen the successful launch of the division's Workplace Consultancy service, undertaking work within its first year of operation for prominent clients including Nuffield Health and SAS. Other highlights include the division winning its first fit out project through referral from one of its international alliances.

Looking ahead, it is anticipated that the market will show a measured recovery in 2014, with renewed confidence leading to an increase in profitable opportunities across all core sectors. The division is well placed to capitalise on the increasing number of larger corporates securing office space for 2015-16 occupation and the expected significant surge in lease expiries expected in London over the next four years. As occupiers seek new premises in a supply-constrained market, it is anticipated that this demand will lead to an improved profitable pipeline from which the division is well-positioned to benefit.

**Affordable Housing**

Revenue £m

**£381m** ▼1%



Operating profit – adjusted\* £m

**£8.6m** ▼25%



Operating margin – adjusted\* %

**2.3%** ▼70bps



Strategically, the Affordable Housing divisional activities can be categorised into (i) Regeneration (mixed-tenure schemes which include open market housing developments) and (ii) Construction & Services (being new build housing contracting and planned and response maintenance services).





### Project

#### Castleward Urban Village, Derby

#### Division

#### Affordable Housing

Castleward Urban Village, under development by Compendium Living, the joint venture between Affordable Housing and the Riverside Group, is only the second development project in the UK to gain a 'Good' certification under the BREEAM Communities assessment. This measures the sustainability of new large-scale developments at the masterplanning stage, with certification awarded to projects where economic, social and environmental sustainability is being carefully considered. So far in phase one 96% of the waste generated during the building process has been recycled, well above the 90% target set for the project.



### We are committed to reducing waste



Total divisional revenue of £381m was slightly down by 1% (2012: £386m), whilst operating profit of £8.6m was down 25% (2012: £11.5m). Although overall performance showed an improvement in the second half, the reduction in margin in the year was driven primarily by competition and a lower margin contribution from the Construction & Services activities, offset in part by positive revenue and margin growth from the Regeneration activities.

Regeneration (28% of divisional revenue) is the key strategic focus of the division through its mixed-tenure activities. The division experienced improved conditions mainly in the second half of the year, driven by an uplift in open market house sales which were boosted by the Government's Help to Buy scheme. This contributed to a 36% increase in open market sales in the year with the average open market sales price increasing by 14% to £177,000 (2012: £155,000). Of the total number of sales, 30% were through the Help to Buy scheme. The full benefit of this increase, however, was diluted by some being sales from older, lower return sites, although such sales have returned capital to the business for re-investment in newer, higher margin opportunities.

In business development, successful new awards in the year include the £269m Woolwich Estates regeneration scheme, the £78m Lymington Fields, Dagenham scheme and the division's preferred bidder status on the £30m Ponders End scheme in Enfield.

Additionally, working as a partner in the Compendium Living joint venture, considerable progress has been made on the £100m Castleward Urban Village regeneration scheme, with the first tranche of 850 homes scheduled for completion in early 2014. Compendium Living has also been appointed lead developer for the East Hull Ings regeneration scheme, transforming the area with 770 new quality homes.

Further growth opportunities in mixed-tenure schemes are anticipated from appointments on the four-year London Development Panel, expected to procure up to £5bn of housing-led mixed-use development on public land, and also on all four lots of the Homes and Communities Agency's four-year £4bn DPP2 (Delivery Partner Panel 2) housing framework.

Collaborative schemes with other Group divisions have continued to provide a strong growth platform for Affordable Housing, with the division working with both the Urban Regeneration and Construction & Infrastructure divisions and with Investments also procuring work from the division on projects in Slough and Towcester.

The regeneration and development pipeline of £715m was an increase of 102%, underpinning the future growth and profit potential of this part of the division.



Construction & Services (72% of divisional revenue) includes the new build housing contracting activities and planned and response maintenance services.

The new build housing contracting activities accounted for 24% of divisional revenue and although focus has been on maintaining a selective approach to bidding for contracts that offer clear margins and securing work through long-term frameworks, competitive pressure in the year has resulted in significantly lower revenue and margin. Additionally, increasing material and subcontractor costs were evident through the second half of the year.

In recent business development, following the year end in January 2014, the division was appointed by the Defence Infrastructure Organisation (DIO) to redevelop Beacon Barracks in Stafford. The division will work with the DIO under a £51m contract to deliver 346 high quality new homes for service personnel and families alongside infrastructure improvements, on and off-site utility services and landscaping, with completion expected in summer 2015. Other appointments won on major house building and development frameworks include the £1bn four-year Circle Housing Group framework.

The committed order book for the division's new build housing construction activities increased by 25% to £581m compared to the prior year end.

The Planned Maintenance business (30% of divisional revenue) has broadly maintained its overall revenue against the backdrop of a declining market, as housing associations and local authorities reduce their Decent Homes programmes. It is anticipated that this gap will be partially filled by the division's expertise in energy efficiency that has led to securing several projects funded or part-funded by ECO (Energy Companies Obligation), although the opportunities from this are now expected to be lower than previously projected.

Response Maintenance (18% of divisional revenue) has had a difficult year, with contract expiries outweighing the impact of new business wins resulting in lower revenue. Margin has been squeezed as a result of the lower volumes and the investment required in overhead and infrastructure. Operational focus is on business development and on positioning the business to pursue the significant opportunities available in the market, which are required to deliver sustained profitable growth.

Looking ahead, the division will maintain its strategic focus on developing and winning opportunities on complex mixed-tenure schemes and on capitalising on opportunities via long-term framework positions. It is expected that 2014 will see an increase in working capital investment, required to develop these newer and more profitable mixed-tenure schemes, although the profit benefit of these will not be seen until 2015 and beyond. Additional challenges in relation to increasing material and subcontractor costs, together with skills availability, will place further pressure on the overall divisional margin.

## Urban Regeneration

**Capital employed** £m  
(excluding goodwill and intangible assets)

**£76m**  $\uparrow$  19%



**Revenue** £m

**£62m**  $>$  0%



**Operating profit – adjusted\*** £m

**£1.0m**  $\downarrow$  63%



Urban Regeneration revenue has remained level with the prior year at £62m (2012: £62m), whilst the committed order book and the regeneration and development pipeline have both increased, which is reflective of the positive progress made through the year in ensuring schemes are well placed to capitalise as the market recovers. Operating profit reduced to £1.0m, which reflects the nature of the business where the timing of profit recognition depends on the mixture of schemes and stages of completion.



Levels of activity across the division's portfolio of 35 active projects have been, and are currently, significantly higher than in previous years, with £250m of construction contracts placed during the year across a broad mix of residential, commercial and leisure.

In looking to capitalise on the Government's commitment to support residential development, £70m of Government funding has been secured by the division, helping to unlock stalled housing developments including the first phase of Wapping Wharf, a 250,000 sq ft mixed-use development in Bristol. As part of funding conditions, a number of residential developments have been brought forward and 1,200 residential units are now under construction over 12 projects.

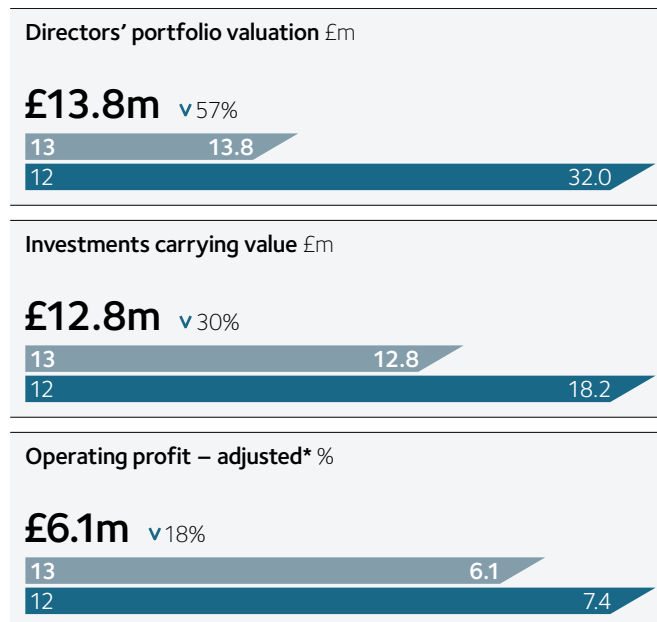
Forward funding from British Steel Pension Fund and Canada Life has enabled site starts on KPMG's pre-let regional headquarters in Leeds and the first phase of the £100m Grand Central scheme in Stockport and 216 residential units have been forward sold in Reading and Manchester.

£200m of new development agreements have been secured on major regeneration schemes in Aberdeen and South Shields. In addition, the division was selected in November as Lambeth Council's partner for a project across three sites in Brixton town centre, with a value of circa £140m. Elsewhere, a prestigious letting for a combined John Lewis at home and Waitrose store was secured at Basing View and a detailed planning application for the first phase of development submitted.

Planning consents have been secured on seven major projects with a total development value of £140m and construction has started on 13 new sites. New start-ups in the year include major developments in Leeds, Salford, Reading and the second phase of the 125-home Stockton Northshore Vivo residential scheme under development in partnership with Affordable Housing and the Homes and Communities Agency. The division continues to add value to partnerships through the Group's integrated capability and has procured work from the Construction & Infrastructure and Affordable Housing divisions on four major schemes.

Looking ahead, Urban Regeneration's current pipeline of opportunities places the division in a good position to benefit from market improvements in 2014 and beyond and to deliver significantly increased profits as schemes mature. On the commercial side, emerging occupier confidence, high levels of lease expiries and a generally supply-constrained market should enable the division to benefit, whilst on the residential front, the continuing demand for housing aligned with Government support for homebuyers and the expected growth of the institutional private rented sector, should allow Urban Regeneration to maximise the returns from its investments. As these markets improve and more schemes become active, further working capital investment will be required to support the increased activity.

## Investments



The strategic rationale for the Investments division remains the creation of investments which will provide prime long-term construction opportunities for other divisions within the Group working with both the public and private sector. The division is focused on helping partners realise the potential for under-utilised property assets and promote economic growth, predominantly through long-term strategic partnerships with the public sector. It has developed a particular expertise in strategic property partnerships, including Local Asset Backed Vehicle (LABVs) joint ventures and land swaps through which the division identifies innovative structuring and financing solutions and provides development expertise.

During the year, the continued strategy of recycling capital from mature investments has resulted in the disposals of interests in the Wigan Life Centre scheme for £6.6m (profit £1.5m), the Miles Platting social housing PFI scheme for £8.4m (profit of £4.4m) and the Tayside Acute Adult Mental Health scheme in Scotland for £8.8m (profit of £4.0m).



**PROJECT**  
**Management training**  
**Division**  
**Affordable Housing**

The Group is committed to developing home-grown talent. Mark Rimmer joined its Affordable Housing division in 2002 as an apprentice joiner. Twelve years later, having been supported throughout his studies and put through the division's management trainee programme, Mark is now a qualified quantity surveyor.



**We develop talent**



Flagship regeneration schemes include the £500m 20-year Bournemouth Town Centre LABV and the £1bn 15-year Slough Borough Council LABV, where both joint ventures have procured work from other Group divisions (Affordable Housing and Construction & Infrastructure).

In Bournemouth, three projects with a £39m gross development value are underway and in Slough the £16m community development 'The Curve' is on site, with further construction opportunities for Group divisions scheduled within both project development programmes next year. Investments is also progressing the £38m mixed-use Towcester Regeneration and Civic Accommodation project as lead developer in partnership with both Affordable Housing and Construction & Infrastructure.

In Scotland, the Investments division is leading the WellSpring Partnership which is delivering £200m public sector health and education projects over the next nine years for the Western Territory Hub Programme Board and the Scottish Futures Trust. Construction & Infrastructure will be delivering five projects valued at £48.3m for the WellSpring Partnership in 2014.

From a sector perspective, the division continues to work with the Affordable Housing division in Healthcare, as founder members of the HB Community Solutions strategic joint venture alongside HB Villages, delivering a rolling programme of new build supported living accommodation to meet the burgeoning needs of local authorities, health services and care providers across the country.

In Education, financial close has been reached on the final school to be delivered under Hull City's £400m Building Schools for the Future programme. As a member of the Hull Esteem Consortium, Investments has played a critical role in delivering the majority of the schools within the programme and is now looking to capitalise on its significant PFI expertise within the Government's £2bn Priority Schools Building Programme.

Looking ahead, the main focus for the division in 2014 will be to advance projects throughout its existing portfolio and identify opportunities for new long-term strategic partnerships where it can leverage its expertise in project finance, development and asset management alongside the strength of the Group's integrated delivery capability. With a positive pipeline of opportunities, it is expected that the division will continue to capitalise on the release of under-utilised land assets to help its partners unlock land values and fulfil regeneration ambitions.

# Finance review



Revenue, committed order book and regeneration and development pipeline all **increased** in the face of competitive market pressures

	2013	2012
Revenue	<b>£2,095m</b>	£2,047m
Operating profit – adjusted*	<b>£33.6m</b>	£48.1m
Profit before tax – adjusted*	<b>£31.3m</b>	£47.1m
Earnings per share – adjusted*	<b>60.9p</b>	92.0p
Year end net cash balance	<b>£69.7m</b>	£50.4m
Average net debt	<b>(£19.0m)</b>	(£40.1m)
Dividend per share	<b>27.0p</b>	27.0p
Operating profit	<b>£16.2m</b>	£35.2m
Profit before tax	<b>£13.9m</b>	£34.2m
Basic earnings per share	<b>35.4p</b>	72.5

\*Adjusted is defined as before intangible amortisation (£2.7m), exceptional operating items (£14.7m) and (in the case of earnings per share) deferred tax credit (£2.5m) (2012: intangible amortisation £2.9m, exceptional operating items £10.0m and deferred tax credit £1.5m).

## Trading performance

Revenue increased by 2% to £2,095m (2012: £2,047m) with committed order book increasing 8% to £2.4bn and the regeneration and development pipeline increasing 23% to £3.0bn.

Adjusted\* gross margin fell 90bps to 8.2% (2012: 9.1%) due mainly to competitive market pressures in Construction & Infrastructure and Affordable Housing.

Adjusted\* operating profit of £33.6m was down 30%, with adjusted\* operating margin of 1.6% (2012: 2.3%). This included profit from the sale of investments totalling £9.9m (2012: £8.8m).

## Exceptional operating items

An exceptional charge of £14.7m was taken in the year as an impairment against trade and other receivables. In 2012 an exceptional charge of £10.0m was made against redundancy and property costs resulting from the reorganisation of the Group's offices.

## Net finance expense

Net finance expense was £2.3m (2012: £1.0m). Interest expense increased despite lower average net debt during the year due to reduced interest receivable from joint ventures, discount unwind on deferred consideration and higher arrangement fees on increased facilities.

## Tax

The Group's adjusted tax rate, excluding the deferred tax credit of £2.5m (2012: £1.5m) which has arisen as a result of a reduction in the UK statutory tax rate fell to 11% (2012: 18%) and is low due to there being no tax on profit on disposal of investments and joint venture profit, which is reported after tax.

## Earnings per share

Adjusted earnings per share decreased by 34% from 92.0p to 60.9p. Basic earnings per share has fallen by 51% to 35.4p from 72.5p.

## Dividends

The Board recommends a final dividend of 15.0p payable on 23 May 2014 to shareholders on the register at the close of business on 2 May 2014. The ex-dividend date is 30 April 2014. This takes the total dividend to 27.0p (2012: 27.0p).

## Net working capital

Net working capital is defined as 'inventories plus trade and other receivables less trade and other payables, adjusted to exclude deferred consideration payable and interest accruals'.

Net working capital of (£67.0m) was 10% lower than last year. Net working capital/revenue ratio was (3.2%) (2012: (3.0%)). Net working capital is stated after charging the £14.7m exceptional operating item. Prior to charging this, net working capital was (£52.3m), an increase of £8.4m.



### Free cash flow reconciliation £m

<b>Operating profit – adjusted*</b>		<b>33.6</b>
Non-cash items		(4.4)
Working capital		(8.4)
Net capital expenditure		(4.8)
Dividends and interest from joint ventures		1.7
Other operating items <sup>1</sup>		(2.8)
<b>Operating cash flow</b>		<b>14.9</b>
Tax paid		(1.2)
Net interest paid (excl. joint ventures)		(1.8)
<b>Free cash flow</b>		<b>11.9</b>

<sup>1</sup> Other operating items includes property dilapidation provisions released to the income statement within the Construction & Infrastructure division.

### Cash flow

The Group generated an operating cash inflow of £14.9m compared to an outflow in 2012 of £42.7m. The improvement was principally a result of working capital outflow which fell from £76.9m in 2012 to £8.4m.

Free cash flow of £11.9m represented a further improvement with tax payments falling from £8.1m in 2012 to £1.2m.

### Net cash

Net cash increased by £19.3m to £69.7m at 31 December 2013. This reflected free cash flow of £11.9m and proceeds from the disposal of investments totalling £23.6m offset by dividends paid of £11.5m and other outflows. The average daily net debt for the year was £19m, an improvement on last year (2012: net debt £40m).

### Banking facilities committed until 2015

The Group has £140m of committed banking facilities of which £110m will mature in September 2015 and £30m will mature during 2016. The banking facilities are subject to financial covenants, all of which have been met throughout the year.

### Treasury policy and controls

The Group has clear treasury policies which set out approved counterparties and determine the maximum period of borrowings and deposits. The Group has very limited exposure to foreign exchange risk because it is based almost entirely in the UK, but significant committed foreign exchange exposures are hedged when they arise.

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 2013, contract bonds in issue under uncommitted facilities covered £185.3m (2012: £186.5m) of contract commitments of the Group.

Further information on the Group's use of financial instruments is explained in note 28 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 strategic report. 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 2013, the Group had net cash of £69.7m and undrawn committed banking facilities of £140m expiring September 2015 and beyond.

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.

## Risk review



Key risks to the Group achieving its strategic goals are **meticulously** managed

“There is a clear and established risk framework in place across the organisation by which the Group seeks to manage its risks.”

The Group’s risk framework is designed and operated to identify, control and mitigate threats to the Group achieving its goals and is described below in principle:

- > Each year the Group and its divisions undertake a comprehensive business planning process to identify objectives and set strategies to achieve their goals
- > The executive directors meet with the divisions each month throughout the year and with an established agenda and reporting format covering a range of matters that must be brought to their attention. This allows the senior management team to ensure that it maintains oversight and control over the material aspects of strategic, financial and operational issues
- > The control environment is further underpinned by a clear set of delegated authorities that define processes and procedures for approving material decisions, particularly with regard to project pre-qualifications, tender pricing, bid submissions and capital requirements. This ensures that projects are approved at the appropriate level of management, with the largest and most complex projects being approved at Board level
- > Twice yearly each division carries out a detailed risk review which identifies mitigations or proposed actions for each significant risk. Risk registers document these together with any timescale by which actions are targeted for completion. In conjunction with the divisional risk reviews the Group executive team compiles its own assessment thus ensuring that a top down, bottom up approach is undertaken when considering the Group-wide environment
- > An annual internal audit plan, approved by the audit committee and covering both project and corporate level risks is developed based upon the key risks identified from the risk review process and feedback from current divisional performance. Following this the internal audit team reports regularly to the Board and the audit committee on the status of risk and control following its assignments
- > 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 & Infrastructure and Affordable Housing, which have larger and more complex operations than other divisions.

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.



Risk category	Trend*	Description and impacts	Mitigation
<p><b>Markets</b> The markets in which the Group operates are affected to varying degrees by general macro-economic conditions. The Group is particularly focused at present on managing the impact of the challenging economic conditions, changes in Government spending priorities, together with the availability of private sector funding.</p>	<p>&gt;</p>	<p><b>New opportunities</b> Increased levels of new opportunities are available to the Group in a rising market, however it needs to remain focused upon selecting those which provide the Group with the ability to grow margins and repeatable business. Also there is still some uncertainty around the more optimistic but still fragile outlook including predicting future Government spending priorities and the ability of the private sector to obtain sustainable levels of debt.</p> <p><i>A significant fall in construction activity could impact revenues, profits and the ability to generate sufficient margins to cover overheads which could potentially result in a need to rescale the business and overheads.</i></p> <p><i>It could also result in less cash being generated which would affect the Group's ability to invest cash in regeneration and growth markets.</i></p>	<ul style="list-style-type: none"> <li>&gt; Market spread, geographical capability and diversification offer measured protection against decline in individual markets</li> <li>&gt; Scale also gives increased resilience by enabling the Group to compete and work in areas with higher barriers to entry</li> <li>&gt; Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities</li> <li>&gt; Market intelligence helps to detect potential shifts in spending and inform adaptations to the Group's approach</li> <li>&gt; Delegated authorities in place require approval from appropriate levels of management to bid for new work.</li> </ul>
	<p>v</p>	<p><b>Overcapacity in market</b> 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.</p> <p><i>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.</i></p>	<ul style="list-style-type: none"> <li>&gt; Delegated authorities in place require approval of tenders by appropriate levels of management, covering both price and terms and conditions</li> <li>&gt; Delegated authorities stop the business knowingly taking on loss-making contracts</li> <li>&gt; Through the development of effective client relationships, the Group seeks to differentiate itself through the quality of its service and consistency of delivery</li> <li>&gt; Greater value can be offered to clients when, where appropriate, different divisions work together</li> <li>&gt; Regular review of resource levels against anticipated workload.</li> </ul>
	<p>v</p>	<p><b>Exposure to UK housing market</b> The UK housing market is influenced by consumer confidence and in particular employment levels and availability of mortgage finance.</p> <p><i>If unemployment were to increase or mortgage finance became more difficult to secure this could reduce the amount that people are willing to pay for houses reducing profitability from house sales and the value of assets such as land with residential planning permission and shared equity loan receivables.</i></p>	<ul style="list-style-type: none"> <li>&gt; Monitoring of statistics such as the UK unemployment rate and mortgage lending figures ensure that management can react appropriately to the latest market conditions</li> <li>&gt; When possible, forward purchased land is subject to economic viability tests meaning the price can be reduced or purchase cancelled should house prices fall sufficiently</li> <li>&gt; If economically reasonable, large-scale residential schemes are forward sold to institutional or other investors.</li> </ul>

\*Trend – signifies the Board's opinion of pre-mitigation risk movement within the current business cycle.



# Risk review



Risk category	Trend*	Description and <i>impacts</i>	Mitigation
<p><b>Strategy</b> The Group's strategy needs to be clearly articulated and understood to ensure successful outcomes are achieved. The Group's success is a product of both the strength of business management and its people.</p>	<p><b>V</b></p>	<p><b>Conflicted decision making</b> The Group's strategy is not clearly communicated to and understood by employees.</p> <p><i>Employees may unintentionally make decisions that are not wholly aligned with the Group's strategic aims.</i></p>	<ul style="list-style-type: none"> <li>&gt; 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</li> <li>&gt; 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</li> <li>&gt; Monthly divisional review meetings allow the Board to assess progress against the agreed strategy</li> <li>&gt; Top down, bottom up annual business planning and budgeting process involving key personnel.</li> </ul>



Risk category	Trend*	Description and impacts	Mitigation
<p><b>People</b> 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.</p> <p>In a rising economic environment, it can become increasingly difficult to retain key employees, especially those targeted by competitors.</p>	➤	<p><b>Environmental or safety incident</b> 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 project delays.</p> <p><i>Consequently the Group fails to pre-qualify for contracts due to a poor health, safety and environmental track record.</i></p>	<ul style="list-style-type: none"> <li>➤ Key executives with specific responsibility for HSE are identified in each division and on the Board</li> <li>➤ HSE policy frameworks are communicated and senior managers appointed to manage them in each division and at project level where appropriate</li> <li>➤ Established safety systems, site visits, monitoring and reporting, including near miss and potential hazard reporting, are in place across the Group</li> <li>➤ Investigation and root cause analysis of accidents or incidents and near misses</li> <li>➤ Regular HSE training and updates including behavioural training</li> <li>➤ Major incident management plans and business continuity plans are in place and are periodically reviewed and tested.</li> </ul>
	⤴	<p><b>Failing to attract talented people</b> Risk that the Group fails to grow by not ensuring that the best people are employed to create the most capable teams possible.</p> <p><i>The Group does not benefit from new ideas and experience and is unable to grow the business and achieve its long-term strategy.</i></p>	<ul style="list-style-type: none"> <li>➤ Progression planning in place in each division to ensure immediate and future replacements are identified and developed accordingly</li> <li>➤ Investment made in graduate, trainee and apprenticeship schemes to secure an annual inflow of new talent</li> <li>➤ Monitoring of future skills and capability requirements</li> <li>➤ Identification of future talent</li> <li>➤ Director of people to develop and drive the talent agenda.</li> </ul>
	⤴	<p><b>Not developing or retaining capable teams</b> In a rising market there is an increasing risk that the business will not be able to keep hold of employees or improve the performance of the teams that they work within.</p> <p><i>Without capable teams, it becomes very difficult to maintain the high levels of customer service that the Group strives for. When employee turnover increases it can adversely affect morale within the rest of the team.</i></p>	<ul style="list-style-type: none"> <li>➤ Annual employee appraisal process in place, providing two-way feedback on performance</li> <li>➤ Training and development plans seek to maximise relevant skills and experience</li> <li>➤ Remuneration packages are benchmarked where possible.</li> </ul>
	➤	<p><b>Poor project delivery</b> 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.</p> <p><i>Interim cash payments may be withheld impacting working capital and issues may also impact contract profitability and corporate reputation.</i></p>	<ul style="list-style-type: none"> <li>➤ Strategic trading arrangements in place with key suppliers and subcontractors to help ensure consistent quality</li> <li>➤ Collation and review of client feedback</li> <li>➤ Lessons learned exercises carried out on projects</li> <li>➤ Employees incentivised on basis of contract performance</li> <li>➤ Internal peer reviews</li> <li>➤ Regular monitoring of project performance including management of the work programme, margin, contract changes and cash.</li> </ul>

# Risk review



Risk category	Trend*	Description and <i>impacts</i>	Mitigation
<p><b>Winning in our markets</b> 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.</p>	<p>&gt;</p>	<p><b>Misprice contract</b> 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.</p> <p><i>Leads to loss of profitability on a contract and reduces overall gross margin.</i></p>	<ul style="list-style-type: none"> <li>&gt; System of delegated authorities governs tenders and the acceptance of work</li> <li>&gt; A contract tender is reviewed at three key stages: pre-qualification, pre-tender and final tender submission</li> <li>&gt; Contract tender approved by the appropriate level of management via tender review boards.</li> </ul>
		<p><b>Managing changes to contracts and contract disputes</b> 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.</p> <p><i>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.</i></p>	<ul style="list-style-type: none"> <li>&gt; Work carried out under standard terms wherever possible</li> <li>&gt; Well established systems of measuring and reporting project progress and estimated out-turns, including any contract variations</li> <li>&gt; Contract terms reviewed at tender stage and any variations approved by the appropriate level of management</li> <li>&gt; Reviews in place to ensure rigour is applied in core processes to provide effective early warning</li> <li>&gt; Decision to take legal action based on appropriate legal advice</li> <li>&gt; Suitable provision made for legal costs.</li> </ul>
		<p><b>Poor contract selection</b> 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 in a rising market when there are more opportunities, though these may vary in quality and there may be restricted availability of quality resources.</p> <p><i>This may lead to poor understanding of project risks, poor project delivery and ultimately result in contract losses and reputational damage.</i></p>	<ul style="list-style-type: none"> <li>&gt; Business planning identifies markets and clients that the Group will target</li> <li>&gt; System of delegated authorities governs tenders and the acceptance of work</li> <li>&gt; Plans for specific types of work and contract size agreed by individual business</li> <li>&gt; Staff resources planning</li> <li>&gt; Initiatives to select supply chain partners to match the Group's expectations in terms of quality and sustainability.</li> </ul>
<p><b>Maximise efficiency</b> 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.</p>	<p>&gt;</p>	<p><b>Perfect Delivery</b> The Group does not fully adopt the philosophy of Perfect Delivery.</p> <p><i>Project failures are 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.</i></p>	<ul style="list-style-type: none"> <li>&gt; Continuing engagement with employees, clients and supply chain</li> <li>&gt; Internal resources dedicated to the further development of Perfect Delivery, ensuring maximum engagement</li> <li>&gt; Perfect Delivery culture is led from the top</li> <li>&gt; Teams targeted and measured on achieving high levels of customer satisfaction.</li> </ul>
		<p><b>Business conduct</b> 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.</p> <p><i>Could expose the Group to significant potential liability and reputational damage that results in it failing to pre-qualify for contracts.</i></p>	<ul style="list-style-type: none"> <li>&gt; Independent Raising Concerns phone line available for all employees</li> <li>&gt; 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</li> <li>&gt; Ethics policy communicated to all employees</li> <li>&gt; Training in place to ensure awareness of and compliance with both competition law and the Bribery Act</li> <li>&gt; Regular reviews undertaken to ensure procedures in place are adequate, followed and up to date.</li> </ul>



Risk category	Trend*	Description and <i>impacts</i>	Mitigation
<p><b>Disciplined use of capital</b> In a rising market there is an increased risk that 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.</p>	<p>▲</p>	<p><b>Insolvency of key client, subcontractor or supplier</b> 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 macro-economic climate, historical credit checks are relied upon that have subsequently been overtaken by events.</p> <p><i>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.</i></p>	<ul style="list-style-type: none"> <li>&gt; Work only carried out for financially sound clients, established through credit checks</li> <li>&gt; Specific commercial terms, including payment terms, with escrow accounts used as appropriate</li> <li>&gt; Seek and obtain financial security where required</li> <li>&gt; Work with approved suppliers wherever possible</li> <li>&gt; Contracts with clients, subcontractors or suppliers only entered into after review at the appropriate level of delegated authority</li> <li>&gt; Regular meetings with key supply chain members to give and receive feedback and maintain the quality of the relationship.</li> </ul>
	<p>▼</p>	<p><b>Management of working capital</b> Risk that poor management of working capital leads to inadequate liquidity and funding problems.</p> <p><i>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.</i></p>	<ul style="list-style-type: none"> <li>&gt; Daily monitoring of cash levels and regular forecasting of future cash balances</li> <li>&gt; Regular stress testing of long-term cash forecasts</li> <li>&gt; Regular assessment of the level of banking facilities available to the Group</li> <li>&gt; Working capital monitored and managed as appropriate, with acute focus on any overdue work in progress, debtors or retentions</li> <li>&gt; For very significant purchases on large projects, forward orders can be placed on a longer timescale</li> <li>&gt; Group delegated authorities in place to ensure that prior approval is sought for any significant project-related capital requirements.</li> </ul>
	<p>&gt;</p>	<p><b>Management of overheads</b> The Group fails to responsibly shape the business and becomes uncompetitive.</p> <p><i>If the cost base is too high, the Group may be hindered in winning new work and profit margins will be eroded.</i></p>	<ul style="list-style-type: none"> <li>&gt; Overheads are reviewed on a monthly basis</li> <li>&gt; Business planning identifies future overhead requirements</li> <li>&gt; Internal and external benchmarking is carried out to ensure overhead levels are appropriate.</li> </ul>
<p><b>Pursue Innovation</b> The Group is committed to offering clients innovative and cost effective solutions. If it fails to encourage an innovative approach across the Group it will become less effective.</p>	<p>▲</p>	<p><b>Innovation</b> Failure to adopt appropriate innovations in new products or techniques.</p> <p><i>The Group becomes less effective than its competitors and not able to secure best value for, or offer the best solutions to, its clients. New technologies and innovations are not promoted within the business environment, reducing the attraction of the Group to new and existing talent.</i></p>	<ul style="list-style-type: none"> <li>&gt; Reviews undertaken to promote elimination of waste of both resources and process, adopting lean methodology where appropriate</li> <li>&gt; Building Information Modelling strategy developed to provide more efficient asset management across the whole life cycle</li> <li>&gt; Maintaining knowledge base of new products and thinking</li> <li>&gt; Innovation on the IT agenda encouraging the promotion of new ideas into the business.</li> </ul>

# Sustainability review



The Group's commitment to sustainability is a key element of its strategy and essential to delivering value for all stakeholders.

The Group recognises the need for a robust cross-business sustainability plan to drive sustainable practice throughout the business. Three years ago the Group launched its Roadmap for Sustainability. The roadmap focuses on six specific and prioritised areas, known as Total Commitment, based on the three widely-recognised pillars of sustainability of People, Planet and Profit. Total Commitment encompasses improving safety, developing talent, reducing energy consumption, carbon emissions and waste, improving sustainable procurement and supporting local economic growth. It encourages the Group as a whole to be forward-looking and enhances its ability to identify emerging risks and opportunities and assess their potential impact. Since the roadmap's launch in 2011 the Group has been focused on delivering measurable improvement across all six of its Total Commitments.

### Progress in 2013

The Group has made significant strides in implementing best practice during the year.

The Group has set itself a new benchmark by reporting its 2013 performance through the Global Reporting Initiative's (GRI) Sustainability Reporting Framework and has opted to become one of the early adopters of the GRI's fourth generation of reporting guidelines, G4. The GRI framework provides companies with a reporting structure that includes disclosures on governance, ethics and integrity, supply chain, anti-corruption and greenhouse gas emissions, amongst others. G4 places a greater emphasis on materiality and the process of identifying and prioritising the most important challenges and opportunities that impact on the business and its stakeholders.

In line with this desire to report more comprehensively on material issues, the Group undertook a detailed stakeholder engagement survey in late 2013. 724 customers, supply chain partners and staff actively participated in the survey. Analysis of the feedback endorsed the Group's existing six Total Commitments and also identified an additional eight relevant issues that have been incorporated in this year's stand-alone Sustainability Report. Engaging with stakeholders has allowed the Group to evolve its sustainability strategy, to ensure it is addressing the real risks and opportunities impacting on the business.

A key milestone this year has been the Group's ranking as the top-scoring construction company in the CDP's UK Climate Change Report 2013. This year the Group achieved a higher score of 91/B from its 2012 score of 86/B. In 2012, the Group became the first non FTSE 350 company to be listed in the Carbon Disclosure Leadership Index (CDLI). It repeated this achievement in 2013, reflecting the hard work and effort made by teams and projects across the business to identify and manage the risks associated with climate change and management of emissions.

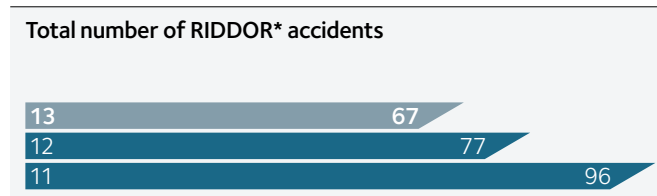
Recognising that fully integrated and aligned supply chains are critical to deliver successful sustainability strategies, the Group was a founder partner of The Supply Chain Sustainability School. It continues to invest in the school to help construction suppliers and subcontractors develop their sustainability knowledge and competence. In recognition of the level of collaboration achieved among more than 1,000 suppliers, the school was awarded the 'Best Contribution to Corporate Responsibility' and also the 'Best Overall Entry' at the Chartered Institute of Purchasing & Supply's Supply Management Awards 2013.

Further strengthening the Group's reputation, the Construction & Infrastructure division maintained its Gold ranking in Business in the Community's annual benchmark of responsible business management. With a 4% uplift on the previous year's score, this ranking provides further evidence of how sustainability performance is improving.

### Measured performance

The six Total Commitments underpinning the roadmap are detailed below with key performance indicators. More detailed information on the Group's performance and its stand-alone report can be seen at [www.corporate.morgansindall.com/sustainability](http://www.corporate.morgansindall.com/sustainability)

#### Total Commitment to a safe work environment



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

# Oxgangs, Edinburgh Dunedin Canmore Housing Association

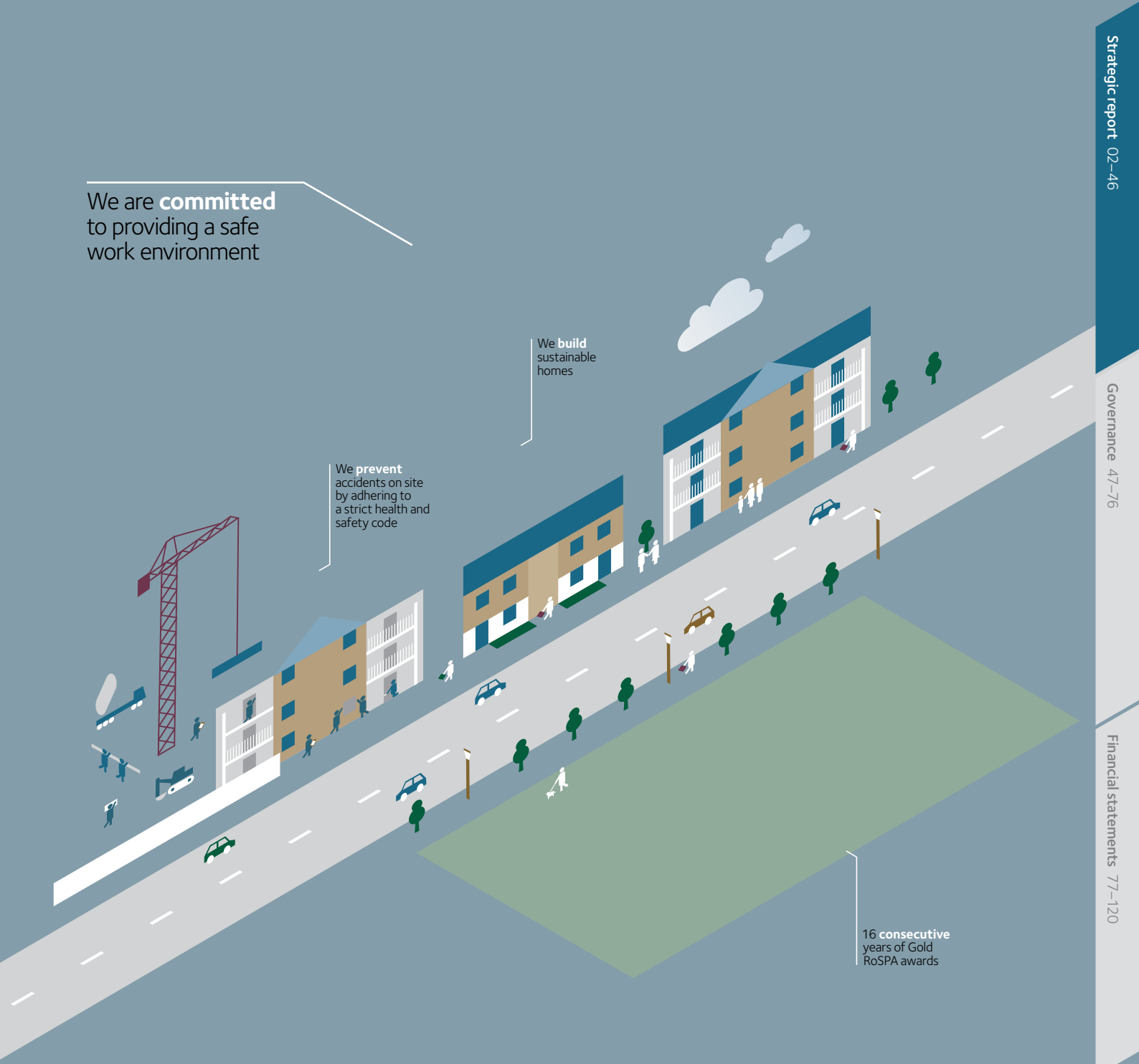


We are **committed** to providing a safe work environment

We **prevent** accidents on site by adhering to a strict health and safety code

We **build** sustainable homes

16 **consecutive** years of Gold RoSPA awards



**Project**  
**Oxgangs, Edinburgh**

**Partner**  
**Dunedin Canmore Housing Association**

**Division**  
**Affordable Housing**

Safety is the bedrock of the Affordable Housing division. The recent award of a RoSPA Gold Medal for its sites in Scotland recognises the continuing commitment to health and safety across its Scottish sites and offices, and is just one of the many national safety awards that the division received throughout the year. The scheme at Oxgangs used timber framed construction and innovative sustainable features to deliver 244 new residential units and commercial premises.



**£24m**  
regeneration  
programme

**5**  
apprentices taken  
on from the local area

**244**  
new homes  
designed and built

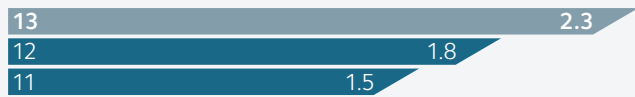




**Total Commitment to developing talented employees**

Average number of training days per employee

**2.3**



**Total Commitment to reducing energy consumption and carbon emission**

Total carbon emissions CO<sub>2</sub>e

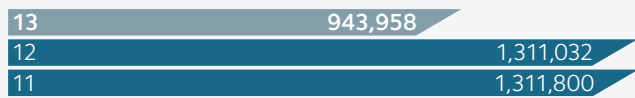
**45,901**



**Total Commitment to reducing waste**

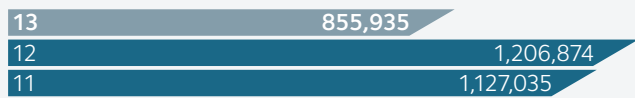
Total waste produced Tonnes

**943,958**



Total waste diverted from landfill Tonnes

**855,935**



**Total Commitment to improving sustainable procurement**

Percentage of total spend that is covered by Group-wide agreements %

**71**



**Total Commitment to supporting local economic growth**

The Group aims to positively contribute to local economies through engaging with local supply chain partners, employees, apprentices, charities and non Governmental organisations.

The Group is fully committed to treating all of its employees fairly and equally, its policies and practices emphasise the importance of treating individuals in a non discriminatory manner across the full employment life cycle including recruitment of all new employees and the management of existing personnel. The Group recognises that a diverse workforce will provide it with an insight into different markets and help it anticipate and provide what its clients need. A breakdown by gender of the number of persons who were directors of the Company, senior managers and other employees as at 31 December 2013 is set out below.

**Directors of the Company**

- Male 5
- Female 2



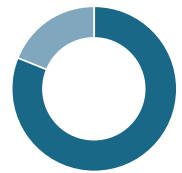
**Senior managers: Group executive team**

- Male 3
- Female 3



**Other employees: total workforce**

- Male 4,556
- Female 1,054



In line with the Group's decision to adopt the G4 Sustainability Reporting Framework and the need to address emerging issues as industry activity picks up, the Group recognises it needs to be lean and flexible to adapt to changing economic conditions and respond to clients' evolving needs, to fully engage with its supply chain partners and to address natural and human resource criticality.

As part of its mandate, the steering group is developing a series of stakeholder panels made up of supply chain partners, clients, divisional representatives and graduates employed by the Group. These panels will support the steering group through challenge and by providing guidance, advice and intelligence. The Group's second sustainability conference will take place in June 2014, providing an excellent opportunity to increase awareness of its strategy and maintain engagement with supply chain partners and employees. The Group's existing sustainability risk and opportunity register is currently under review, supplementing it with a wider range of issues to provide a tool to manage more closely risk and opportunity associated with the sustainability agenda.





**Maintaining a momentum**

Significant improvements continue to be made, particularly with regard to energy efficiency and waste minimisation. Whilst still not fully optimised, these areas are well monitored, managed and measured across the Group with a direct impact on profitability. There is still much work to do across the industry to conserve natural resources and the Group is working hard to influence its supply chain to provide materials that are sustainable and responsibly sourced.

There are undoubtedly challenges ahead relating to people. The industry is facing a skills crisis and attracting and retaining talented employees will be crucial. Encouraging diversity, enhanced training opportunities and understanding community needs will all play a part in positioning the Group as a preferred employer. To help the business meet these challenges, a new Group director of people has been appointed.

The Group believes that addressing sustainability provides it with greater resilience. Sustainability plays a critical role in positioning the business to deliver the Group strategy and further strengthens its status as a responsible and economically sustainable organisation.

**Greenhouse gas emissions**

This year, the Group's greenhouse gas emissions (GHG) recorded as tonnes of carbon dioxide equivalent (CO<sub>2</sub>e), are reported as separate indicators under the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013.

The Group's GHG emissions have been calculated based on the ISO 14064-1:2006 Standards. Emissions reported correspond with the Group's financial year and include all areas for which the Group has operational control in the UK excluding joint ventures. The materiality threshold has been set at a Group level of 5% with all operations estimated to contribute more than 1% of the total emissions included. No material emissions have been omitted from this report.

Emissions have been calculated using data gathered for the Group's annual audit of its energy data by Achilles under its Certified Emissions Measurement and Reduction Scheme (CEMARS). Emission factors are from the Department for Environment, Food & Rural Affairs (Defra) conversion factor guidance current for the year reported. Prior year's data has been rebased using Defra's 2013 factors. All data has been verified by Achilles.

Emissions are predominantly from bulk fuel use on sites, from the Group's vehicle fleet and electricity. The Group's target is to reduce its absolute emissions by 26% by 2020 from a baseline of the data as at 31 December 2010. The Group's head of sustainability is responsible for the delivery of this target.

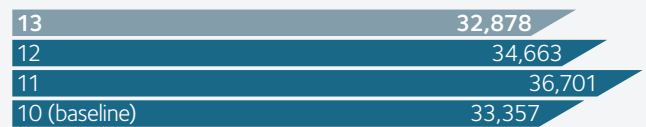
**Tonnes of CO<sub>2</sub> equivalent (2013)**

Total 45,901



**Scope 1 Tonnes CO<sub>2</sub>e**

Direct emissions resulting from fuel combustion (bulk fuels, natural gas) and vehicle fleet emissions.



**Scope 2 Tonnes CO<sub>2</sub>e**

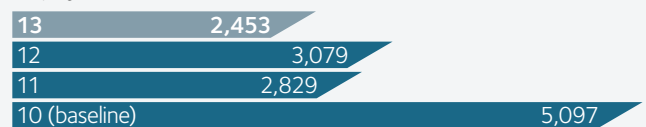
Indirect emissions resulting from electricity purchased by the Group (including landlord supplied).



The Group consumed 18,889 MWh, not including electricity provided as part of serviced office rental.

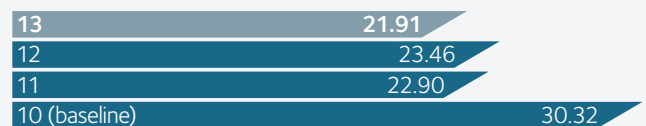
**Scope 3 Tonnes CO<sub>2</sub>e**

Indirect emissions from related activities such as water consumption and disposal, waste disposal, electricity transmission losses and employee travel.



**Intensity measurement (Scope 1, 2 and 3) Tonnes CO<sub>2</sub>e/£m revenue**

An intensity measure of tonnes of CO<sub>2</sub>e per £m revenue has been selected as this is a metric already in use and as verified by Achilles.



**Approval of the strategic report**

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

**John Morgan**  
Chief Executive  
18 February 2014



## Governance

Information about our Board of directors and corporate governance

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## Board of directors



### Chairman's statement

I am pleased to introduce the directors' report on our corporate governance arrangements in order to emphasise the importance we attach to maintaining a high standard of corporate governance in our management of the Group's affairs and our 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 to the executive team is critical. Equally important is the Board's work in formulating the risk management strategy of the Group and monitoring its effectiveness.

This has been my first full year as chairman of the Board, following John Morgan's return to the chief executive role and a move to the more traditional structure of a non-executive chairman and chief executive considered to be better aligned to corporate governance best practice. Earlier in the year, I commissioned with the assistance of the general counsel and company secretary an externally facilitated review of the effectiveness of the Board, its committees and individual directors. A description of the process and its findings is set out in the corporate governance statement but I would just say that the commissioning of the Company's first external board evaluation highlights my commitment to ensuring that we have a highly effective team, with the right balance of skills and experience, and the ability to provide the constructive challenge necessary to create accountability and drive performance, whilst recognising management's responsibility for running the business.

In addition to adjusting to the new Board structure, some of the key areas of focus for the directors have been succession planning, developing the Group's longer term strategy and strengthening the management team to ensure that the business is resourced to meet the Group's needs as growth returns to its markets.

In particular, the chief executive has strengthened the central management team with several new appointments to the Group executive team. He also brought the Group executive team together with the divisional managing directors to form the Group management team as part of the focus on ensuring that our five divisions are working efficiently and collaborating effectively. Further details of these new teams are set out in the corporate governance statement.

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 UK Corporate Governance Code applicable to smaller companies, the Company seeks, where appropriate, to follow those applicable to FTSE 350 companies. The changes to the Code introduced in September 2012 with effect from 1 January 2013 have resulted in certain additional disclosure and compliance recommendations, which we have sought to reflect in this report.

I am pleased to report that, with one exception explained in the corporate governance statement, we have complied in full with the Code.

**Adrian Martin**  
Chairman



### 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. Adrian holds a number of non-executive directorships, including H.R. Owen Plc, M&C Saatchi plc and Safestore Holdings plc. 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.



### John Morgan

**Position** Chief Executive  
**Appointed** October 1994

John was appointed as chief executive in November 2012. He 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.



### Steve Crummett

**Position** Finance Director  
**Appointed** February 2013

Steve was previously finance director of Filtrona plc (now Essentra plc) from 2008 to September 2012. Prior to that he held senior finance roles with a number of listed companies, including Exel plc, McKechnie plc and Logica plc. Steve qualified as a chartered accountant with Arthur Andersen and has been a non-executive director and chair of the audit committee of Consort Medical plc since June 2012.



**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 senior independent director of Anite plc, a non-executive director of Victrex plc, where he also chairs the remuneration committee, and Easynet GmbH. He is an investor in several European technology companies.



**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.



**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. Simon is also a non-executive director of Scottish Equitable plc and also a number of private companies. 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.



**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 LandAid, a trustee of the Churches Conservation Trust and a non-executive director of Turley Associates.

**Board composition**

Executive	2	Male	5
Non-executive	5	Female	2



## Group management team



**John Morgan\***  
Position Chief Executive  
See page 48 for biog.



**Andy Saul\***  
Position Group Commercial Director  
Andy joined the Group in January 2014. Andy was previously managing director of Bullock Construction Limited from 2010 to 2013. Prior to that his career included 20 years with Kier plc, culminating in the role of director at Kier Construction where he had overall responsibility for the commercial and procurement functions of the division.



**Steve Crummett\***  
Position Finance Director  
See page 48 for biog.



**Camilla Aitchison\***  
Position Director of People  
Camila joined the Group in December 2013 after three years at Inchcape Shipping Services where she was chief human resources officer, and was responsible for creating the HR function. Previously she was head of business relations at HSBC Bank plc where she developed the HR strategy needed to deliver the business objectives. Camilla began her career as an officer in the army.



**Mary Nettleship\***  
Position General Counsel and Company Secretary  
Mary has been with the Group since 2005. Prior to joining the Group Mary was general counsel and company secretary at Mayflower Corporation. She is a qualified solicitor with eight years' experience as a corporate lawyer in private practice at Nabarro.



**Lisa Scenna\***  
Position Managing Director Investments and Group Strategy Director  
Lisa joined the Group in June 2013. In her last position before joining the Group, Lisa was managing director, Explore Investments at Laing O'Rourke. Prior to that she was the joint managing director at Stockland UK and held senior financial roles within both Stockland and Westfield in Australia. Lisa is a qualified chartered accountant.



**Graham Shennan**

**Position** Managing Director  
Construction &  
Infrastructure

A chartered civil engineer, Graham joined the Group in 2002 as managing director of the construction business and was appointed managing director of the Construction & Infrastructure division in 2010. Prior to this, he was managing director of Kier National Ltd.



**Chris Booth**

**Position** Managing Director  
Fit Out

Chris Booth is managing director of the Fit Out division. He has overall responsibility for both the Overbury and Morgan Lovell brands. Chris joined Overbury in 1994, he progressed through divisional management (1998–2003) to become managing director of Overbury in 2003. He was appointed to the Fit Out divisional board as chief operating officer in 2010 and managing director in 2013.



**Stewart Davenport**

**Position** Managing Director  
Affordable Housing

Stewart joined Lovell in 1995 as commercial director and was promoted to managing director in 1997. In 1999, the Affordable Housing division was acquired by the Group. Prior to joining Lovell, Stewart worked for Contract Housing, the social housing division of Tarmac Construction, commencing in 1973 as a trainee quantity surveyor progressing to commercial director.



**Matthew Crompton**

**Position** Joint Managing Director  
Urban Regeneration

Matt joined the Group via the acquisition of AMEC Developments in July 2007 where he started in 1990 as a senior development surveyor. Matt is responsible for the division's activities in the Northern region. He is also on the Board of English Cities Fund (ECF), a £100m mixed-use regeneration vehicle owned by Muse, Legal & General and the Homes and Communities Agency. His earlier career included development positions at both London & Metropolitan and Chestergate Seddon.

**Group management team composition**

Male 7  
Female 3



\*Member of the Group executive team.

# Corporate governance statement



## Statement of compliance

The September 2012 edition of the UK Corporate Governance Code (the Code), a copy of which is available from the Financial Reporting Council's website ([www.frc.org.uk](http://www.frc.org.uk)), applied to the Company throughout the year ended 31 December 2013.

The Board has carried out a detailed review of the provisions of the Code, having regard to the need to comply not just with the principles but also with the spirit of the Code and also keeping in mind guidance issued by the FRC, such as the FRC Guidance to Audit Committees. A summary of how the Company has applied the main principles of the Code is set out below.

Save as referred to below, the Board has complied with the provisions of the Code throughout the year ended 31 December 2013 and up to the date of this report.

The Board did not comply in full with Code provision C.3.1 because, from 1 January 2013 until the end of the AGM on 9 May 2013, Adrian Martin retained the chair of the audit committee as well as his new role as non-executive chairman of the Company. As explained last year, the Board considered that the benefit to the audit committee of Adrian's experience outweighed the risk that his continued membership might bring to the independence of the committee. Liz Peace, who had joined the audit committee on 10 January 2013, took over as chair following the AGM, restoring compliance with this provision.

## Leadership

### Structure of the Board

In 2013, the Board comprised a non-executive chairman, three executive directors and four non-executive directors. Paul Whitmore resigned at the end of 2013, leaving the Board with just two executive directors and the Board intends to retain this structure for the time being. The Board therefore comprises a non-executive chairman, two executive directors and four non-executive directors, meeting the requirements of the Code.

### Roles of the chairman, chief executive and senior independent director

The division of responsibility between the chairman and the chief executive was changed at the end of 2012 when a non-executive chairman was appointed 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

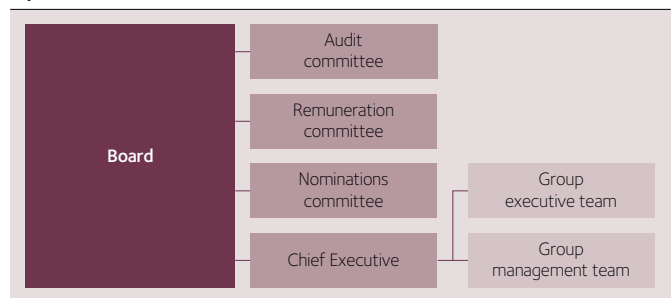
All of the non-executive directors are considered by the Board to be independent in character and judgment and no cross directorships exist between any of the directors.

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.

## Directors to stand for election

All of the directors retire at each AGM and may offer themselves for re-election by shareholders. All of the existing directors will therefore be standing for election at the 2014 AGM and their biographies are set out on pages 48 and 49. The Board is satisfied that the performance of all of the remaining 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.

Day-to-day management responsibility rests with the chief executive, who is supported by the Group executive team, whose members are listed on page 50. In addition, the Group management team, consisting of the Group executive team and the managing directors of each of the Group's divisions, meets regularly to consider operational matters affecting the Group as a whole.

A formal agenda for each scheduled meeting of the Board 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 2013 at scheduled Board meetings and meetings of the remuneration, audit and nominations committees is set out below.

	Board	Percentage attendances	Remuneration committee	Audit committee	Nominations committee
<b>Total number of meetings</b>	<b>11</b>	<b>%</b>	<b>5</b>	<b>3</b>	<b>2</b>
Adrian Martin <sup>1</sup>	11	100	3	2	2
John Morgan	11	100	n/a	n/a	2
Steve Crummett <sup>2</sup>	9	100	n/a	n/a	n/a
Patrick De Smedt	11	100	5	3	2
Geraldine Gallacher	11	100	5	2	2
Simon Gulliford <sup>3</sup>	10	91	n/a	3	2
Liz Peace <sup>4</sup>	10	91	3	3	2
Paul Whitmore	11	100	n/a	n/a	n/a
David Mulligan <sup>5</sup>	2	100	n/a	n/a	n/a

1 Adrian Martin attended all the remuneration committee meetings whilst a member of the committee. His non-attendance at one audit committee meeting was due to a conflicting commitment.

2 Steve Crummett joined the Board on 25 February 2013.

3 Simon Gulliford's non-attendance at one Board meeting was due to illness.

4 Liz Peace attended all the remuneration committee meetings after her appointment to the committee. Her non-attendance at one Board meeting was due to a commitment existing before she agreed to join the Board.

5 David Mulligan ceased to be a director on 25 February 2013.

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 then in his current role, met formally with the non-executive directors without the executive directors present on two occasions during the year.

## Effectiveness

### Board evaluation

The Board recognises the importance and benefits of a rigorous and regular evaluation of its effectiveness and that of its committees and individual directors. In previous years, an internal evaluation process has been adopted and this has been valued by the Board; however, early in 2013 following a number of changes to the composition and structure of the Board and the committees, the Board decided to instigate an external process. This was carried out by an external consultant, Vessey, Hopper, McVeigh (VHM), an experienced firm of leadership consultants, specialising in the analysis and coaching of both individual and team performance. VHM has no other connection with the Group. The process involved interviews with each of the directors and the general counsel and company secretary as well as with other senior executives for a rounded assessment, followed by individual feedback and a presentation and discussion of the findings with the Board. The process focused on the Board's governance processes as well as its balance of skills and experience, its diversity and the dynamics of its debate and decision making. It concluded that the Board and the committees were operating effectively in terms of corporate governance compliance and as a dynamic and open team and that each director continued to demonstrate a valuable contribution to the Board. A number of recommendations were, however, made with a view to enhancing the contribution to be made by the Board to the governance of the Company and to the quality of debate and decision making at Board meetings and the Board has sought to act on these recommendations during the year.

### 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. Steve Crummett was the only new director to join the Board during the year; he received the induction outlined above and, as a former finance director and a current non-executive director, he was already familiar with his duties and responsibilities as a director of a listed company. Other training needs for the directors are kept under review during the year, with briefings on new legislation and guidance affecting them 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, its performance and strategy. 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 met several of the Company's major shareholders during the year and the non-executive directors are also available to meet with them to listen to their views, although no such meetings were requested.

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 2013. Details of proxy votes submitted for each resolution at the 2013 AGM, including proxy directions to withhold votes, are published on the Company's website.

### 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
Liz Peace (from 10 January 2013; chair from 9 May 2013)
Adrian Martin (chair until 9 May 2013)
Patrick De Smedt
Simon Gulliford
Geraldine Gallacher (from 10 January 2013)

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, but agreed to remain on the committee to provide continuity through the 2013 audit. He will step down from the committee after the 2014 AGM. Biographical details of each member of the committee are set out on pages 48 and 49. In particular, Liz Peace has, during her career with the Ministry of Defence and in subsequent roles, gained considerable experience in the management and accounting for major projects and has served on several public sector audit committees and is considered to have recent and relevant financial experience for the audit committee of a company in the construction and regeneration sector.



## Corporate governance statement



The activities of the committee during the year are set out in the separate audit committee report on pages 56 and 57.

### Remuneration committee

Members
Patrick De Smedt (chair)
Geraldine Gallacher
Adrian Martin (until 2013 AGM)
Liz Peace (from 1 February 2013)

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 general counsel and 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.

The activities of the committee during the year are set out in the separate directors' remuneration report on pages 58 to 72.

### Nominations committee

Members
Adrian Martin (chair)
John Morgan
Patrick De Smedt
Geraldine Gallacher
Simon Gulliford
Liz Peace

#### 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:

- > led the instruction and briefing of Odgers Berndtson to recruit a new finance director and, having considered several candidates, recommended the appointment of Steve Crummett to the Board
- > considered the overall structure and balance of the Board following Paul Whitmore's resignation, including whether a new executive director appointment was necessary and determining that a smaller Board with the two remaining executive directors would be an efficient structure
- > considered succession planning generally for the Board.

The Board recognises the importance of diversity in general at Board level and this was an area explored as part of the external evaluation conducted during the year, including the benefits of a range of skills, industry experience, gender, race, disability, age, nationality and other attributes which can enhance the contribution of the Board.

In relation to gender diversity, the Board believes in the benefits of a greater female presence on the Board. The Company has had two women on the Board almost continuously since 2007 and the female representation on the Board during 2013 is now approximately 29%, over the 25% minimum representation level to be achieved by 2015 as recommended by the Davies Review. Whilst the committee will aspire to maintain the strong female representation on the Board, its priority on future recruitment will remain the selection of the right talent and skills, irrespective of gender and not resorting to quotas.

The Board recognises, however, 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. Further information relating to actions being taken in this area are explained on pages 42 to 46.

#### 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 risk review on pages 36 to 41. 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 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 designed to minimise the risks of health, safety and environmental incidents occurring in relation to the Group's activities, 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 risk review on page 39 and in the sustainability review on pages 42 to 46.

#### Whistleblowing arrangements

The internal control process is supported by the operation of an external call line for raising concerns, which enables the Company's employees and other workers on its sites to report concerns anonymously and in confidence. The existence of the raising concerns line is covered with all employees on induction and is publicised on the Group's intranets and on construction site notice boards. Reports of such whistleblowing are presented to the audit committee at each audit committee meeting, 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, although no such matters arose during the year.

#### 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 the two largest divisions, which assist in the professional development of the individual staff concerned whilst, at the same time, providing a mechanism for the cross-fertilisation of ideas and best practice throughout each division. These reviews are overseen by the divisional heads of internal audit and tracking of agreed management actions is included within the overall internal audit process.

#### Board review of effectiveness of internal controls

The Board has conducted a review of the effectiveness of the system of internal controls for the year ended 31 December 2013 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.

## Corporate governance statement



### Audit committee report

#### Role

The primary role of the audit committee is to assist the Board in fulfilling its oversight responsibilities, in particular by reviewing the Company's financial reports and other financial information before publication as well as reviewing the accounting and financial reporting processes and the effectiveness of both the internal and external auditors.

#### Responsibilities

The terms of reference of the committee set out its duties, which are:

- > 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
- > where requested by the Board, to advise the Board on whether, taken as a whole, the annual report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy
- > to review the Company's internal financial controls
- > to approve the appointment and replacement of the Group head of audit and assurance and to monitor and review the effectiveness of the Company's internal audit function
- > to make recommendations to the Board regarding the appointment, reappointment and removal of the external auditor, including consideration of putting the external audit out to tender, and to approve their 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 activities of the committee during the year have included:

- > review of the half and full year results
- > review of the significant management judgments reflected in the results
- > discussion with the external auditor over its audit plans and reports
- > assessment of the Company's internal financial controls
- > review of internal audit reports and of the effectiveness of the internal audit function
- > consideration of the external audit effectiveness, independence and reappointment
- > review of fraud and bribery prevention measures and matters arising from the raising concerns line
- > reporting to the Board on its proceedings and findings.

#### Internal audit

The committee has oversight of the internal audit function and reviews and approves the annual audit plan. The Group head of audit and assurance attends all the scheduled audit committee meetings, at which he presents the results of reviews carried out by the internal audit, management's response to the reports, any key trends emerging during the year and any other matters he wishes to bring to the attention of the committee. He meets separately with the chair of the committee at least twice a year and has direct access whenever required. Further details of the internal audit function are set out under internal controls on page 55.

#### Financial reporting and significant financial issues

In carrying out its duties, the committee is required to assess whether suitable accounting policies have been adopted and to challenge the robustness of significant management judgments reflected in the financial results. This process involves reviewing relevant papers prepared by management in support of the policies adopted and judgments made.

These papers are discussed with management, the external auditor and, where appropriate the Group head of audit and assurance. In addition, the committee reviews the year end report to the audit committee from the external auditor based upon its work performed and findings from the annual audit.

The significant accounting issues considered by the committee during the year were areas where management are required to use significant judgment. These issues are listed below:

- > **recoverability of contract receivables and recognition of contract payables**  
The recognition of revenue and margin on long-term contracts in the financial statements, and the associated contract receivables and payables, requires management to exercise considerable judgment. In addition to updates on the key contract issues at monthly board meetings, at which management identify any significant differences in contract valuations that exist with either client or supplier, the committee has reviewed the status of these key contract issues at each audit committee meeting
- > **the treatment of exceptional operating items and their presentation in the consolidated financial statements**  
Exceptional operating items have been separately disclosed within the Group's consolidated financial statements. The committee has reviewed papers prepared by management showing how these costs have been identified and calculated. It has challenged both the quantum of the charge and its presentation in the consolidated income statement and is satisfied that these costs have been treated appropriately



#### > the impairment of goodwill

The value of goodwill is supported by a value in use model prepared by management. This is based on cash flows extracted from the Group's budget and strategic plan, which have both been approved by the Board. The committee has reviewed the model and assessed the assumptions used by management in discussion with management and the external auditor

#### > the carrying value of land and work in progress

The Group is required to value land and work in progress at the lower of cost and net realisable value. The committee has reviewed management's paper analysing key sites and the outlook for each

#### > the valuation of shared equity debtors

The valuation of shared equity debtors is reliant upon the assumptions made by management and the accompanying valuation model. Key assumptions include the discount rate, redemption rates and house price inflation. The committee has reviewed the papers supporting the assumptions.

The committee has additionally discussed each issue with the external auditor and sought its opinion based upon the work they have performed during the audit. Based upon its review and discussions with both management and the Group's external and internal auditors, the committee is satisfied that, after raising appropriate challenge, the judgments outlined above are reasonable and that the appropriate disclosures have been included in the Group's consolidated financial statements.

### 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 audit process

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 July and reviewed progress with the audit plan at the meeting held in November, noting at that time the significant issues being addressed by the external auditor. At the meeting prior to the announcement of the preliminary results, it reviewed the external auditor's fulfilment of the agreed audit plan and the major issues highlighted as part of the external audit. In addition, the committee commissioned an internal evaluation on the external audit process, through a questionnaire compiled with the assistance of the Group head of audit and assurance and completed by senior members of the Company's and the divisions' finance teams. The feedback from the questionnaire, which covered matters including the quality of the process, the sufficiency of resources employed by the external auditor, its communication skills and its objectivity and independence, was then reviewed by the committee as part of its assessment of the external auditor's effectiveness.

#### 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 2013 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 92. These represented approximately 12.5% of the audit fee and comprised primarily property and planning advice on a development project where Deloitte Real Estate's skills, experience and local knowledge made them the most suitable supplier, and a small amount on other assurance work. The committee has reviewed the nature of the work and level of fees for these services and concluded that this has not affected Deloitte LLP's objectivity or independence.

#### Reappointment of external auditor

Deloitte has been the Company's auditor since the Group was established from the reverse takeover of William Sindall plc in 1994 and the audit has not been put out for tender since that time. There are no contractual obligations which restrict the committee's choice of external auditor. The committee has noted the changes to the Code for FTSE 350 companies, the recent findings of the Competition Commission and the FRC's Guidance for audit committees relating to the tendering of the external audit contract every ten years. Whilst not subject to the provisions of the Code relating to FTSE 350 companies, the committee will keep under consideration the timing of a formal tender, having regard to the regulatory requirements including the draft European Union audit legislation and to the timing of the rotation of the current audit engagement partner. Having regard to the considerations referred to above, 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.

# Directors' remuneration report



## Annual statement

Dear Shareholder

I am pleased to introduce our directors' remuneration report for the year ended 31 December 2013.

### Review of remuneration for 2013

Conditions have continued to be challenging throughout 2013 across most of our markets, with margins restrained by competitive pressures and upward pressure on supply chain costs. These factors have been reflected in the profits for the year, which fell short of the threshold PBTA target in respect of the financial element of the executive directors' annual bonus. For the first time, the 2013 annual bonus also included non financial strategic and personal targets, and although good progress was made against these targets, the executives decided to waive their entitlement to any bonus as they considered a bonus would be inappropriate in context of the profit performance in the year. Further, the long term incentive awards granted in 2011 under the Morgan Sindall Executive Remuneration Plan 2005 (ERP) failed to vest, with earnings per share for the year ended 31 December 2013 falling below the threshold targets.

### Remuneration policy for 2014

The remuneration committee continually reviews the senior executive remuneration policy to ensure that it remains appropriate and consistent with the committee's general principles set out at the start of the remuneration report. One of the challenges faced by the committee has been to ensure that its policies and the executive remuneration structure remain appropriate for driving and incentivising the executive team to create long-term value for our shareholders. The committee's most recent conclusions are that the existing executive directors' remuneration policy remains appropriate and should continue to operate for 2014. Specifically, the committee concluded that:

- > current fixed pay levels should remain unchanged other than for modest increases in line with the average increase awarded across the Group. Salary levels were therefore increased by 2.5% from 1 January 2014
- > the structure and quantum of the annual bonus for 2014 should be similar to that operated for 2013 albeit that for 2014 all of the bonus will be measured against the profit targets
- > the long-term incentive grant policy, whereby share awards are made annually with a three year vesting period based on earnings per share and relative total shareholder return (TSR) performance conditions, continues to provide a strong alignment between the senior executive team and shareholders. However, with the outlook for the UK construction market improving, the earnings per share condition will revert to one based on growth above RPI rather than the absolute EPS targets adopted over the last few years
- > shareholding guidelines and clawback provisions in respect of annual bonus and long-term incentives should continue to apply.

As the Company's existing Executive Remuneration Plan will shortly reach the end of its 10 year life and, in order to coincide with the new three year policy being approved at the forthcoming AGM, we are proposing to replace the ERP with two new long-term plans, the 2014 Long Term Incentive Plan and the 2014 Share Option Plan with the latter intended to currently be used for below Board employees only. Separate plans are being proposed as these are considered to be significantly simpler for the Company to administer, operate and communicate when compared to the ERP which is a combined 'umbrella' style plan.

### Board changes

As per the announcement released in December 2013, the Committee has recently agreed the termination arrangements in relation to Paul Whitmore, commercial director, who resigned and left the Company on 31 December 2013. As previously disclosed, David Mulligan also left the Group last year. Full details of these arrangements are set out in the annual report on remuneration.

### The new disclosure regime

Last year, we took some steps towards disclosing additional information intended to improve the transparency of this report. This year, we have embraced the new disclosure requirements under the UK Government's reforms on directors' pay and trust that our report demonstrates transparency and clarity in our disclosures. Our report has two main sections:

- > the directors' remuneration policy setting out the forward looking remuneration policy for the Company's directors which will become formally effective from the date of the AGM (8 May 2014); and
- > the annual report on remuneration providing details of how the policy will be operated for 2014 and of the remuneration earned by the Company's directors in relation to the year ended 31 December 2013.

At the forthcoming AGM on 8 May 2014, the directors' remuneration policy will be subject to a binding shareholder vote and the annual report on remuneration will be subject to an advisory shareholder vote. In future years, the directors' remuneration policy will be subject to a binding vote every three years (sooner if changes are made to the policy) and the annual report on remuneration will be subject to an annual advisory vote.

### Alignment and dialogue with shareholders

We are mindful of our shareholders' concerns, considering all feedback received and consulting with investors and representative bodies where appropriate, and are keen to ensure a demonstrable link between reward and value creation. We are therefore delighted that last year's remuneration report received the support of over 98% of voting shareholders. We hope that we will continue to receive your support at the forthcoming AGM.

### Patrick De Smedt

Chair of the Remuneration Committee  
18 February 2014



## Remuneration policy report

This part of the report sets out the remuneration policy for the Company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our major shareholders and describes the policy to be applied from 2014 onwards. The policy report will be put to a binding shareholder vote at the 2014 AGM and the policy will take formal effect from that date.

### 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 that 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.

### Components of directors' remuneration

The key elements of the remuneration package for each director are set out in the table below.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Base salary	Set to attract, retain and motivate talented individuals.	Reviewed annually by the committee or, if appropriate, in the event of a change in an individual's position or responsibilities.  Salary levels are set by reference to market rates, taking into account individual performance, experience, company performance and the pay and conditions of other senior management in the Group and of the workforce generally. The committee may on occasion recognise an increase in circumstances such as assumed additional responsibility or an increase in the scale or scope of the role.	There is no prescribed maximum annual increase.  Current salary levels are presented on page 65.	N/A
Benefits	To provide a market-competitive level of benefits.	Current benefits include travel allowance, private medical insurance, income protection insurance and life assurance. Other benefits may be provided where appropriate.	Travel allowance of £20,000. The value of other benefits is based on the cost to the Company and is not predetermined.	N/A

## Directors' remuneration report



Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Pension	To provide a pension arrangement to contribute towards retirement planning.	<p>The Company will contribute to the defined contribution pension scheme, The Morgan Sindall Retirement Benefits Plan (the Retirement Plan) or to personal pension arrangements at the request of the individual.</p> <p>The Company may also consider a cash alternative (e.g. where a director has reached the HMRC's lifetime or annual allowance limit).</p>	<p>Employer contributions are 10% of base salary.</p> <p>Directors who are members of the Retirement Plan may elect to exchange part of their salary or bonus award in return for pension contributions, where the Company will enhance the additional contributions by half of the saved employer's National Insurance Contribution (NIC).</p>	N/A
Annual bonus	Rewards the achievement of demanding annual performance metrics.	<p>Normally payable in cash.</p> <p>Performance targets are reviewed annually by the committee.</p> <p>The committee has discretion to (i) override the formulaic outturn of the bonus to determine the appropriate level of bonus payable where it believes the outcome is not truly reflective of performance and to ensure fairness to both shareholders and participants; and/or (ii) require some or all of the annual bonus to be deferred into shares.</p> <p>Clawback provisions apply for overpayments due to material misstatement or error.</p>	Maximum opportunity of 100% of base salary.	<p>All or a majority of the bonus will be based on profit before tax and amortisation (PBTA), set relative to the Group's budget.</p> <p>A minority of the bonus may be based on non financial, strategic and/or personal objectives to provide a rounded assessment of Group and management's performance.</p> <p>The PBTA targets incorporate an appropriate sliding scale range around a challenging target.</p>
2014 Long Term Incentive Plan (the Plan)	<p>To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance.</p> <p>To encourage share ownership and provide further alignment with shareholders.</p>	<p>The committee intends to make long-term incentive awards under the Plan, which will be put to shareholders for approval at the 2014 AGM. The Plan will replace the ERP which is due to expire in 2015.</p> <p>Annual awards of conditional shares or nil (or nominal) cost options with vesting dependent on the achievement of performance conditions over a three year period.</p> <p>Performance targets are reviewed annually by the committee for each new award.</p> <p>Dividends that accrue during the vesting period may, at the committee's discretion, be paid in cash or shares at the time of vesting. The calculation of the dividend equivalent may assume the reinvestment of dividends.</p> <p>Clawback provisions apply for overpayments due to material misstatement or error.</p>	Normally the maximum grant is 100% of base salary (up to 150% of base salary in exceptional circumstances, such as on recruitment or retention).	<p>The awards are subject to performance conditions based on the Company's EPS and on relative TSR compared to a group of UK listed peers.</p> <p>For both the EPS and TSR conditions, 25% of the awards will vest for achieving threshold performance, increasing on a sliding scale in the case of EPS and on a stepped scale in the case of TSR to 100% vesting for achievement of stretching performance targets.</p>



Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
All employee sharesave plan	To encourage share ownership and provide further alignment with shareholders.	HMRC approved plan under which regular monthly savings are made over a period of three years and can be used to fund the exercise of an option to purchase shares at a discount of up to 20% of the market price at grant.	As per prevailing HMRC limits.	N/A
Non-executive directors' fees	Set to attract, retain and motivate talented individuals.	<p>Fees are paid in cash.</p> <p>Additional fees may be paid to the chairs of the committees and the senior independent director to reflect their additional responsibilities.</p> <p>The committee is guided by fee levels in the non-executive director market and may recognise an increase in certain circumstances such as assumed additional responsibility or an increase in the scale or scope of the role.</p> <p>Normally reviewed on an annual basis.</p>	As for the executive directors, there is no prescribed maximum annual increase.	N/A

- 1 A description of how the Company intends to implement the above policy for 2014 is set out in the annual report on remuneration.
- 2 The annual bonus performance measures are all or predominantly focused on PBTA as this is the key measure of how successful the Group is in managing its operations. Any element based on non financial targets would be determined on how well the executive directors perform against annual non financial, strategic and/or personal targets, set to ensure that they are linked to the strategic objectives of the Group.
- 3 The long term incentive performance measures, EPS and TSR, reward long-term financial growth and significant long-term returns to shareholders. Targets take account of internal strategic planning and external market expectations for the Group and are set appropriate to the economic outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, whilst remaining realistic enough to motivate and incentivise management.
 

The TSR performance condition is monitored on the committee's behalf by New Bridge Street whilst EPS is derived from the Group's audited financial statements.
- 4 Employees across the Group below Board level may be eligible to participate in an annual bonus arrangement. Long-term incentive awards and/or discretionary share options may be awarded to certain other senior executives, for which the maximum opportunity and the performance conditions may vary by organisational level. All employees are eligible to participate in the Morgan Sindall Savings related Share Option Scheme.
- 5 The committee will operate the incentive plans in accordance with their respective rules and the Listing Rules and HMRC rules where relevant. The committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plan rules. These include (but are not limited to) the following:
  - > who participates
  - > the timing of the grant of award and/or payment
  - > the size of an award (up to plan/policy limits) and/or a payment
  - > the result indicated by the relative 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
  - > discretion relating to the measurement of performance in the event of a change of control or reconstruction
  - > determination of a good leaver (in addition to any specified categories) for incentive plan purposes
  - > discretion to pay or award shares to the value of dividends accrued during the vesting period
  - > adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends)
  - > the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.
- 6 For the avoidance of doubt, in approving this directors' remuneration policy report, authority is given to the Company to honour any commitments entered into with current or former directors (such as, the payment of a pension or the vesting or exercise of past share awards).



# Directors' remuneration report



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

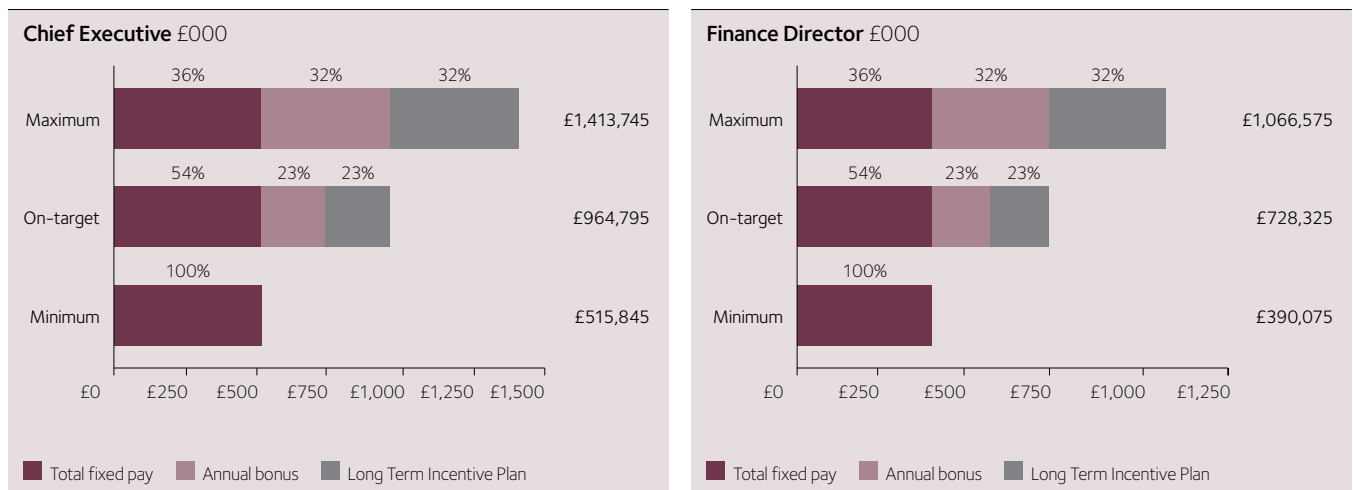
The committee takes account of remuneration levels offered to other senior executives within the Group as well as pay awards affecting Group employees generally when considering policy in relation to executive directors. When considering the executive directors' remuneration structure and levels for 2014, the committee reviewed the salaries and proposed incentive arrangements for the senior executives in the divisions to ensure that there was a coherent approach. The committee does not formally consult with employees in respect of the design of the Company's executive directors' remuneration policy, although the committee will keep this under review.

## The committee considers shareholder views when determining executive directors' remuneration

The Company is committed to maintaining good communications with investors. The committee considers the AGM to be an opportunity to meet and communicate with investors and considers shareholder feedback received in relation to the AGM each year. This feedback, together with any additional feedback received from time to time, is considered as part of the Company's annual review of remuneration policy. The committee will also seek to engage directly with major shareholders and representative bodies should any material changes be made to the directors' remuneration policy. Major shareholders and representative bodies were consulted at the beginning of 2013 in connection with certain aspects of the executives' remuneration and again at the end of 2013 in respect of the replacement share plans. Details of the votes cast for and against the resolution to approve last year's remuneration report are set out in the annual report on remuneration.

## Remuneration scenarios for the executive directors

The charts below show an estimate of the potential future remuneration payable for the executive directors under the policy set for 2014 at different levels of performance. The charts highlight that the performance-related elements of the package comprise a significant portion of the executive directors' total remuneration at on-target and maximum performance.



- 1 Base salary levels applying on 1 January 2014.
- 2 The value of benefits has been estimated based on 2013 actuals.
- 3 The value of pension receivable is the equivalent of 10% of base salary.
- 4 Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the Plan, on-target performance assumes 50% is earned under the annual bonus plan and 50% is achieved under the Plan whereas maximum performance assumes full vesting under both plans.
- 5 Share price movement and dividend accrual have been excluded from the above analysis.

## Directors' recruitment and promotions

The committee takes into account the need to attract, retain and motivate the best person for each position, without paying more than is necessary.

For external appointments, the committee would seek to align the remuneration package with the remuneration policy as approved by shareholders, including the maximum limit for the annual bonus of 100% of salary. In exceptional circumstances there is flexibility to grant an award under the Plan equivalent to up to 150% of base salary. The committee may also make awards or payments in respect of deferred remuneration arrangements forfeited on leaving a previous employer. The committee will look to replicate the arrangements being forfeited as closely as possible. In doing so, the committee will take account of relevant factors including the value of deferred remuneration, the currency (i.e. cash or shares), performance conditions and the time over which they would have vested or been paid.

For an internal appointment, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations existing prior to appointment may continue.

The initial notice period for a service contract may be longer than the policy of a 12 month notice period, provided it reduces to 12 months within a short space of time.



The committee may also agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

For the appointment of a new non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy at that time.

#### Directors' service contracts and payments for loss of office

All executive directors' service agreements are terminable on 12 months' notice. In circumstances of termination on notice, the committee will 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 will be paid for the period of notice served on garden leave or paid in lieu. The remuneration committee will endeavour to make payments in phased instalments and to apply mitigation in the case of offsetting payments against earnings elsewhere.

The annual bonus may be payable in respect of the period of the bonus scheme year 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. The bonus would be payable at the normal date.

Long-term incentives granted under the Plan will be determined by the Plan rules which contain discretionary good leaver provisions for designated reasons (i.e. participants who leave early on account of injury, disability, death, a sale of their employer or business in which they were employed, statutory redundancy, retirement or any other reason at the discretion of the committee). In these circumstances a participant's awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date. In exceptional circumstances, the committee may decide that the participant's awards will vest early on the date of cessation of employment. In either case, the extent to which the awards will vest depends on the extent to which the performance conditions have been satisfied and a pro rata reduction of the awards will be applied by reference to the time of cessation (although the committee has discretion to disapply time pro rating if the circumstances warrant it).

In respect of legacy awards outstanding under the ERP, the awards will be determined by the ERP rules which contain discretionary good leaver provisions for designated reasons (i.e. participants who leave early on account of injury, disability, a sale of their employer or business in which they were employed, statutory redundancy, retirement or any other reason at the discretion of the committee). In these circumstances a participant's awards will not be forfeited on cessation of employment and instead will vest either on the normal vesting date or on cessation of employment, at the discretion of the committee, subject to the performance conditions. The awards will, unless the committee in its discretion decides otherwise, be scaled back pro rata to reflect the reduced period. In the case of death of the participant, the award will vest at that time and the performance conditions will be deemed to be satisfied. The award will not be time pro rated.

The service agreements do not contain specific provisions for enhanced payments in the event of a change of control of the Company.

The dates of the executive directors' contracts who served during the year are:

John Morgan	20 February 2012
Steve Crummett	25 February 2013
Paul Whitmore <sup>1</sup>	21 March 2000
David Mulligan <sup>2</sup>	20 February 2012

1 Paul Whitmore stepped down from the Board and ceased employment on 31 December 2013.

2 David Mulligan stepped down from the Board on 25 February 2013 and ceased employment on 10 April 2013.

Service contracts are available for inspection at the Company's registered office.

#### 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 Conduct Authority (FCA) and the relevant schedules of the Companies Act 2006 (the Act).

	Appointment letter date	Month initial three year term was extended
Patrick De Smedt	26 November 2009	November 2012
Adrian Martin	28 November 2008	November 2011
Simon Gulliford	24 February 2010	February 2013
Liz Peace	5 November 2012	–
Geraldine Gallacher	16 August 2007	August 2010

All of the above non-executive directors are subject to annual re-election by shareholders.

## Directors' remuneration report



### Annual report on remuneration

The information provided in this part of the directors' remuneration report is subject to audit.

#### 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 2013 were Patrick De Smedt (chair), Geraldine Gallacher, Liz Peace (joined the committee with effect from 1 February 2013) and Adrian Martin (member until 9 May 2013). All members during the year were independent non-executive directors, save Adrian Martin, who was non-executive chairman.

The committee met on five occasions during the year and attendance at meetings is disclosed in the corporate governance statement on page 53. Two of the meetings were convened specifically to approve termination arrangements for executive directors leaving the Company; the other meetings covered the normal business of confirming performance related pay for the year ended 31 December 2013, setting bonus and long-term incentive targets for 2013 and considering the executive remuneration policy for the three years commencing in 2014. Additional consultation between committee members and between the chair of the committee and the chief executive took place outside of formal meetings.

#### External advice received

During the year, the committee received independent advice from New Bridge Street (NBS), part of Aon plc, in relation to its consideration of the structure of the executive directors' remuneration for 2013 and 2014 and other matters considered by the committee during the year. The committee also consulted the chief executive but not in relation to his own remuneration. NBS also provided advice to the Company on accounting for share awards and the operation of the Company's share option schemes but provided no other material services to the Company or the Group, although another part of the Aon plc group has provided some limited broking services to associated companies in the Group. The committee is comfortable that these services do not prejudice NBS's position as an independent adviser to the committee.

The fees paid by the Company to NBS during the financial year for advice to the committee were £40,500, of which £6,500 related to the advice to the Company referred to above.

NBS is a signatory to the Remuneration Consultants' Code of Conduct which requires its advice to be objective and impartial.

#### Shareholder voting at AGM

At last year's AGM held on 9 May 2013, the directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	32,266,803	98.31
Against	553,537	1.69
<b>Total votes cast (for and against)</b>	<b>32,820,340</b>	<b>100</b>
Votes withheld <sup>1</sup>	573,423	–
<b>Total votes cast (including withheld votes)</b>	<b>33,393,763</b>	–

<sup>1</sup> 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.



## Implementation of the remuneration policy for 2014

### Base salaries

In setting the 2014 base salaries, the committee considered the budgeted level of increases in base salary for senior executives below Board level and the workforce generally, which averaged 2.5%, and determined that the executive directors should receive the same increase. Accordingly annual base salaries for the executive directors for 2014 will be as follows:

	2014 £	2013 £	Increase
John Morgan	448,950	438,000	2.5%
Steve Crummett	338,250	330,000 <sup>1</sup>	2.5%

<sup>1</sup> From 25 February 2013.

### Pension arrangements

The Company will contribute the equivalent of 10% of base salary, in the case of Steve Crummett, to The Morgan Sindall Retirement Benefits Plan (the Retirement Plan) and, in the case of John Morgan, to his individual personal pension plan.

Steve Crummett participates in the Company's salary exchange process, which allows all employees who are members of the Retirement Plan the flexibility to exchange part of their gross salary and bonus awards in return for 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 Contributions (NIC).

### Annual bonus

The maximum annual bonus potential for 2014 will remain at 100% of base salary. To ensure that management is focused on the financial performance of the Company in 2014, 100% of the bonus will be based on a PBTA target range set in relation to the Group's budget.

The committee has chosen not to disclose the targets in advance for the forthcoming year as these are set in relation to the Group's budget, which is considered commercially sensitive. Retrospective disclosure of the targets and performance against them will be disclosed in next year's annual remuneration report.

The annual bonus will be subject to clawback provisions.

### Long-term incentives

The committee intends to make awards to the executive directors under the 2014 Long Term Incentive Plan (the Plan) which will be introduced, subject to shareholder approval, at the 2014 AGM. The Plan will replace the Company's current long-term incentive arrangement for senior executives, the ERP, which expires in 2015.

The awards in 2014 will be made at 100% of base salary.

Consistent with past awards, 50% of the awards to be granted in 2014 will be based on an EPS performance condition and the remaining 50% will be based on a condition measuring the Company's TSR compared with eight of its UK listed peers, over a three year period.

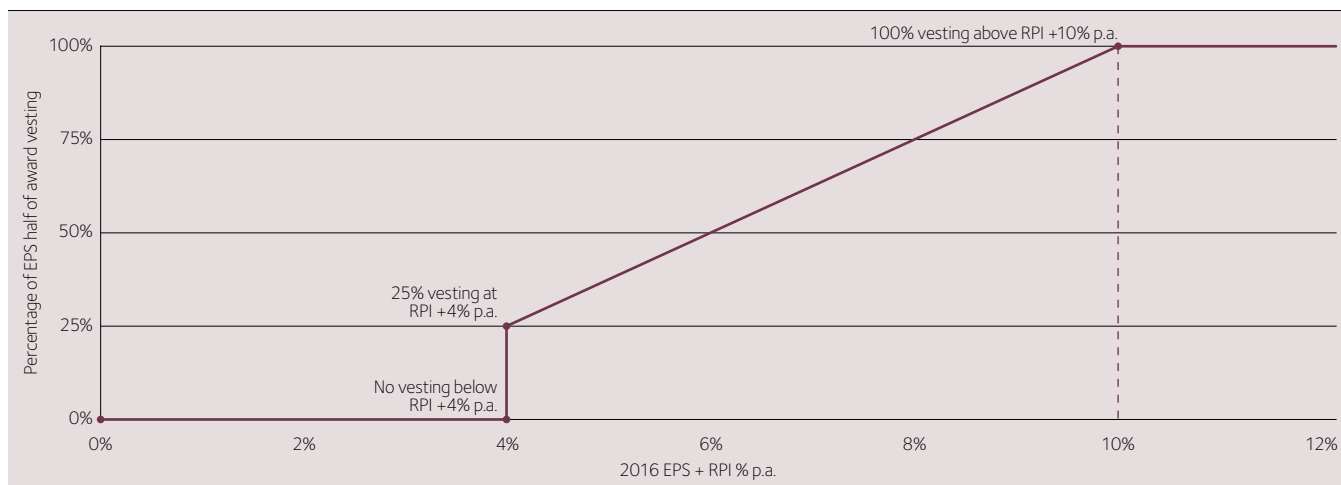
### EPS performance condition

In recent years the committee has set targets based on absolute EPS performance in the final financial year of the performance period, reflecting the challenging and uncertain market conditions then existing. Although the committee expects market conditions to remain challenging in the short term, it has determined that it is now appropriate to revert to a condition based on the Group's EPS performance against the Retail Price Index (RPI) over the three year period to 31 December 2016.

# Directors' remuneration report



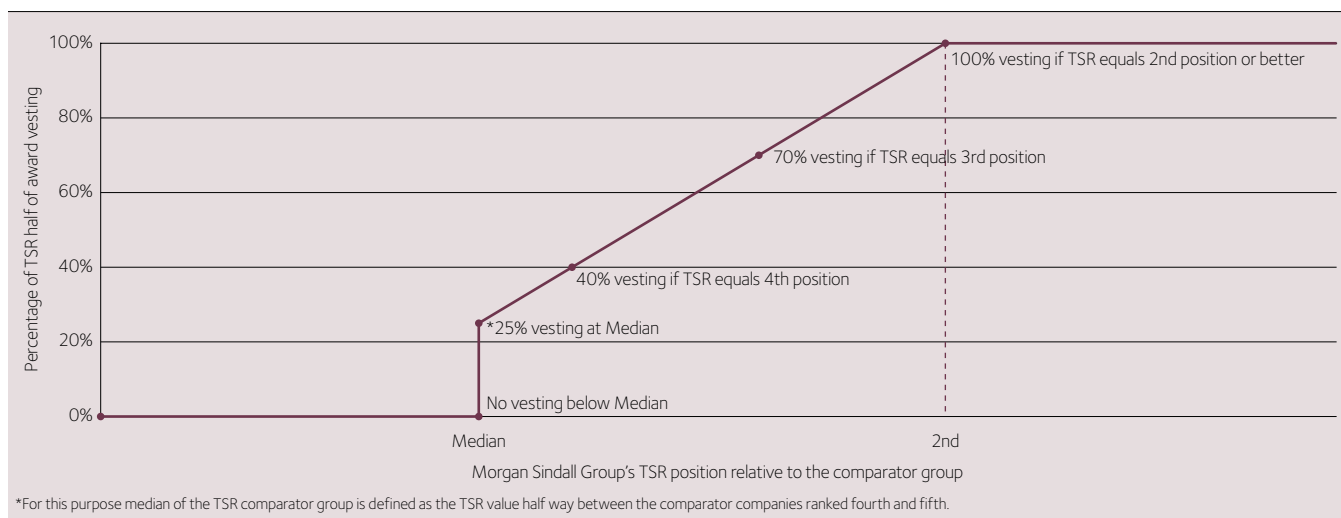
This vesting range for the targets is shown graphically below:



### 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:



In addition to the vesting being determined by the stepped 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.

The Plan awards will be subject to clawback provisions.



### Fees for the non-executive directors

All non-executive directors remuneration is determined by the Board within the limits set by the Articles and is based on market data, together with external advice as appropriate. The last increase in the base fee for the non-executive directors was in 2011 and the Board has determined that the base fee should be increased by 2.5% for 2014 (in line with the increase for the executive directors). The chairman's fee, which was set at the end of 2012, and the additional fees for committee chairs, will remain unchanged.

Accordingly the annual fees are as follows:

	2014 £	2013 £	Increase %
Chairman	135,000	135,000	Nil
Base fee	42,230	41,200	2.5
Additional fees:			
Audit committee chair	7,500	7,500	Nil
Remuneration committee chair	6,000	6,000	Nil

Adrian Martin remained as chair of the audit committee until 9 May 2013 without taking the additional fee shown above.

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

### 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 £46,000 per annum. None of the other executive directors are currently receiving fees for non-executive positions with other companies.

### Dilution and share usage under employee share plans

Shares required for the 2007 Employee Share Option Plan (the 2007 Scheme) are satisfied by shares purchased in the market via the Company's employee benefit trust and shares for the Company's other share plans may be satisfied using either new issue shares or market purchased shares although the Company's present intention is to use market purchase shares to satisfy these awards. 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 4.13% of the current issued ordinary share capital under all employee share plans, of which 0.14% relates to discretionary share plans.

Separately, the employee benefit trust currently holds 575,397 shares which may be used to satisfy awards.

## Directors' remuneration report



## Directors' remuneration

		Fees/ basic salary £000	Benefits <sup>1</sup> £000	Pension contributions <sup>2</sup> £000	Annual cash bonuses <sup>3</sup> £000	Value of long-term incentives <sup>4</sup> £000	Employment termination payments <sup>5</sup> £000	Total remuneration £000
<b>Executive directors</b>								
John Morgan	2013	438	22	47	–	–	–	507
	2012	438	22	43	131	–	–	634
Steve Crummett <sup>6</sup>	2013	280	18	28	–	–	–	326
	2012	–	–	–	–	–	–	–
Paul Whitmore (resigned 31 December 2013)	2013	319	20	34	–	–	373	746
	2012	311	20	30	93	115	–	569
David Mulligan (resigned 10 April 2013)	2013	88	6	10	–	–	315	419
	2012	315	20	34	95	63	–	526
<b>Non-executive directors</b>								
Adrian Martin <sup>7</sup>	2013	135	–	–	–	–	–	135
	2012	65	–	–	–	–	–	65
Patrick De Smedt	2013	47	–	–	–	–	–	47
	2012	45	–	–	–	–	–	45
Geraldine Gallacher	2013	41	–	–	–	–	–	41
	2012	41	–	–	–	–	–	41
Simon Gulliford	2013	41	–	–	–	–	–	41
	2012	41	–	–	–	–	–	41
Liz Peace <sup>8</sup>	2013	46	–	–	–	–	–	46
	2012	7	–	–	–	–	–	7
<b>Former directors</b>								
Paul Smith	2012	515	22	48	132	97	501	1,315
Gill Barr	2012	16	–	–	–	–	–	16

1 Benefits for the executive directors comprise a travel allowance, private medical insurance, income protection insurance and life assurance.

2 The pension contributions for John Morgan and Paul Whitmore were not increased in line with the increases to their base salaries in 2011 and 2012 respectively, as the Company was contractually obliged to do so. The resultant adjustment (£3,000 for John Morgan and £2,000 for Paul Whitmore respectively) has been accounted for during 2013 and is the reason for the pension contributions for 2013 appearing to be higher than 10% of base salary.

3 No annual bonus payments were made to executive directors during the year.

The table below shows performance against PBTA targets for 2013 representing 75% of the bonus potential:

	Threshold target £m	50% target £m	Maximum target £m	Actual performance £m	Percentage of salary
Adjusted Group PBTA at 31 December 2013	32.9	35.0	39.2	31.3	Nil

The remaining 25% of the annual bonus potential for 2013 was based on non financial strategic and personal objectives. Performance against these objectives, which related to strategic and organisational development of the Group, succession planning development and strengthening of the management team (John Morgan) and improvement of financial reporting processes and cash allocation evaluation throughout the Group (Steve Crummett), was assessed at the year end and although the committee considered that good progress had been made by the executive directors against these targets, the executive directors elected to waive their rights to receive any bonus under these targets. Paul Whitmore resigned on 31 December 2013 and as part of his termination arrangements no annual bonus was payable.

## 4 2013

Based on awards granted in 2011 under the ERP, which were due to vest on 30 March 2014 subject to EPS performance for the year ended 31 December 2013. As set out in the table below, the Company's EPS performance did not meet the threshold targets resulting in nil vesting:

Performance condition	Threshold target	50% target	Maximum target	Actual performance	% vesting
Adjusted EPS					
Performance shares	69.5p	81.7p	102.2p	60.9p	Nil
Share options	77.6p	81.7p	102.2p	60.9p	Nil
Total vesting					Nil

## 2012

The performance share awards and share options included in 2012 remuneration above were granted on 17 March 2010 and vested on 17 March 2013. The value shown for these above is based on the market price of a share on the date of vesting of £5.505.

5 Details of the employment termination payments are included below in the paragraph headed payments for loss of office.

6 Steve Crummett joined the Company on 25 February 2013.

7 Adrian Martin was appointed as non-executive chairman on 5 November 2012.

8 Liz Peace was appointed as a director on 5 November 2012 and took over as chair of the audit committee from the AGM on 9 May 2013.



### Share awards granted during the year

	Type of award	Basis of award granted	Share price at date of grant	Number of shares over which award was granted	Face value of award £	% of face value that would vest at threshold performance	Vesting determined by performance over
John Morgan	Performance shares under the ERP	100% of salary	£5.395	81,186	£437,998.47	50% on EPS – 0% 50% on TSR – 25%	Three financial years to 31 December 2015
Steve Crummett	Performance shares under the ERP	150% of salary	£5.395	91,751	£494,996.65	50% on EPS – 0% 50% on TSR – 25%	
Paul Whitmore (resigned 31 December 2013)	Performance shares under the ERP	100% of salary	£5.395	59,128	£318,995.56	50% on EPS – 0% 50% on TSR – 25%	

### Directors' interests in shares

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 the 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 incentive awards. John Morgan's holding is well in excess of this requirement; Steve Crummett, who joined the Board in February 2013 has not currently achieved this guideline.

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 2013 and 18 February 2014.

	31 December 2013 No. of shares	31 December 2012 No. of shares
Adrian Martin	12,000	2,000
John Morgan	3,997,508	4,497,508
Steve Crummett	–	–
Patrick De Smedt	2,000	2,000
Geraldine Gallacher	7,772	7,772
Simon Gulliford	3,350	–
Liz Peace	–	–
Paul Whitmore (resigned 31 December 2013)	72,851	62,840
David Mulligan (resigned 10 April 2013)	30,013	24,544



## Directors' remuneration report



### Directors' outstanding share incentives under the ERP

Details of the executive directors' interests in long-term incentive awards under the ERP as at 31 December 2013 and movements during the year are as follows:

#### Performance shares

	Date of award	No. of awards outstanding as at 1 January 2013	No. of shares awarded	No. of dividend equivalent shares awarded	No. of shares vested	No. of shares lapsed	No. of awards outstanding as at 31 December 2013	End of performance period	Date awards vest
John Morgan	21.5.2012	68,224	–	–	–	–	68,224	31.12.2014	21.5.2015
	26.2.2013	–	81,186	–	–	–	81,186	31.12.2015	26.2.2016
<b>Total</b>		<b>68,224</b>	<b>81,186</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>149,410</b>		
Steve Crummett	26.2.2013	–	91,751	–	–	–	91,751	31.12.2015	26.2.2016
Paul Whitmore	17.3.2010	36,486	–	3,052	(20,857)	(18,681)	–	31.12.2012	17.3.2013
(resigned 31 December 2013)	30.3.2011	34,247	–	–	–	(2,854)	31,393	31.12.2013	30.3.2014
	21.5.2012	48,442	–	–	–	(18,839)	29,603	31.12.2014	21.5.2015
	26.2.2013	–	59,128	–	–	(42,704)	16,424	31.12.2015	26.2.2016
<b>Total</b>		<b>119,175</b>	<b>59,128</b>	<b>3,052</b>	<b>(20,857)</b>	<b>(83,078)</b>	<b>77,420</b>		
David Mulligan	17.3.2010	19,932	–	1,667	(11,394)	(10,205)	–	31.12.2012	17.3.2013
(resigned 10 April 2013)	30.3.2011	34,703	–	–	–	(11,568)	23,135	31.12.2013	30.3.2014
	21.5.2012	49,065	–	–	–	(35,436)	13,629	31.12.2014	21.5.2015
<b>Total</b>		<b>103,700</b>	<b>–</b>	<b>1,667</b>	<b>(11,394)</b>	<b>(57,209)</b>	<b>36,764</b>		

- The rules of the ERP provide that, if the committee so determines, executives are entitled to receive the value of dividends paid on performance shares during the three year performance period. In respect of the performance shares which vested on 17 March 2013, this was satisfied by the transfer of additional shares to the executives.
- In respect of the performance shares awarded on 17 March 2010, the Company achieved EPS for the year ended 31 December 2012, adjusted for amortisation, the non recurring reorganisation costs (£10m) and the profit on the disposal of the Group's medical properties investment (£7m), of 80.7p. As a result 48.8% of the performance shares vested on the 17 March 2013 and the remaining performance shares lapsed.
- The threshold performance condition in respect of the performance shares awarded on 30 March 2011 was not met and the awards will lapse.
- 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.
- The awards of performance shares made in 2013 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 90p or more for the year ending 31 December 2015, reducing on a sliding scale to 50% vesting for achieving 75.1p and reducing on a sliding scale to 0% vesting for achieving 67.5p or less. The other 50% of the award is subject to the same TSR condition described above.
- As described below, Paul Whitmore's shares 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.
- As described below, David Mulligan's shares 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.

#### Share options

	Date of grant	No. of options outstanding as at 1 January 2013	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2013	End of performance period	Exercise price	Date from which exercisable
John Morgan	20.5.2005	107,736	–	–	107,736	31.12.2007	£7.24	20.5.2008
	5.4.2006	81,016	–	–	81,016	31.12.2008	£12.59	5.4.2009
	17.3.2010	229,728	–	(123,364)	106,364	31.12.2012	£5.55	17.3.2013
	30.3.2011	200,000	–	–	200,000	31.12.2013	£6.57	30.3.2014
<b>Total</b>		<b>618,480</b>	<b>–</b>	<b>(123,364)</b>	<b>495,116</b>			
David Mulligan	20.5.2005	35,220	–	(35,220)	–	31.12.2007	£7.24	20.5.2008
(resigned 10 April 2013)	5.4.2006	28,594	–	(28,594)	–	31.12.2008	£12.59	5.4.2009
	17.3.2010	79,730	(36,914)	(42,816)	–	31.12.2012	£5.55	17.3.2013
<b>Total</b>		<b>143,544</b>	<b>(36,914)</b>	<b>(106,630)</b>	<b>–</b>			

- No options were granted during the year.
- The maximum performance condition for the options granted in 2005 and 2006 was satisfied and the options are, therefore, fully exercisable.



- 3 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 became exercisable on the 17 March 2013 and the remaining options lapsed.
- 4 The threshold performance condition in respect of the options granted on 30 March 2011 was not met and the award will lapse.
- 5 The outstanding options detailed above will, if not lapsed or exercised earlier, lapse ten years from the date of grant.

The mid-market price of a share on 31 December 2013 was £7.55 and the range during the year was £5.16 to £8.40.

#### 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 notes 25 and 26 on pages 103 and 104.

	Date of grant	Outstanding as at 1 January 2013	Lapsed during the year	Outstanding as at 31 December 2013	Option exercise price	Dates within which exercisable
John Morgan	27.9.2011	1,814	–	1,814	£4.96	1.11.2014–1.5.2015
Paul Whitmore (resigned 31 December 2013)	27.9.2011	1,814	(1,814)	–	£4.96	N/A
David Mulligan (resigned 10 April 2013)	27.9.2011	1,814	(1,814)	–	£4.96	N/A

No options were granted or exercised during the year.

#### Payments for loss of office

Paul Whitmore's employment with the Company ceased on 31 December 2013. The Company agreed to pay him £373,040 as a payment in lieu of notice comprising 12 months' salary (£319,000), pension contributions (£31,900) and other benefits (£22,140); in addition his membership of the Group's private medical insurance cover will continue on existing terms to 31 May 2014 (worth £636). No 2013 annual bonus was payable. In respect of his outstanding long-term share awards, the committee determined that in accordance with the rules of the ERP, the awards would remain capable of vesting on their normal vesting dates, subject to satisfaction of the performance conditions and time prorating. His entitlement to sharesave awards ceased on 31 December 2013.

As disclosed last year, David Mulligan's employment with the Company ceased on 10 April 2013. The Company agreed to pay him £315,126 for payment in lieu of notice comprising nine months' salary (£236,250), pension contributions (£23,625) and other benefits (£25,251) plus a £30,000 settlement in respect of his contractual right to an annual bonus. In respect of his outstanding long-term incentive awards under the ERP, the committee determined that, in accordance with the rules of the ERP, the awards would remain capable of vesting on their normal vesting dates, subject to satisfaction of performance conditions and time prorating.

As disclosed last year, Paul Smith's employment with the Company ceased on 31 December 2012. The Company 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 was paid on 1 June 2013. He was 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 ERP, the committee determined that, in accordance with the rules of the ERP, the awards would remain capable of vesting on their normal vesting dates, subject to satisfaction of the performance conditions and time prorating.

#### Payments to former directors

Save for the payments in lieu of notice disclosed under payments for loss of office above, no payments were made to past executive directors during the year ended 31 December 2013. In addition, as also referred to above, Paul Smith and David Mulligan received shares in respect of the performance share awards and options granted under the ERP in March 2010, to the extent that these vested in March 2013 and the value of these is shown in the directors' remuneration table for 2012.

#### Percentage change in remuneration levels

The table below shows the movement in salary, benefits and annual bonus for the chief executive between the 2012 and 2013 financial years, compared to that for the average of all employees of the Group:

	% change
Chief executive	
Salary	Nil
Benefits	Nil
Bonus	(100)
Average employee	
Salary	2
Benefits	Nil
Bonus	(25)

## Directors' remuneration report



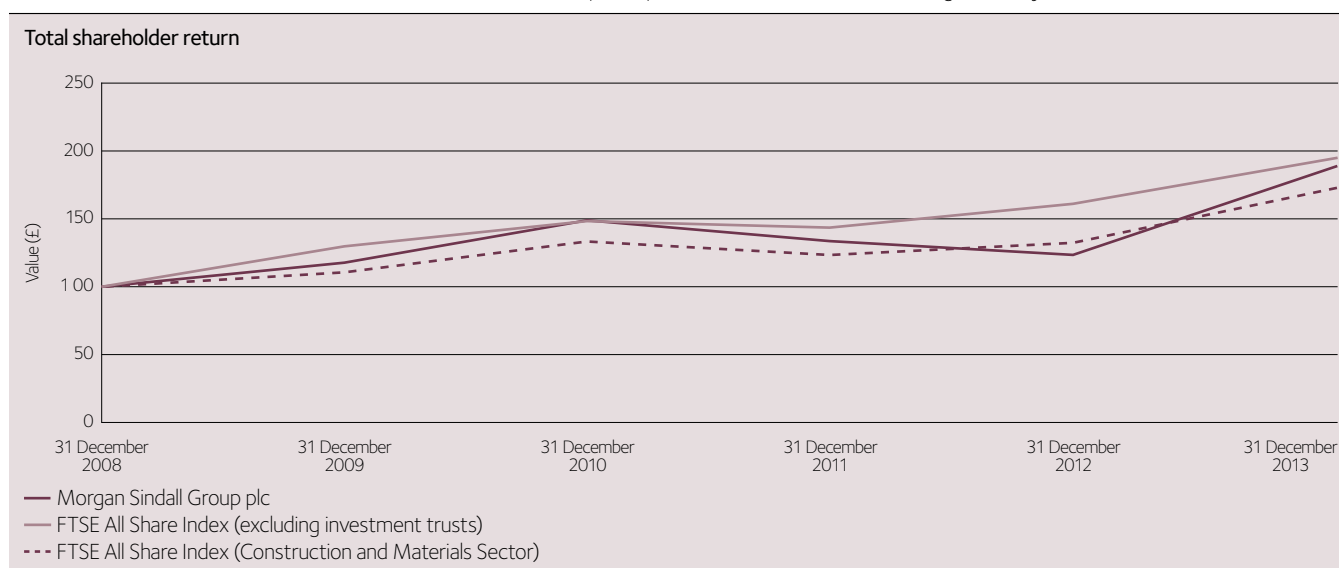
### Relative importance of spend on pay

The following table sets out the percentage change in profit, dividends and overall spend on pay in 2013 compared to 2012:

	2013	2012	% change
Adjusted EPS (pence)	<b>60.9p</b>	92.0p	(34)
Dividends paid during the year (£m)	<b>11.5</b>	17.8	(35)
Employee remuneration costs (£m)	<b>315.6</b>	341.7	(8)

### Five year performance graph and table

The graph below shows the TSR for the Company's shares over the last five financial years. It shows the value to 31 December 2013 of £100 invested in Morgan Sindall Group plc on 1 January 2009 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.



The total remuneration figures for the chief executive during each of the last five financial years are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the long-term incentive award based on the three year performance period ending in the relevant year. The annual bonus payout and long-term incentive award vesting level as a percentage of the maximum opportunity are also shown for each of these years.

Chief Executive	2013 John Morgan	2012 John Morgan <sup>1</sup>	2012 Paul Smith <sup>2</sup>	2011 Paul Smith	2010 Paul Smith	2009 Paul Smith
Total Remuneration (£000)	507 <sup>1</sup>	634	1,315	1,025	1,096	796
Annual bonus %	— <sup>3</sup>	30	26	85	100	27
LTIP share awards vesting %	—	—	48.8	—	—	25
LTIP share options vesting %	—	46.3	46.3	—	—	—

<sup>1</sup> John Morgan was appointed chief executive on 5 November 2012, having previously been executive chairman.

<sup>2</sup> Paul Smith resigned on 5 November 2012 and ceased employment on 31 December 2012.

<sup>3</sup> John Morgan waived his bonus entitlement for 2013.

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

### Patrick De Smedt

Chair of the Remuneration Committee  
18 February 2014

## Directors' report



### Introduction

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2013. The Companies Act 2006 requires the directors to present a fair review of the business during the year to 31 December 2013 and of the position of the Company at the end of the financial year along with a description of the principal risks and uncertainties. The strategic report can be found on pages 2 to 46. The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement which can be found on pages 52 to 57.

Details of significant events since the balance sheet date are contained in note 29 to the financial statements. An indication of likely future developments in the business of the Group and details of research and development activities are included in the strategic report. Information about the use of financial instruments by the Company and its subsidiaries is given in note 28 to the financial statements.

Pages 2 to 76 (together with the sections of the annual report incorporated by reference) form part of the directors' report which is presented in accordance with, and with reliance upon applicable English company law. The liabilities of the directors in connection with this report shall be limited as provided by English law.

### Dividends

An interim dividend of 12.0p (2012: 12.0p) per share amounting to £5.1m (2012: £5.1m) was paid on 24 October 2013. The directors recommend a final dividend for the year of 15.0p (2012: 15.0p) per share amounting to £6.4m (2012: £6.4m) payable on 23 May 2014 to shareholders on the register at close of business on 2 May 2014. Together with the interim dividend, this makes a total dividend of 27.0p (2012: 27.0p) 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 25 of the consolidated financial statements. The Company's issued share capital comprises a single class of ordinary shares of 5p each. 0.08% of shares were issued in 2013 to settle share option exercises under the Group's SAYE scheme (2012: 0.02%, 2011: 0%).

At each AGM the Board seeks authorisation from its shareholders to allot shares. The directors were granted authority at the AGM on 9 May 2014 to allot relevant securities up to a nominal amount of £108,148. 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 Conduct Authority whereby certain employees of the Company require its approval to deal in the Company's shares.

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

### Purchase of own shares

At the AGM on 9 May 2013, a resolution was passed giving the directors authority to make market purchases of its shares up to 4,322,864 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 9 August 2014 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.

## Directors' 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 1.3% of the issued share capital of the Company as at 31 December 2013 on trust for the benefit of the employees and former employees of the Group and their dependants. 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 103.

### 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 8 May 2014, 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)  
Steve Crummett (Finance director – appointed on 25 February 2013)  
Paul Whitmore (Commercial director)  
Patrick De Smedt (Senior independent director)  
Geraldine Gallacher  
Simon Gulliford  
Liz Peace

Paul Whitmore resigned on 31 December 2013 and David Mulligan resigned on 25 February 2013.

Biographical details of the directors of the Company who are seeking re-election are set out on pages 48 and 49.

Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on pages 65 to 71.

### 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. The Company also had and continues to have in place a pension trustees liability insurance policy in favour of the trustees of The Morgan Sindall Retirement Benefits Plan in respect of certain losses or liabilities 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 18 February 2014, 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
Franklin Templeton Institutional, LLC	6,495,381	15.02
John Morgan	3,997,508	9.24
JO Hambro Capital Management Group Ltd	2,239,565	5.18
Ameriprise Financial Inc.	2,232,808	5.16
JP Morgan Chase & Co	2,123,287	4.91
Standard Life Investments Ltd	2,025,053	4.68
John James Clifford Lovell	2,015,273	4.66
Aberdeen Asset Managers Ltd	2,010,042	4.65
Norges Bank	1,374,850	3.18
Barclays Global Investors	1,303,861	3.01

### Change of control

The Group's banking facilities which are described in the finance review on page 35 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. In addition, the Company's employee share incentive schemes contain provisions whereby, upon a change of control, 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.

### Environmental, social and governance (ESG) disclosures

Details of the Group's approach to diversity and ESG disclosures can be found in the sustainability review on pages 42 to 46, the risk review on page 39 and in the corporate governance statement on page 54.

### Disabled employees

Applications for employment by disabled people are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled people should, as far as possible, be identical to that of other employees.

### Employee consultation

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 SAYE Scheme, which is open to all employees, are set out in notes 25 and 26 of the consolidated financial statements on pages 103 and 104.

### Greenhouse gas emissions

All disclosures on the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013), are contained in the sustainability review on page 46.

### Political contributions

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

### 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 8 May 2014 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.corporate.morgansindall.com](http://www.corporate.morgansindall.com). Shareholders will also find enclosed with this document a form of proxy for use in connection with the meeting.

The directors' report from pages 2 to 76 inclusive was approved by the Board and signed on its behalf by:

### Mary Nettleship

Company Secretary  
18 February 2014

## 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 financial statements 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 strategic 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; and
- > the annual report and financial statements, taken as a whole, are fair balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

For and on behalf of the Board

**John Morgan**  
Chief Executive  
18 February 2014

**Steve Crummett**  
Finance Director  
18 February 2014



## Financial statements

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#### Group consolidated financial statements

The Group's consolidated financial statements for the year ended 31 December 2013

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## Independent auditor's report

to the members of Morgan Sindall Group plc



### Opinion on financial statements of Morgan Sindall Group plc

In our opinion:

- > the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- > the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- > the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements 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, the critical accounting judgments and estimates, the related Group notes 1 to 29, the Company balance sheet, the Company combined statement of movements in reserves and shareholders' funds and the related Company notes 1 to 12. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (UK GAAP).

### Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the finance review on page 35 that the Group is a going concern. We confirm that:

- > we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union; and
- > we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
<p><b>Recognition of contract revenue, margin and related receivables and liabilities.</b> For construction and services companies there is considerable judgment in assessing the appropriate contract revenue and margin to recognise, which involves the consideration of the valuation of work performed, current and future contract operational performance and in turn the evaluation of the related receivables and liabilities at each reporting date.</p>	<p>We carried out testing of controls over revenue recognition, amounts due from construction contract customers and contract receivables.</p> <p>For a sample of contracts we assessed the forecast costs to complete that drive the accounting under the percentage of completion method, including a review of the contract terms and conditions, management's assessments of the forecasts, and the existence and valuation of claims and variations both within contract revenue and contract costs.</p> <p>We tested the recoverability of amounts due from construction contract customers and the related receivables on a sample basis.</p> <p>We assessed the completeness and validity of allowances recorded by management based upon the liabilities that may arise from disputes with customers or rectification works required through interviewing contract managers, commercial directors and a review of correspondence with customers and solicitors.</p>
<p><b>Impairment of goodwill.</b> Goodwill must be tested annually and requires a comparison between the carrying value of the asset and the recoverable amount.</p>	<p>We challenged management's assumptions used in the impairment model for goodwill, described in note 9 to the financial statements, which calculates the recoverable amount. Our challenge focused on assessing the appropriateness of the cash flow projections relative to previous performance and external evidence on construction growth rates, benchmarking and recalculating discount rates and perpetuity rates used, and the related sensitivity analysis which was performed.</p>



Risk	How the scope of our audit responded to the risk
<p><b>Carrying value of land and work in progress.</b> The determination of net realisable value is a key area of judgment due to the assumptions made by management on future expected sales values and development opportunities.</p>	<p>We have challenged the assumptions made on land and development appraisals such as market values, local demand and planning applications, which underpin management's assessment, by scrutinising them against recent sales information and external market data on house prices. We have agreed the future development cost assumptions to detailed site appraisals, and agreed these to contractual documentation. We have reviewed the site appraisals for reasonableness against externally available data to benchmark the inherent assumptions against wider market forecasts of cost increases, likely sales rates and planning developments.</p>
<p><b>Valuation of shared equity loan receivables.</b> The determination of the fair value of the shared equity schemes in the Affordable Housing division requires management judgment in relation to the discount rate, rate of expected default and forecast house price growth.</p>	<p>We have reviewed and challenged management's assumptions in accounting for shared equity schemes and assessed the model methodology. The assumptions have been benchmarked against similar products in the market place, current market data on house price growth, redemption rates and performance of the shared equity scheme to date.</p>

Management's assessment of these and other key sources of judgment is included on page 89.

The audit committee's consideration of these and other risks is set out on pages 56 and 57.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

#### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £3.1m, which is 7.5% of the five-year average pre tax profit before exceptional items, and approximately 1% of net assets. We use pre tax profit before exceptional items as it represents a key performance measure for the Group and we use a five-year average to mitigate the effect of fluctuations in the measure from year-to-year.

We agreed to report to the audit committee all audit differences in excess of £0.1m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

#### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, our Group audit scope focussed primarily on the audit work at the most significant components where full audit procedures were carried out based on our assessment of the identified risks of material misstatement identified above. The most significant components represent the principal business units within the Group's reportable segments and account for 98% of the Group's revenue, 95% of the Group's adjusted profit before tax and 87% of the Group's net assets.

The remaining components were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those components.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team continued to follow a programme of planned visits that has been designed so that either the Senior Statutory Auditor or another senior member of the Group audit team visits each of the Group's principal business units at least once a year. The Senior Statutory Auditor or another senior member of the Group audit team participated in all of the close meetings of the Group's principal business units.

#### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

## Independent auditor's report

to the members of Morgan Sindall Group plc



### Matters on which we are required to report by exception

#### Adequacy of explanations received and accounting records

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

- > we have not received all the information and explanations we require for our audit; or
- > adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the directors' remuneration report. We have nothing to report arising from these matters or our review.

#### Corporate governance statement

Under the Listing Rules we are also required to review the part of the corporate governance statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

#### Our duty to read other information in the annual report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- > materially inconsistent with the information in the audited financial statements; or
- > apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- > otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

#### Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the 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 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.

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.

#### 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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Mark Beddy FCA

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, UK

18 February 2014

## Consolidated income statement

for the year ended 31 December 2013



	Notes	2013			2012		
		Before exceptional items £m	Exceptional operating items £m	Total £m	Before exceptional items £m	Exceptional operating items £m	Total £m
Revenue	1, 2	2,094.9	–	2,094.9	2,047.1	–	2,047.1
Cost of sales		(1,923.6)	(14.7)	(1,938.3)	(1,860.4)	–	(1,860.4)
<b>Gross profit</b>		<b>171.3</b>	<b>(14.7)</b>	<b>156.6</b>	186.7	–	186.7
Administrative expenses		(148.5)	–	(148.5)	(153.7)	(10.0)	(163.7)
Share of net profit of joint ventures	12	0.9	–	0.9	5.7	–	5.7
Other gains and losses	12	9.9	–	9.9	9.4	–	9.4
<b>Operating profit before amortisation of intangible assets</b>		<b>33.6</b>	<b>(14.7)</b>	<b>18.9</b>	48.1	(10.0)	38.1
Amortisation of intangible assets	9	(2.7)	–	(2.7)	(2.9)	–	(2.9)
<b>Operating profit</b>	2	<b>30.9</b>	<b>(14.7)</b>	<b>16.2</b>	45.2	(10.0)	35.2
Finance income	5	1.2	–	1.2	2.3	–	2.3
Finance expense	5	(3.5)	–	(3.5)	(3.3)	–	(3.3)
<b>Profit before tax</b>	3	<b>28.6</b>	<b>(14.7)</b>	<b>13.9</b>	44.2	(10.0)	34.2
Tax	6	(2.3)	3.4	1.1	(5.9)	2.4	(3.5)
<b>Profit for the year</b>		<b>26.3</b>	<b>(11.3)</b>	<b>15.0</b>	38.3	(7.6)	30.7
Attributable to:							
Owners of the Company		26.4	(11.3)	15.1	38.4	(7.6)	30.8
Non-controlling interests		(0.1)	–	(0.1)	(0.1)	–	(0.1)
<b>Profit for the year</b>		<b>26.3</b>	<b>(11.3)</b>	<b>15.0</b>	38.3	(7.6)	30.7
<b>Earnings per share</b>							
Basic	8			35.4p			72.5p
Diluted	8			34.9p			72.0p

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

## Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Notes	2013 £m	2012 £m
<b>Profit for the year</b>		<b>15.0</b>	30.7
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Actuarial gain/(loss) arising on retirement benefit obligation	20	0.9	(0.8)
Deferred tax on retirement benefit obligation	21	–	0.1
		<b>0.9</b>	(0.7)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Movement on cash flow hedges in joint ventures	12	0.2	(0.4)
Losses on cash flow hedges transferred to the income statement on disposal of joint ventures	12	1.4	2.1
Foreign exchange movement on translation of overseas operations		(0.4)	–
Other movement on cash flow hedges		0.1	–
		<b>1.3</b>	1.7
<b>Other comprehensive income</b>		<b>2.2</b>	1.0
<b>Total comprehensive income</b>		<b>17.2</b>	31.7
Attributable to:			
Owners of the Company		17.3	31.8
Non-controlling interests		(0.1)	(0.1)
<b>Total comprehensive income</b>		<b>17.2</b>	31.7

**Consolidated balance sheet**

at 31 December 2013



	Notes	2013 £m	2012 £m
<b>Assets</b>			
Goodwill and other intangible assets	9	220.5	223.2
Property, plant and equipment	10	18.3	20.1
Investment property	11	10.0	11.3
Investments in joint ventures	2, 12	54.0	62.2
Investments		0.4	0.4
Shared equity loan receivables	13	19.7	19.2
<b>Non-current assets</b>			
Inventories	14	322.9	336.4
Trade and other receivables	15	161.0	159.4
Cash and cash equivalents	28	385.5	404.9
Asset held for sale	17	92.8	50.4
		3.1	–
<b>Current assets</b>			
		642.4	614.7
<b>Total assets</b>			
	2	965.3	951.1
<b>Liabilities</b>			
Trade and other payables	18	(613.5)	(619.5)
Current tax liabilities		(5.3)	(5.2)
Finance lease liabilities	19	(1.5)	(1.2)
Provisions	22	(2.2)	(3.0)
<b>Current liabilities</b>			
		(622.5)	(628.9)
<b>Net current assets/(liabilities)</b>			
		19.9	(14.2)
Trade and other payables	18	(20.6)	(22.9)
Finance lease liabilities	19	(3.9)	(5.0)
Borrowings	28	(23.1)	–
Retirement benefit obligation	20	–	(1.5)
Deferred tax liabilities	21	(16.0)	(19.0)
Provisions	22	(22.2)	(24.5)
<b>Non-current liabilities</b>			
		(85.8)	(72.9)
<b>Total liabilities</b>			
		(708.3)	(701.8)
<b>Net assets</b>			
		257.0	249.3
<b>Equity</b>			
Share capital	25	2.2	2.2
Share premium account		26.9	26.7
Other reserves		(0.4)	(1.7)
Retained earnings		228.8	222.5
<b>Equity attributable to owners of the Company</b>			
		257.5	249.7
Non-controlling interests		(0.5)	(0.4)
<b>Total equity</b>			
		257.0	249.3

The consolidated financial statements of Morgan Sindall Group plc were approved by the Board on 18 February 2014 and signed on its behalf by:

**John Morgan**  
Chief Executive

**Steve Crummett**  
Finance Director

# Consolidated cash flow statement

for the year ended 31 December 2013



	Notes	2013 £m	2012 £m
<b>Operating activities</b>			
Operating profit		<b>16.2</b>	35.2
Adjusted for:			
Amortisation of intangible assets	9	<b>2.7</b>	2.9
Share of net profit of equity accounted joint ventures	12	<b>(0.9)</b>	(5.7)
Depreciation	10	<b>5.2</b>	6.5
Share option expense	26	<b>1.2</b>	0.2
Profit on disposal of interests in joint ventures	12	<b>(9.9)</b>	(8.8)
Loss/(gain) on disposal of property, plant and equipment		<b>0.2</b>	(0.6)
Revaluation of investment properties	11	<b>-</b>	0.5
Movement in fair value of shared equity loan receivables	13	<b>(0.2)</b>	(0.2)
Non-cash exceptional operating items	3	<b>14.7</b>	3.2
Additional pension contributions	20	<b>(0.7)</b>	(0.6)
Net disposals of/(additions to) investment properties	11	<b>1.3</b>	(0.7)
Net additions to shared equity loan receivables	13	<b>(0.3)</b>	(1.4)
Decrease in provisions	22	<b>(3.1)</b>	(2.3)
<b>Operating cash flows before movements in working capital</b>		<b>26.4</b>	28.2
Increase in inventories		<b>(1.6)</b>	(10.9)
Decrease in receivables		<b>3.8</b>	10.8
Decrease in payables		<b>(10.6)</b>	(76.8)
<b>Movements in working capital</b>		<b>(8.4)</b>	(76.9)
<b>Cash inflow/(outflow) from operating activities</b>		<b>18.0</b>	(48.7)
Income taxes paid		<b>(1.2)</b>	(8.1)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>16.8</b>	(56.8)
<b>Investing activities</b>			
Interest received		<b>1.5</b>	2.2
Dividends from joint ventures	12	<b>0.4</b>	1.3
Proceeds on disposal of property, plant and equipment		<b>0.3</b>	1.6
Purchases of property, plant and equipment		<b>(3.9)</b>	(4.0)
Net payments to acquire or increase interests in joint ventures		<b>(4.9)</b>	(7.0)
Proceeds on disposal of interests in joint ventures		<b>23.6</b>	26.2
Payments for the acquisition of subsidiaries and other businesses		<b>-</b>	(0.1)
<b>Net cash inflow from investing activities</b>		<b>17.0</b>	20.2
<b>Financing activities</b>			
Interest paid		<b>(2.0)</b>	(3.0)
Dividends paid	7	<b>(11.5)</b>	(17.8)
Repayments of obligations under finance leases		<b>(1.2)</b>	(1.1)
Proceeds from long-term borrowings	28	<b>23.1</b>	-
Proceeds from issue of share capital	25	<b>0.2</b>	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>8.6</b>	(21.9)
Net increase/(decrease) in cash and cash equivalents		<b>42.4</b>	(58.5)
Cash and cash equivalents at 1 January		<b>50.4</b>	108.9
<b>Cash and cash equivalents at 31 December</b>		<b>92.8</b>	50.4

## Consolidated statement of changes in equity

for the year ended 31 December 2013



	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2012	2.2	26.7	(3.4)	210.4	235.9	(0.3)	235.6
Total comprehensive income	–	–	1.7	30.1	31.8	(0.1)	31.7
Share option expense	–	–	–	0.2	0.2	–	0.2
Tax relating to share option expense	–	–	–	(0.4)	(0.4)	–	(0.4)
Dividends paid	–	–	–	(17.8)	(17.8)	–	(17.8)
<b>1 January 2013</b>	<b>2.2</b>	<b>26.7</b>	<b>(1.7)</b>	<b>222.5</b>	<b>249.7</b>	<b>(0.4)</b>	<b>249.3</b>
Total comprehensive income	–	–	1.3	16.0	17.3	(0.1)	17.2
Share option expense	–	–	–	1.2	1.2	–	1.2
Issue of shares at a premium	–	0.2	–	–	0.2	–	0.2
Exercise of share options and vesting of share awards	–	–	–	0.4	0.4	–	0.4
Tax relating to share option expense	–	–	–	0.2	0.2	–	0.2
Dividends paid	–	–	–	(11.5)	(11.5)	–	(11.5)
<b>31 December 2013</b>	<b>2.2</b>	<b>26.9</b>	<b>(0.4)</b>	<b>228.8</b>	<b>257.5</b>	<b>(0.5)</b>	<b>257.0</b>

### Other reserves

Other reserves include:

- > Capital redemption reserve of £0.6m (2012: £0.6m) which was created on the redemption of preference shares in 2003.
- > Hedging reserve of (£0.6m) (2012: (£2.3)m) arising 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.
- > Translation reserve of (£0.4m) (2012: £nil) arising on the translation of overseas operations into the Group's functional currency.

### Retained earnings

Retained earnings include shares that 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 2013 was 575,397 (2012: 723,970) with a cost of £4.3m (2012: £5.6m).

## Significant accounting policies

for the year ended 31 December 2013



### 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 strategic report on pages 2 to 46.

### Basis of preparation

#### (a) Statement of compliance

The consolidated financial statements have been prepared on the going concern basis as discussed in the finance review on page 35 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 or disclosures reported in these financial statements.

- > Amendment to IAS 1 'Presentation of Items of Other Comprehensive Income'. This amendment requires that items presented in the statement of comprehensive income (and the tax thereon) should be presented based upon whether they are potentially reclassifiable to profit or loss subsequently.
- > Amendment to IAS 19 'Employee Benefits'. This amendment removes the 'corridor approach' permitted by existing IAS 19, modifies the accounting for termination benefits and clarifies various other miscellaneous issues. The corridor approach was not part of the Group's existing accounting policy.
- > IFRS 13 'Fair Value Measurement'. This standard provides a single source of guidance on how fair values should be measured and disclosed where the use of fair value measurement is required by other accounting standards.
- > Amendment to IFRS 12 'Deferred Tax: Recovery of Underlying Assets'. This amendment requires a presumption that the carrying amount of investment property carried at fair value will normally be recovered through sale.
- > IAS 36 (amended) 'Recoverable Amount Disclosures for Non-Financial Assets'. This amendment reduces the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarifies the disclosures required, and introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

##### (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 2010-2012 Cycle and 2011-2013 Cycle

- > IFRS 9 'Financial Instruments'
- > IFRS 10 'Consolidated Financial Statements'
- > IFRS 11 'Joint Arrangements'
- > IFRS 12 'Disclosures of Interests in Other Entities'
- > IAS 19 (amended) 'Defined Benefit Plans: Employee Contributions'
- > IAS 27 (revised) 'Separate Financial Statements'
- > IAS 28 (revised) 'Investments in Associates and Joint Ventures'
- > IAS 32 (amended) 'Offsetting Financial Assets and Liabilities'
- > IAS 39 (amended) 'Novation of Derivatives and Continuation of Hedge Accounting'

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.

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, 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.

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.

#### (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.



## Significant accounting policies



Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. They 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. Subsequent to acquisition, non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of the changes in equity since the date of the combination.

### (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.

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 at a margin that is consistent with the construction contract element of the development.

#### (b) Service contracts

Revenue 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 are 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.

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.



## Leases

The Group as lessee:

### (a) Finance leases

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

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

### (b) Operating leases

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

## Finance income and expense

Finance income and expense is recognised using the effective interest method.

## Income tax

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

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

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

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

Deferred tax is recognised on temporary differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at the tax rates expected to apply when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted and are only offset where there is a legally enforceable right to offset current tax assets and liabilities.

## Intangible assets

### (a) Goodwill

#### (i) Initial recognition

Goodwill arises on business combinations and 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 the cost is less than the Group's share of the identifiable net assets, the difference 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.

#### (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 estimated useful lives for the Group's finite life intangible assets are between 1 and 12 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 loan receivables

The Group has granted loans under shared equity home ownership schemes allowing qualifying home buyers to 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 Institution of Chartered

## Significant accounting policies



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 designated at fair value through profit or loss. Fair value movements are recognised in profit from operations and the resulting financial asset is presented as a non-current receivable. Fair value movements include accreted interest.

### 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.

### 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.

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 loan receivables, 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 uncollectable, 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.

### 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.

Interest rate swaps, 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.

### 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.

## Critical accounting judgments and estimates

for the year ended 31 December 2013



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.

The following items are those that management consider to be critical due to the level of judgment and estimation required:

### > Accounting for construction and service contracts

Recognition of revenue and profit 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.

### > 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.

### > Goodwill and intangible assets

IFRS 3 requires the identification of acquired intangible assets as part of a business combination. The methods used to value such intangible assets require the use of estimates. Future results are impacted by the amortisation periods adopted and changes to the estimated useful lives would result in different effects on the income statement and balance sheet.

Goodwill is not amortised but is tested at least annually for impairment, along with the finite life intangible assets and other assets of the Group's cash-generating units. Tests for impairment are based on discounted cash flows and assumptions (including discount rates, timing and growth prospects) which are inherently subjective. The Group performs various sensitivity analyses in respect of the tests for impairment, as detailed in note 9.

The useful lives of the Group's finite life intangible assets are reviewed following the tests for impairment annually.

### > 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. The Group makes estimates of fair value of the loans on a portfolio basis. Key assumptions used by management in making these estimates include market value growth, the discount rate, the anticipated loan duration and the expected rate of debtor default. Assumptions made in relation to these inputs are set out in note 13 and have a material impact on the carrying value of the loan portfolio recognised on the balance sheet and the fair value movement recognised in the income statement.

### > 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.

### > Disclosure of exceptional operating items

The Group has presented certain items of a one-off and material nature as exceptional operating 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 exceptional. Inclusion within this category is restrictive and is applied consistently.

## Notes to the consolidated financial statements



## 1 Revenue

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

	2013 £m	2012 £m
Revenue from construction contracts	2,063.2	2,021.5
Other	31.7	25.6
<b>Total revenue</b>	<b>2,094.9</b>	<b>2,047.1</b>

Other largely relates to professional services. Finance income of £1.2m (2012: £2.3m) is excluded from the table above.

## 2 Business segments

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

- > Construction & Infrastructure: offers national design, construction and infrastructure services to private and public sector clients. The division works on projects, and in frameworks and strategic alliances of all sizes across a broad range of markets including commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport and water.
- > Fit Out: specialises in fit out and refurbishment projects in the commercial, central and local government office, further education, and retail banking markets. Overbury operates as a national fit out company through multiple procurement routes and Morgan Lovell specialises in workspace consultancy and in the interior 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 and residential-led projects. Typically creates commercial, retail, residential, leisure and public realm facilities.
- > Investments: realises the potential for under-utilised property assets and promotes economic growth, primarily through strategic partnerships with the public sector, by providing flexible structuring and funding solutions and development expertise. The division covers a wide range of markets including asset backed, education, health and social care, residential, student accommodation, leisure and infrastructure.

Group Activities represents costs and income arising from corporate activities which cannot be meaningfully allocated to the operating segments. These include costs such as treasury management, corporate tax coordination, insurance management and company secretarial services. The divisions are the basis on which the Group reports its segmental information as presented below:

## 2013

	Construction & Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
External revenue	1,234.4	410.5	379.7	61.6	8.7	–	–	2,094.9
Inter-segment revenue	–	16.8	1.3	–	–	–	(18.1)	–
Total revenue	1,234.4	427.3	381.0	61.6	8.7	–	(18.1)	2,094.9
Operating profit/(loss) before amortisation of intangible assets and exceptional operating items	12.7	10.9	8.6	1.0	6.1	(5.7)	–	33.6
Amortisation of intangible assets	–	–	(0.7)	(2.0)	–	–	–	(2.7)
Exceptional operating items	(14.7)	–	–	–	–	–	–	(14.7)
Operating profit/(loss)	(2.0)	10.9	7.9	(1.0)	6.1	(5.7)	–	16.2



## 2 Business segments continued

2012

	Construction & Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
External revenue	1,168.1	426.8	385.8	62.3	4.1	–	–	2,047.1
Inter-segment revenue	0.1	10.0	–	–	–	–	(10.1)	–
Total revenue	1,168.2	436.8	385.8	62.3	4.1	–	(10.1)	2,047.1
Operating profit/(loss) before amortisation of intangible assets and exceptional operating items	19.7	11.3	11.5	2.7	7.4	(4.5)	–	48.1
Amortisation of intangible assets	–	–	(0.8)	(2.1)	–	–	–	(2.9)
Exceptional operating items	(6.8)	–	(2.5)	–	(0.2)	(0.5)	–	(10.0)
Operating profit/(loss)	12.9	11.3	8.2	0.6	7.2	(5.0)	–	35.2

During the year ended 31 December 2013 and the year ended 31 December 2012, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

2013

	Construction & Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Total £m
Goodwill and other intangible assets	151.1	–	48.9	20.5	–	–	220.5
Investments in joint ventures	–	–	–	41.2	12.8	–	54.0
Other assets	377.8	114.8	212.7	78.1	7.5	(100.1)	690.8
Total assets	528.9	114.8	261.6	139.8	20.3	(100.1)	965.3
Total liabilities	(420.2)	(86.6)	(166.1)	(54.3)	(6.0)	24.9	(708.3)
Other information:							
Share of net profit/(loss) of joint ventures	–	–	(0.1)	–	1.0	–	0.9
Depreciation	3.4	0.4	0.6	0.1	0.1	0.6	5.2
Property, plant and equipment additions	2.3	0.4	0.4	–	–	0.8	3.9
Average number of employees	3,438	579	1,567	53	91	24	5,752

2012

	Construction & Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Total £m
Goodwill and other intangible assets	151.1	–	49.6	22.5	–	–	223.2
Investments in 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:							
Share of net profit/(loss) of joint ventures	–	–	(0.3)	0.3	5.7	–	5.7
Depreciation	4.3	0.7	0.7	0.1	–	0.7	6.5
Property, plant and equipment additions	3.8	0.5	0.2	–	0.1	1.3	5.9
Average number of employees	3,661	605	1,975	52	68	23	6,384

## Notes to the consolidated financial statements

**3 Profit for the year**

Profit before tax for the year is stated after charging exceptional operating items:

	2013 £m	2012 £m
Impairment of trade and other receivables	14.7	–
Reorganisation costs – onerous lease and property dilapidation provisions	–	3.2
<b>Total non-cash exceptional operating items</b>	<b>14.7</b>	<b>3.2</b>
Reorganisation – redundancy costs paid	–	6.8
Total cash exceptional items	–	6.8
<b>Total exceptional operating items</b>	<b>14.7</b>	<b>10.0</b>

An exceptional charge has been taken in the year as an impairment against trade and other receivables in relation to four older construction contracts. During the second half of the year commercial resolution has been achieved on one of these contracts, whilst another has been impaired to reduce the carrying value to nil. In relation to the remaining two contracts, the Board believes it is appropriate to provide against these balances to an amount it considers is a balanced estimate of overall likely resolution based upon its current assessment of progress made towards recovering these amounts and the expected time, cost and associated risk of pursuing legal remedies to achieve recovery.

The exceptional operating item in 2012 related to the cost of the Group reorganising its network of offices and comprised redundancy and property related costs.

**Auditor's remuneration**

	2013 £m	2012 £m
Audit of the Company's annual report and accounts	0.1	0.1
Audit of the Company's subsidiaries and joint ventures	0.7	0.6
<b>Total audit fees</b>	<b>0.8</b>	<b>0.7</b>
Other services	0.1	0.1
<b>Total non audit fees</b>	<b>0.1</b>	<b>0.1</b>
<b>Total fees</b>	<b>0.9</b>	<b>0.8</b>

**4 Staff costs**

	2013 £m	2012 £m
Wages and salaries	276.2	301.6
Social security costs	31.0	31.3
Other pension costs (note 20)	8.4	8.8
	<b>315.6</b>	<b>341.7</b>



## 5 Finance income and expense

	2013 £m	2012 £m
Interest income on bank deposits	0.2	0.5
Interest receivable from joint ventures	1.0	1.5
Other interest income	–	0.3
<b>Finance income</b>	<b>1.2</b>	<b>2.3</b>
Interest payable on bank overdrafts and borrowings	(1.3)	(2.3)
Interest payable on finance leases	(0.3)	(0.3)
Loan arrangement and commitment fees	(1.2)	(0.7)
Other interest payable	(0.7)	–
<b>Finance expense</b>	<b>(3.5)</b>	<b>(3.3)</b>
<b>Net finance expense</b>	<b>(2.3)</b>	<b>(1.0)</b>

In November 2012 the Group increased its investment in ISIS Waterside Regeneration Partnership, with consideration of £20.5m payable in instalments between 2013 and 2017. This deferred consideration was discounted to £18.5m in the financial statements to reflect the present value of the liability to the Group at the date of acquisition. The discount was £2.0m, which will be charged or unwound through finance expense between 2012 and 2017. Included within other interest payable in 2013 is discount unwind of £0.6m.

## 6 Tax

	2013 £m	2012 £m
<b>Current tax expense/(credit):</b>		
UK corporation tax	1.0	5.4
Adjustment in respect of prior years as set out below	0.3	(0.8)
	<b>1.3</b>	<b>4.6</b>
<b>Deferred tax (credit)/expense:</b>		
Current year	(2.3)	(1.3)
Adjustment in respect of prior years as set out below	(0.1)	0.2
	<b>(2.4)</b>	<b>(1.1)</b>
<b>Income tax (credit)/expense for the year</b>	<b>(1.1)</b>	<b>3.5</b>

Corporation tax is calculated at 23.25% (2012: 24.5%) of the estimated assessable profit for the year.

In 2013 a net tax credit of £1.1m has arisen, comprising a current tax charge of £1.3m and a deferred tax credit of £2.4m (2012: net tax charge £3.5m). The deferred tax credit has arisen due to forthcoming changes in the UK statutory tax rate from 23% to 20%, which reduced the net deferred tax liability by £2.5m. The current tax liability on profits was at a low effective rate because no tax liabilities are expected upon gains on disposals of investments. As set out in the table below, without these two factors the tax charge for the year would be approximately equal to tax at the UK statutory corporation tax rate:

	2013 £m	2012 £m
<b>Current tax expense:</b>		
Profit before tax	13.9	34.2
Less: post tax share of profits from joint ventures	(0.9)	(5.7)
	<b>13.0</b>	<b>28.5</b>
UK corporation tax rate	<b>23.25%</b>	24.5%
Income tax expense at UK corporation tax rate	<b>3.0</b>	7.0
<b>Tax effect of:</b>		
Gain on disposal of joint ventures not giving rise to a tax liability	(2.3)	(2.2)
Expenses that are not deductible in determining taxable profits	0.2	0.9
Adjustments in respect of prior years	0.2	(0.6)
Effect of expected forthcoming change in tax rates upon deferred tax balance	(2.5)	(1.5)
Other	0.3	(0.1)
<b>Income tax (credit)/expense for the year</b>	<b>(1.1)</b>	<b>3.5</b>



## Notes to the consolidated financial statements



## 7 Dividends

Amounts recognised as distributions to equity holders in the year:

	2013 £m	2012 £m
Final dividend for the year ended 31 December 2012 of 15.0p per share	6.4	–
Final dividend for the year ended 31 December 2011 of 30.0p per share	–	12.7
Interim dividend for the year ended 31 December 2013 of 12.0p per share	5.1	–
Interim dividend for the year ended 31 December 2012 of 12.0p per share	–	5.1
	<b>11.5</b>	<b>17.8</b>

The proposed final dividend for the year ended 31 December 2013 of 15.0p 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.

## 8 Earnings per share

	Notes	2013 £m	2012 £m
Profit attributable to the owners of the Company		15.1	30.8
Adjustments:			
Exceptional operating items net of tax		11.3	7.6
Intangible amortisation net of tax		2.1	2.2
Deferred tax credit arising due to change in UK corporation tax rates	6	(2.5)	(1.5)
Adjusted earnings		26.0	39.1
Basic weighted average number of ordinary shares (m)		42.7	42.5
Dilutive effect of share options and conditional shares not vested (m)		0.6	0.3
Diluted weighted average number of ordinary shares (m)		43.3	42.8
Basic earnings per share		35.4p	72.5p
Diluted earnings per share		34.9p	72.0p
Adjusted earnings per share		60.9p	92.0p
Diluted adjusted earnings per share		60.0p	91.4p

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 £6.46 (2012: £6.41).

A total of 698,089 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 2013 (2012: 1,030,688).

## 9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
<b>Cost or valuation</b>			
1 January 2012	214.1	30.8	244.9
Disposals	(0.2)	(0.9)	(1.1)
<b>1 January 2013 and 31 December 2013</b>	<b>213.9</b>	<b>29.9</b>	<b>243.8</b>
<b>Accumulated amortisation</b>			
1 January 2012	–	(18.3)	(18.3)
Amortisation	–	(2.9)	(2.9)
Disposals	–	0.6	0.6
<b>1 January 2013</b>	–	(20.6)	(20.6)
Amortisation	–	(2.7)	(2.7)
<b>31 December 2013</b>	<b>–</b>	<b>(23.3)</b>	<b>(23.3)</b>
<b>Net book value at 31 December 2013</b>	<b>213.9</b>	<b>6.6</b>	<b>220.5</b>
Net book value at 31 December 2012	213.9	9.3	223.2

Other intangible assets represent contracts and related relationships where there is a historical experience of a relationship and the real prospective opportunity of repeat work. Other intangible assets will be fully amortised by 2019.



## 9 Goodwill and other intangible assets continued

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 and strategic plans for the next five years. Cash flows beyond five years have been extrapolated using an estimated nominal growth rate of 2.4% (2012: 2.4%). 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 11.5% (2012: 12.0%) for Construction & Infrastructure, 12.0% (2012: 13.0%) for Affordable Housing and 13.0% (2012: 15.0%) for Urban Regeneration.

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

The Group performed various sensitivity analyses which involved reducing future cash flows from 2015 to 2018 in use by 25%, reducing terminal growth rates to nil or increasing pre tax discount rates by 100 bps. The results of these analyses showed that the value in use of the cash-generating units continued to exceed their carrying value.

## 10 Property, plant and equipment

	Freehold property and land £m	Leased property £m	Plant, machinery and equipment £m	Total £m
<b>Cost</b>				
1 January 2012	2.4	10.0	46.1	58.5
Additions	–	1.1	4.8	5.9
Disposals	–	(3.1)	(11.0)	(14.1)
<b>1 January 2013</b>	<b>2.4</b>	<b>8.0</b>	<b>39.9</b>	<b>50.3</b>
Additions	–	1.1	2.8	3.9
Disposals	–	(0.8)	(1.5)	(2.3)
<b>31 December 2013</b>	<b>2.4</b>	<b>8.3</b>	<b>41.2</b>	<b>51.9</b>
<b>Accumulated depreciation</b>				
1 January 2012	–	(6.4)	(30.5)	(36.9)
Depreciation charge	–	(1.2)	(5.3)	(6.5)
Disposals during the year	–	2.6	10.6	13.2
<b>1 January 2013</b>	<b>–</b>	<b>(5.0)</b>	<b>(25.2)</b>	<b>(30.2)</b>
Depreciation charge	–	(0.7)	(4.5)	(5.2)
Disposals	–	0.8	1.0	1.8
<b>31 December 2013</b>	<b>–</b>	<b>(4.9)</b>	<b>(28.7)</b>	<b>(33.6)</b>
<b>Net book value at 31 December 2013</b>	<b>2.4</b>	<b>3.4</b>	<b>12.5</b>	<b>18.3</b>
Net book value at 31 December 2012	2.4	3.0	14.7	20.1

The Group's obligations under finance leases are secured by the lessor's title to the leased assets. The carrying value of plant, machinery and equipment which is subject to finance leases is £4.3m (2012: £7.2m). No other assets have been pledged to secure borrowings.

## Notes to the consolidated financial statements

**11 Investment property**

	2013 £m	2012 £m
<b>Valuation</b>		
1 January	11.3	11.1
Additions	–	0.8
Revaluation	–	(0.5)
Disposals	(1.3)	(0.1)
<b>31 December</b>	<b>10.0</b>	11.3

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

The 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 £0.5m (2012: £0.6m). Direct operating expenses arising on properties generating rent and vacant properties in the year amounted to £0.2m (2012: £0.1m).

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.

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 2013 is based on a valuation carried out at that date by the directors. The valuation, which conforms to International Valuation Standards, was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value measurement is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

**12 Investments in joint ventures**

The Group has the following interests in significant joint ventures:

**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 the Homes and Communities Agency 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 Living Limited 50% joint control**

HB Community Solutions Living Limited is a joint venture with the founders of HB Villages Limited and is developing supported independent living accommodation for adults with learning and physical disabilities across the United Kingdom. Joint control is exercised through the board of directors which includes three members appointed by the holders of each class of shares.

**HUB West Scotland Limited 54% share**

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

**Hull Esteem Consortium PSP Limited 33⅓% share**

Hull Esteem Consortium PSP Limited, the private sector investor in the Hull BSF scheme, currently has fifteen buildings in operation, two buildings under construction and a pipeline of one further building. The other investors in this company are Robertson Capital Projects Investments Limited and Sewell Education (Hull BSF) Limited.

**ISIS Waterside Regeneration 50% equity participation**

ISIS Waterside Regeneration is a joint venture with British Waterways to undertake regeneration of waterside sites.



## 12 Investments in joint ventures continued

### 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.

### Slough Regeneration Partnership LLP 50% share

The Slough Regeneration Partnership LLP is a partnership with Slough Borough Council to operate a Local Asset Backed Vehicle (LABV) developing a series of sites in Slough over an initial term of 15 years extendable by 10 years.

### St Andrews Brae Developments Limited 50% share

St Andrews Brae Developments Limited is a joint venture with Miller Homes which is developing residential housing and apartments in Bearsden, Glasgow.

### The Bournemouth Development Company LLP 50% share

The Bournemouth Development Company LLP is a partnership with Bournemouth Borough Council to operate a LABV developing a series of sites in Bournemouth over a 20-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.

### Wapping Wharf (Alpha) LLP 50% partner

Wapping Wharf (Alpha) LLP is a joint venture with Umberslade which is developing the first phase of residential apartments within the Harbourside Regeneration Area of Bristol.

Investments in equity accounted joint ventures are as follows:

	2013 £m	2012 £m
1 January	62.2	49.8
Equity accounted share of net profits	0.9	5.7
Increase in investment	4.0	28.7
Investment repayment	(0.4)	(2.9)
Disposals (see below)	(12.5)	(16.9)
Dividends received	(0.4)	(1.8)
Movement on cash flow hedges	0.2	(0.4)
<b>31 December</b>	<b>54.0</b>	<b>62.2</b>

### Disposals

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

(i) On 28 March 2013 the Group sold its 50% interest in Access for Wigan (Holdings) Limited, a PPP scheme for developing the Wigan Life Centre, for total cash consideration of £6.6m. The gain on disposal was £1.5m, comprising a gain of £1.7m in respect of the investments and a loss of £0.2m in respect of the hedging reserve which was recycled to the income statement.

(ii) On 27 June 2013 the Group sold its 33.3% interest in Renaissance Miles Platting Limited, a PFI social housing scheme, for total consideration of £8.4m, of which £8.2m was received in cash. The gain on disposal was £4.4m, comprising a gain of £5.6m in respect of the investments and a loss of £1.2m in respect of the hedging reserve which was recycled to the income statement.

(iii) On 27 September 2013 the Group sold its 50% interest in Taycare Health (Holdings) Limited, a project to develop two mental health hospitals, for total cash consideration of £8.8m. The gain on disposal was £4.0m.

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

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, £0.4m (2012: £1.3m) were paid in cash and £nil (2012: £0.5m) were dividends in specie.

## Notes to the consolidated financial statements

**12 Investments in joint ventures** continued

Financial information related to equity accounted joint ventures:

	2013 £m	2012 £m
Non-current assets (100%)	381.4	486.5
Current assets (100%)	225.5	228.8
Current liabilities (100%)	(95.3)	(81.8)
Non-current liabilities (100%)	(397.9)	(519.6)
<b>Net assets reported by equity accounted joint ventures (100%)</b>	<b>113.7</b>	113.9
Revenue (100%)	102.8	198.0
Expenses (100%)	(102.7)	(185.0)
<b>Net profit (100%)</b>	<b>0.1</b>	13.0

Results of equity accounted joint ventures:

	2013 £m	2012 £m
Group share of profit before tax	1.2	6.9
Group share of tax	(0.3)	(1.2)
<b>Group share of profit after tax</b>	<b>0.9</b>	5.7

The Group has committed to provide further equity and subordinated debt to PFI/PPP joint ventures of £nil (2012: £2.3m).

**13 Shared equity loan receivables**

	2013 £m	2012 £m
<b>1 January</b>	<b>19.2</b>	17.6
Additions arising from the sale of properties	0.8	1.5
Net change in fair value recognised in the income statement	0.2	0.2
Repayments	(0.5)	(0.1)
<b>31 December</b>	<b>19.7</b>	19.2

During the year, there were repayments of shared equity loan receivables of £0.5m (2012: £0.1m). 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 (2012: £0.2m). There were no defaults during the year (2012: one default).

**Basis of valuation and assumptions made**

There is no directly observable fair value for individual loans arising from the sale of specific properties under the scheme, and therefore 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:

	2013	2012
<b>Assumption</b>		
Period over which shared equity loan receivables are discounted:		
First Buy and Home Buy schemes	20 years	25 years
Other schemes	8 years	7 years
Nominal discount rate	7.0%	6.4%
Weighted average nominal annual property price increase	2.2%	2.5%
Forecast default rate	2.0%	1.0%
Number of properties sold under the shared equity scheme for which a loan was outstanding at the year end	749	730
Weighted average shared equity loan contribution (being the Group's weighted average loan as a proportion of the selling price of a property)	24%	24%

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



### 13 Shared equity loan receivables continued

#### Sensitivity analysis

At 31 December 2013, if the nominal discount rate had been 100bps higher at 8.0% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease £1.0m with a corresponding reduction in both the result for the year and equity (excluding the effects of tax).

At 31 December 2013, 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 fair value of the shared equity loan receivables, would decrease by £1.7m with a corresponding reduction in both the result for the year and equity (excluding the effects of tax).

### 14 Inventories

	2013 £m	2012 £m
Work in progress	161.0	159.4

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

### 15 Trade and other receivables

	2013 £m	2012 £m
Amounts due from construction contract customers (note 16)	209.7	217.3
Trade receivables (note 28)	149.2	170.0
Amounts owed by joint ventures (note 27)	8.2	5.5
Prepayments	5.8	5.5
Other receivables	12.6	6.6
	385.5	404.9

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

Trade receivables are stated after provisions for impairment losses of £8.6m (2012: £3.5m). £6.1m (2012: £nil) of the losses have been charged as exceptional operating items.

### 16 Construction contracts

	2013 £m	2012 £m
Amounts due from construction contract customers	209.7	217.3
Amounts due to construction contract customers	(54.4)	(47.4)
<b>Carrying amount at the end of the year</b>	<b>155.3</b>	169.9
Contract costs incurred plus recognised profits less recognised losses to date	6,738.5	9,155.8
Less: progress billings	(6,583.2)	(8,985.9)
	155.3	169.9

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

### 17 Assets held for sale

At 31 December 2013 the Construction & Infrastructure division held a property that it occupies with book value of £3.1m which it was actively looking to sell. The sale was completed on 6 February 2014.

## Notes to the consolidated financial statements

**18 Trade and other payables**

	2013 £m	2012 £m
Trade payables	<b>168.7</b>	170.2
Amounts due to construction contract customers (note 16)	<b>54.4</b>	47.4
Amounts owed to joint ventures (note 27)	<b>0.7</b>	0.7
Other tax and social security	<b>25.2</b>	14.0
Accrued expenses	<b>339.2</b>	356.7
Deferred income	<b>5.1</b>	7.3
Other payables	<b>20.2</b>	23.2
	<b>613.5</b>	619.5

The directors consider that the carrying amount of trade payables approximates to their fair value. No interest was incurred on outstanding balances.

Current and non-current other payables include £4.7m and £13.1m respectively (2012: £1.3m and £17.2m) related to the discounted deferred consideration due on the acquisition of an additional interest in ISIS Waterside Regeneration Partnership.

**19 Finance lease liabilities**

	Minimum lease payments		Capital element of lease payments	
	2013 £m	2012 £m	2013 £m	2012 £m
Amounts payable under finance leases:				
Within one year	<b>1.8</b>	1.6	<b>1.5</b>	1.2
In the second to fifth years inclusive	<b>4.2</b>	5.2	<b>3.9</b>	4.7
After more than five years	<b>–</b>	0.3	<b>–</b>	0.3
	<b>6.0</b>	7.1	<b>5.4</b>	6.2
Less: future finance charges	<b>(0.6)</b>	(0.9)	<b>n/a</b>	n/a
Present value of lease obligations	<b>5.4</b>	6.2	<b>5.4</b>	6.2
Current lease liability			<b>1.5</b>	1.2
Non-current lease liability			<b>3.9</b>	5.0
			<b>5.4</b>	6.2

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 (2012: six years). For the year ended 31 December 2013, the average effective borrowing rate was 6% (2012: 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.

**20 Retirement benefit schemes****Defined contribution plan**

The Morgan Sindall Retirement Benefits Plan (the Retirement Plan) was established on 31 May 1995 and currently operates on defined contribution principles for employees of the Group. The assets of the Retirement Plan are held separately from those of the Group in funds under the control of the Trustees of the Retirement Plan. The total cost charged to the income statement of £8.4m (2012: £8.8m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2013, contributions of £1.2m (2012: £1.0m) were due in respect of December's contribution not paid over to the Retirement Plan. The Company, with the consent of the Trustees, can decide how to use monies held in a defined contribution general account.

**Defined benefit plan**

The Retirement 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 last triennial valuation of the Retirement Plan was undertaken on 5 April 2010. The ongoing liabilities of the Retirement 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. A triennial valuation as at 5 April 2013 is currently underway and the funding position is being reappraised.



## 20 Retirement benefit schemes continued

The present value of the defined benefit liabilities were measured using the projected unit credit method. The following table shows the key assumptions used:

	2013 %	2012 %
Discount rate	4.4	4.1
Expected return on Retirement Plan assets	4.0	3.5
Expected rate of salary increases	4.5	4.0
Rate of inflation	2.5	2.3
Rate of future pension increases <sup>1</sup>	3.0–3.5	3.0–3.5
Average life expectancy for pensioner retiring now at age 65 (years)	87.4	88.4
Average life expectancy for pensioner retiring in 20 years at age 65 (years)	89.2	91.3

<sup>1</sup> Depending on their date of joining, members receive pension increases of 3.0% or 3.5%.

The charge for the year has been included in finance expense. Actuarial gains and losses have been reported in the statement of comprehensive income.

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

	2013			2012		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	8.9	(10.4)	(1.5)	8.1	(9.4)	(1.3)
Finance income/(expense)	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
Actuarial gains/(losses)	(0.4)	1.3	0.9	0.2	(1.0)	(0.8)
Contributions from sponsoring company	0.7	–	0.7	0.7	–	0.7
Benefits paid	(0.2)	0.2	–	(0.4)	0.4	–
<b>31 December</b>	<b>9.3</b>	<b>(9.3)</b>	<b>–</b>	<b>8.9</b>	<b>(10.4)</b>	<b>(1.5)</b>

The effect on the defined benefit liabilities of changing the key financial assumptions is set out below:

	Increase in liabilities £m
Decrease in discount rate of 100bps	1.4
Increase in inflation rate of 100bps	0.5
Increase in average life expectancy of one year	0.3

The amounts recognised in the statement of comprehensive income were as follows:

	2013 £m	2012 £m
Actuarial gain/(loss) recognised during the year	0.9	(0.8)
Cumulative actuarial loss recognised	(2.9)	(3.8)

The Retirement Plan assets comprise 55% corporate bonds (2012: 51%), 44% gilts (2012: 46%) and 1% cash (2012: 3%).

The expected return on the Retirement 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 history of the Retirement Plan assets, liabilities and deficit is as follows:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of the Retirement Plan liabilities	(9.3)	(10.4)	(9.4)	(8.5)	(8.9)
Fair value of the Retirement Plan assets	9.3	8.9	8.1	6.6	5.7
Deficit in the Retirement Plan	–	(1.5)	(1.3)	(1.9)	(3.2)

The amount of contributions expected to be paid to the Retirement Plan during 2014 is £0.7m (2013: £0.7m).



## Notes to the consolidated financial statements



## 21 Deferred tax

	Asset amortisation and depreciation £m	Short-term timing differences and tax losses £m	Retirement benefit obligation £m	Share based payments £m	Total £m
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
<b>1 January 2013</b>	<b>(19.1)</b>	<b>(0.5)</b>	<b>0.3</b>	<b>0.3</b>	<b>(19.0)</b>
Reclassification	–	0.4	–	–	0.4
Credit to income statement	0.1	–	(0.3)	0.1	(0.1)
Credit to equity	–	–	–	0.2	0.2
Effect of change in tax rate:					
Income statement	2.5	–	–	–	2.5
<b>31 December 2013</b>	<b>(16.5)</b>	<b>(0.1)</b>	<b>–</b>	<b>0.6</b>	<b>(16.0)</b>

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 2013, the Group had unused tax losses of £3.0m (2012: £1.0m) available for offset against future profits. A deferred tax asset of £0.2m has been recognised in respect of £0.8m of these losses. No deferred tax asset has been recognised in respect of the remaining £2.2m of 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 20% in 2015. All closing deferred tax balances have been calculated using a rate of 20% as they will not materially reverse before the tax rate change is effective. The effect of the change in tax rate has been disclosed separately above.

## 22 Provisions

## Current liabilities

	Contract provisions £m	Employee provisions £m	Total £m
1 January 2012	1.2	3.4	4.6
Additions	–	0.5	0.5
Utilised	(1.2)	(0.9)	(2.1)
<b>1 January 2013</b>	<b>–</b>	<b>3.0</b>	<b>3.0</b>
Utilised	–	(0.3)	(0.3)
Released	–	(0.5)	(0.5)
<b>31 December 2013</b>	<b>–</b>	<b>2.2</b>	<b>2.2</b>

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
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)
<b>1 January 2013</b>	<b>0.4</b>	<b>12.1</b>	<b>12.0</b>	<b>24.5</b>
Utilised	–	(1.9)	(1.3)	(3.2)
Additions	–	4.0	0.7	4.7
Released	–	(1.0)	(2.8)	(3.8)
<b>31 December 2013</b>	<b>0.4</b>	<b>13.2</b>	<b>8.6</b>	<b>22.2</b>

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 £2.3m (2012: £1.4m) held in the Group's captive insurance company, Newman Insurance Company Limited.

Other provisions include onerous lease commitments, property dilapidations and legal claims. The amount released during the year relates to property dilapidation provisions within the Construction & Infrastructure division.

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



## 23 Operating lease commitments

At 31 December, the Group had the following future minimum lease payments under non cancellable operating leases:

	2013			2012		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	7.7	5.7	13.4	6.8	4.1	10.9
Within two to five years	15.1	6.9	22.0	14.9	7.1	22.0
After more than five years	1.4	–	1.4	3.4	–	3.4
<b>31 December</b>	<b>24.2</b>	<b>12.6</b>	<b>36.8</b>	25.1	11.2	36.3

The operating lease expense in the year was £14.8m (2012: £12.4m).

Operating lease payments represent rentals payable by the Group for certain properties and other items.

Leases are negotiated for an average term of three years (2012: four years) and rentals are fixed for an average of three years (2012: four years).

## 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 2013, contract bonds in issue under uncommitted facilities covered £185.3m (2012: £186.5m) of contract commitments of the Group.

## 25 Share capital

	2013		2012	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	43,225,488	2.2	43,215,339	2.2
Exercise of share options	33,876	–	10,149	–
<b>31 December</b>	<b>43,259,364</b>	<b>2.2</b>	43,225,488	2.2

All issued ordinary shares are fully paid. Ordinary shares are entitled to dividends when declared and each share carries the right to one vote at a meeting of the Company.

### Shares

33,876 shares were issued during 2013 in respect of options exercised under The Morgan Sindall Savings Related Share Option Scheme (SAYE) for a total consideration of £0.2m (2012: 10,149 shares were issued for a total consideration of £0.1m). No other shares were issued during the year.

### Own shares

Own shares at cost represent 575,397 (2012: 723,970) shares in the Company held in the Morgan Sindall Employee Benefit Trust (the Trust) in connection with The Morgan Sindall Employee Share Option Plan 2007 (ESOP 2007), and The Morgan Sindall Executive Remuneration Plan 2005 (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. Based on the Company's share price at 31 December 2013 of £7.55 (2012: £5.15), the market value of the shares was £4.3m (2012: £3.7m).

## Notes to the consolidated financial statements



## 26 Share based payments

The Group recognised a share option expense of £1.2m (2012: £0.2m) related to equity-settled share based payment transactions. The Group has three share option schemes: the ESOP 2007, the 2005 Plan and the SAYE. Details of the vesting conditions and other information of these schemes are set out in the Directors' Remuneration Report on pages 65 to 71.

Details of the share awards and options granted during the year and the valuation methodology are as follows:

	Share awards under 2005 Plan			
	Awards with TSR condition	Awards with EPS condition	Awards with ROCE condition	SAYE scheme
Grant date	26.2.2013	26.2.2013	26.2.2013	25.4.2013
Number of options/shares granted	207,455	207,455	134,104	609,109
Fair value at date of grant (per share)	£1.69	£5.23	£5.23	£0.83
Share price at date of grant	£5.23	£5.23	£5.23	£5.78
Valuation model	Stochastic	Black-Scholes	Black-Scholes	Black-Scholes
Expected term (from date of grant)	3.0 years	3.0 years	3.0 years	3.1 years
Expected volatility <sup>1</sup>	28.5%	n/a	n/a	27.7%
Expected dividend yield <sup>2</sup>	0.0%	0.0%	0.0%	4.7%
Risk free rate	0.4%	0.4%	0.4%	0.4%

1 For the share awards granted under the 2005 Plan with a TSR condition and the options granted under the SAYE scheme, volatility has been calculated over the period of time commensurate with the expected award term immediately prior to the date of grant.

2 Under the 2005 Plan, award holders may receive the value of any dividends paid during the vesting period in respect of their vested shares at the end of the vesting period. Consequently, the fair value is not discounted for value lost in respect of dividends. Under the SAYE scheme, the dividend yield is assumed to be equal to the historical dividend yield over the past 12 months.

The following table provides a summary of the options granted under the Group's employee share option schemes during the current and comparative year:

	2013		2012	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at 1 January	<b>3,763,414</b>	<b>6.49</b>	5,477,063	6.43
Granted during the year	<b>609,109</b>	<b>4.37</b>	40,000	6.77
Lapsed during the year	<b>(885,624)</b>	<b>6.91</b>	(1,663,395)	6.38
Exercised during the year	<b>(269,123)</b>	<b>5.73</b>	(90,254)	5.15
Outstanding at 31 December	<b>3,217,776</b>	<b>6.04</b>	3,763,414	6.49
Exercisable at 31 December	<b>710,782</b>	<b>8.36</b>	862,171	9.51
Weighted average remaining contractual life	<b>3.7 years</b>		4.9 years	

The weighted average share price at the date of exercise for share options exercised during the year was £6.47 (2012: £6.63).

The options outstanding at 31 December 2013 had exercise prices ranging from £4.37 to £16.76.



## 27 Related party transactions

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

### Trading transactions

During the year, Group companies entered into transactions to provide construction and property development services with related parties, all of which were joint ventures, not members of the Group. Transactions and amounts owed at the year end in relation to joint ventures are as follows:

	Provision of goods and services		Amounts owed by/(to) related parties	
	2013 £m	2012 £m	2013 £m	2012 £m
<b>Joint venture</b>				
Access for Wigan (Holdings) Limited <sup>1</sup>	–	–	–	0.1
Ashton Moss Developments Limited	–	–	(0.1)	(0.1)
Bromley Park Limited	–	–	(0.6)	(0.6)
Community Solutions Investment Partners Limited <sup>2</sup>	–	1.7	–	–
ECf (General Partner) Limited	1.3	1.4	–	–
HB Community Solutions Holdings Limited	–	–	0.5	–
HB Community Solutions Limited	0.1	–	–	–
HB Community Solutions Living Limited	–	–	0.8	–
Hull Esteem Consortium PSP Limited	22.3	44.1	0.1	1.9
Leyton Mount Development LLP	0.2	–	–	–
Renaissance Miles Platting Limited <sup>1</sup>	–	0.1	–	–
Slough Regeneration Partnership Community Projects LLP	0.2	–	0.3	–
St Andrews Brae Developments Limited	–	–	0.4	0.1
Taycare Health (Holdings) Limited <sup>1</sup>	0.1	0.2	–	0.1
The Bournemouth Development Company LLP	13.7	0.1	2.5	1.3
The Compendium Group Limited	3.5	4.5	2.9	2.0
Wapping Wharf (Alpha) LLP	–	–	0.1	–
Wellspring Partnership Limited	0.1	–	0.6	–
	<b>41.5</b>	<b>52.1</b>	<b>7.5</b>	<b>4.8</b>

1 During 2013 the Group disposed of its interests in Access For Wigan (Holdings) Limited, Renaissance Miles Platting Limited and Taycare Health (Holdings) Limited (note 12).

2 During 2012 the Group disposed of its interests in Community Solutions Investment Partners Limited.

	Amounts owed by/(to) related parties	
	2013 £m	2012 £m
Amounts owed by related parties (note 15)	8.2	5.5
Amounts owed to related parties (note 18)	(0.7)	(0.7)
	<b>7.5</b>	<b>4.8</b>

In addition, during 2012, 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.

## Notes to the consolidated financial statements

**27 Related party transactions** continued**Remuneration of key management personnel**

The Group considers key management personnel to be the members of the Group management team, and sets out below in aggregate, remuneration for each of the categories specified in IAS 24 'Related Party Disclosures'. In previous years, the key management personnel of the Group was considered to be the directors. The prior year comparative has been restated to be on a comparable basis.

	2013 £m	2012 as restated £m
Short-term employee benefits	4.2	5.1
Post employment benefits	0.3	0.3
Termination benefits	0.7	0.5
Share option expense/(credit)	0.6	(0.3)
	<b>5.8</b>	5.6

**Directors' transactions**

There have been no related party transactions with any director in the year or in the subsequent period to 18 February 2014.

**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 18 February 2014.

**28 Financial instruments****Net cash**

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. Net cash is defined as cash and cash equivalents less borrowings and non recourse project financing as shown below:

	2013 £m	2012 £m
Cash and cash equivalents	92.8	50.4
Borrowings due between two and five years	(15.0)	–
Non recourse project financing due after one year	(8.1)	–
<b>Net cash</b>	<b>69.7</b>	50.4

Included within cash and cash equivalents is £24.7m (2012: £29.4m) which is the Group's share of cash held within jointly controlled operations.

The Group has committed bank loan facilities totalling £140.0m, of which £110.0m will mature in September 2015 and £30.0m will mature during 2016. £15.0m of these facilities were drawn on 31 December 2013 (2012: nil). Additional project finance borrowings of £8.1m (2012: nil) were drawn from separate facilities to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

Average daily net debt during 2013 was £19.0m (2012: net debt £40.1m).

**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.

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 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 2013 were £58.7m (2012: £53.7m).



## 28 Financial instruments continued

The Group manages its exposure to credit risk through the application of its credit risk management policies which specify the minimum requirements in respect of the creditworthiness of potential customers, assessed through reports from credit agencies, and the timing and extent of progress payments in respect of contracts.

The risk management policies of the Group also specify procedures in respect of obtaining parent company guarantees or, in certain circumstances, use of escrow accounts which, in the event of default, mean that the Group may have a secure claim. The Group does not require collateral in respect of amounts due from construction contract customers or trade receivables.

The Group manages the collection of retentions through its post completion project monitoring procedures and ongoing contact with customers to ensure that potential issues that could lead to the non payment of retentions are identified and addressed promptly. The Group assesses amounts due from construction contract customers and trade receivable balances for impairment and establishes a provision for impairment losses that represents its estimate of incurred losses.

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

	2013		2012	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	105.2	–	114.0	–
Past due 1 to 30 days	16.5	–	20.7	–
Past due 31 to 120 days	6.2	0.1	9.2	0.4
Past due 121 to 365 days	9.1	–	5.2	0.9
Past due greater than one year	20.8	8.5	24.4	2.2
	<b>157.8</b>	<b>8.6</b>	173.5	3.5

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

	2013 £m	2012 £m
1 January	3.5	0.9
Amounts recovered during the year	(1.0)	–
Exceptional impairment losses recognised	6.1	–
Other impairment losses recognised	–	2.6
<b>31 December</b>	<b>8.6</b>	3.5

The average credit period on revenue is 26 days (2012: 30 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 £23.3m (2012: £56.0m) 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 179 days (2012: 178 days).

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.

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

### (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.

Liquidity is provided through cash balances and committed bank loan facilities. Additional project finance borrowings were drawn during the year to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

## Notes to the consolidated financial statements



### 28 Financial instruments continued

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.

Key risks to liquidity and cash balances are a downturn in contracting volumes, a decrease in the value of open market sales, deterioration in credit terms obtainable in the market from suppliers and subcontractors, a downturn in the profitability of work, delayed receipt of cash from customers and the risk that major clients or suppliers suffer financial distress leading to non payment of debts or costly and time consuming reallocation and rescheduling of work. Certain measures and KPIs are continually monitored throughout the Group and used to quickly identify issues as they arise, enabling the Group to address them promptly.

Key amongst these are continual monitoring of the committed order book and the regeneration and development pipeline, including the status of orders and likely timescales for realisation so that contracting volumes are well understood; monitoring of overhead levels to ensure they remain appropriate to contracting volumes, weekly monitoring of open market house sales volumes and prices; continual monitoring of working capital exceptions (overdue debts and conversion of work performed into certificates and invoices); continual review of levels of current and forecast profitability on contracts; review of client and supplier credit references; and approval of credit terms with clients and suppliers to ensure they are appropriate.

The 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 Retirement 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.

#### (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 swap contract with nominal value of £14.9m (2012: interest rate and Retail Prices Index swap contracts £96.2m) have fixed interest payments at an average rate of 5.07% (2012: 4.79%) for periods up until 2033.

The Group's share of the fair value of swaps entered into at 31 December 2013 by joint ventures is estimated at a £0.6m liability (2012: £2.3m liability). These amounts are based on market values of equivalent instruments at the balance sheet date. All interest rate swaps are designated as hedging instruments and are effective as cash flow hedges. The fair value thereof has been taken to the hedging reserve.

#### 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 to hedge foreign currency transactions where they are material, at which point derivative financial instruments are entered into so as to hedge forecast or actual foreign currency exposures.

#### Capital management

The Board aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business, and its approach to capital management is explained fully in the finance review on pages 34 and 35.

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 £140.0m of committed bank facilities.

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

### 29 Subsequent events

Other than the disposal of the asset held for sale referred to in note 17, there were no significant subsequent events.



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# Company balance sheet

at 31 December 2013



	Notes	2013 £m	2012 £m
<b>Fixed assets</b>			
Tangible assets	2	1.5	1.2
Investments	3	374.6	374.1
		<b>376.1</b>	375.3
<b>Current assets</b>			
Trade debtors		–	0.1
Amounts owed by subsidiary undertakings:			
– due within one year		45.3	52.4
– due after one year		59.0	19.0
Corporation tax receivable		1.1	–
Other debtors		5.3	0.3
Prepayments and accrued income		0.9	1.1
Deferred tax asset	4	0.9	0.6
Cash at bank and in hand		50.2	0.1
		<b>162.7</b>	73.6
<b>Creditors: amounts falling due within one year</b>			
Bank overdraft		(158.7)	(100.3)
Finance lease obligations		(0.1)	–
Trade creditors		(3.8)	(1.0)
Amounts owed to subsidiary undertakings		(269.1)	(227.8)
Corporation tax payable		–	(2.2)
Other tax and social security		(0.8)	(0.1)
Other creditors		(0.6)	(1.2)
Accruals		(2.0)	(2.5)
		<b>(435.1)</b>	(335.1)
<b>Net current liabilities</b>		<b>(272.4)</b>	(261.5)
<b>Total assets less current liabilities</b>		<b>103.7</b>	113.8
<b>Creditors: amounts falling due after more than one year</b>			
Bank loans		(15.0)	–
Finance lease obligations		(0.2)	(0.3)
<b>Provision for liabilities</b>	8	<b>(11.4)</b>	(11.2)
<b>Net assets excluding retirement benefit obligation</b>		<b>77.1</b>	102.3
<b>Retirement benefit obligation</b>	5	–	(1.2)
<b>Net assets including retirement benefit obligation</b>		<b>77.1</b>	101.1
<b>Shareholders' funds</b>			
Share capital	6	2.2	2.2
Share premium account		26.9	26.7
Capital redemption reserve		0.6	0.6
Own shares		(4.3)	(5.6)
Special reserve		13.7	13.7
Profit and loss account		38.0	63.5
<b>Shareholders' funds</b>		<b>77.1</b>	101.1

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 18 February 2014 and signed on its behalf by:

**John Morgan**  
Chief Executive

**Steve Crummett**  
Finance Director

## Company combined statement of movements in reserves and shareholders' funds

for the year ended 31 December 2013



	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
<b>1 January 2013</b>	<b>2.2</b>	<b>26.7</b>	<b>0.6</b>	<b>13.7</b>	<b>57.9</b>	<b>101.1</b>
Loss for the year	–	–	–	–	(15.4)	(15.4)
Share option expense	–	–	–	–	1.2	1.2
Dividends	–	–	–	–	(11.5)	(11.5)
Exercise of share options	–	0.2	–	–	0.4	0.6
Deferred tax charge arising on recognition of share based payments	–	–	–	–	0.2	0.2
Actuarial gain on retirement benefit obligation	–	–	–	–	0.9	0.9
<b>31 December 2013</b>	<b>2.2</b>	<b>26.9</b>	<b>0.6</b>	<b>13.7</b>	<b>33.7</b>	<b>77.1</b>

## Significant accounting policies

for the year ended 31 December 2013



### 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 the going concern basis as discussed in the finance review on page 35, 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.

### 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

Assets held under finance leases are depreciated over their useful economic lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

### 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 assets are recognised to the extent that it is regarded as more likely than not that there will be future taxable profits against which to recover carried forward future tax losses and from which the reversal of underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

### Retirement benefit schemes

The Company has two retirement benefit plans:

#### (a) Defined contribution plan

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

#### (b) Defined benefit plan

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

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

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

Actuarial gains and losses are recognised in full in the combined statement of movements in reserves and shareholders' funds in the period in which they occur. Net pension obligations are included in the balance sheet at the present value of the plan liabilities, less the fair value of the plan assets and any related deferred tax asset.



## Provisions

### Share based payments

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.

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 £15.4m (2012: loss of £5.0m).

**2 Tangible assets**

	Freehold property £m	Plant machinery and equipment £m	Total £m
<b>Cost</b>			
<b>1 January 2013</b>	0.1	3.3	3.4
Additions	–	0.9	0.9
<b>31 December 2013</b>	<b>0.1</b>	<b>4.2</b>	<b>4.3</b>
<b>Accumulated depreciation</b>			
<b>1 January 2013</b>	–	(2.2)	(2.2)
Depreciation charge	–	(0.6)	(0.6)
<b>31 December 2013</b>	<b>–</b>	<b>(2.8)</b>	<b>(2.8)</b>
<b>Net book value at 31 December 2013</b>	<b>0.1</b>	<b>1.4</b>	<b>1.5</b>
Net book value at 31 December 2012	0.1	1.1	1.2

The Company's obligations under finance leases are secured by the lessor's title to the leased assets, which have a carrying amount of £0.2m (2012: £0.3m). No other assets have been pledged to secure borrowings.

**3 Investments**

	Subsidiary undertakings £m	Other investments £m	Total £m
<b>Cost</b>			
<b>1 January 2013</b>	377.3	0.3	377.6
Additions	0.5	–	0.5
<b>31 December 2013</b>	<b>377.8</b>	<b>0.3</b>	<b>378.1</b>
<b>Provisions</b>			
<b>1 January 2013 and 31 December 2013</b>	<b>(3.5)</b>	<b>–</b>	<b>(3.5)</b>
<b>Net book value at 31 December 2013</b>	<b>374.3</b>	<b>0.3</b>	<b>374.6</b>
Net book value at 31 December 2012	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
<b>1 January 2013</b>	0.2	0.3	0.4	0.9
(Charge)/credit to income	–	(0.5)	0.1	(0.4)
Credit to equity	–	0.2	0.2	0.4
<b>31 December 2013</b>	<b>0.2</b>	<b>–</b>	<b>0.7</b>	<b>0.9</b>



#### 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:

	2013 £m	2012 £m
Deferred tax within current assets	0.9	0.6
Deferred tax within retirement benefit obligation	–	0.3
	<b>0.9</b>	<b>0.9</b>

At 31 December 2013, the Company had unused tax losses of £nil (2012: £0.3m) 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.

#### 5 Retirement benefit schemes

##### Defined contribution plan

The Morgan Sindall Retirement Benefits Plan (the Retirement Plan) was established on 31 May 1995 and currently operates on defined contribution principles for employees of the Group. The assets of the Retirement Plan are held separately from those of the Company in funds under the control of the Trustees of the Retirement Plan. The total cost charged to the profit and loss account of £0.4m (2012: £0.4m) represents contributions payable to the defined contribution section of the Retirement Plan by the Company.

As at 31 December 2013, contributions of £0.1m (2012: £0.1m) were due in respect of December's contribution not paid over to the Retirement Plan. The Company, with the consent of the Trustees, can decide how to use monies held in a defined contribution general account.

##### Defined benefit plan

The Retirement 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 last triennial valuation of the Retirement Plan was undertaken as at 5 April 2010. 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. A triennial valuation as at 5 April 2013 is currently underway and the funding position is being reappraised.

The present value of the defined benefit liabilities were measured using the projected unit credit method. The following table shows the key assumptions used:

	2013 %	2012 %
<b>Key assumptions used:</b>		
Discount rate	4.4	4.1
Expected rate of salary increases	4.5	4.0
Expected return on Retirement Plan assets	4.0	3.5
Rate of inflation	3.5	3.0
Rate of future pension increases <sup>1</sup>	3.0–3.5	3.0–3.5
Average life expectancy for pensioner retiring now at age 65 (years)	87.4	88.4
Average life expectancy for pensioner retiring in 20 years at age 65 (years)	89.2	91.3

<sup>1</sup> Depending on their date of joining, members receive fixed pension increases of 3.0% or 3.5%.

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

## Notes to the Company financial statements

**5 Retirement benefit schemes** continued

The amount included in the balance sheet in respect of the Retirement Plan is as follows:

	2013			2012		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
At 1 January	8.9	(10.4)	(1.5)	8.1	(9.4)	(1.3)
Finance income/(expense)	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
Actuarial gain/(losses)	(0.4)	1.3	0.9	0.2	(1.0)	(0.8)
Benefits paid	(0.2)	0.2	–	(0.4)	0.4	–
Contributions from sponsoring company <sup>1</sup>	0.7	–	0.7	0.7	–	0.7
At 31 December	9.3	(9.3)	–	8.9	(10.4)	(1.5)
Related deferred taxation			–			0.3
Deficit recognised in the balance sheet			–			(1.2)

<sup>1</sup> The minimum amount of contributions the Company expects to be paid to the defined benefit section of the Plan in 2013 is £0.7m.

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

	2013 £m	2012 £m	2011 £m
Actuarial gains/(losses) recognised during the year	0.9	(0.8)	–
Cumulative actuarial losses recognised	(2.9)	(3.8)	(3.0)

**6 Share capital**

	2013		2012	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	43,225,488	2.2	43,215,339	2.2
Exercise of share options	33,876	–	10,149	–
<b>31 December</b>	<b>43,259,364</b>	<b>2.2</b>	43,225,488	2.2

All issued ordinary shares are fully paid. Ordinary shares are entitled to dividends when declared and each share carries the right to one vote at a meeting of the Company.

**Shares**

33,876 shares were issued during 2013 in respect of options exercised under the Company's SAYE Scheme for a total consideration of £0.2m (2012: 10,149 shares were issued for a total consideration of £0.1m). No other shares were issued during the year.

**Own shares**

Own shares at cost represent 575,397 (2012: 723,970) 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. Based on the Company's share price at 31 December 2013 of £7.55 (2012: £5.15), the market value of the shares was £4.3m (2012: £3.7m).

**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 7 of the consolidated financial statements.



## 8 Provisions

	Employee provisions £m	Insurance provisions £m	Total £m
1 January 2013	<b>0.4</b>	<b>10.8</b>	<b>11.2</b>
Additions	–	2.8	2.8
Utilised	–	(1.6)	(1.6)
Released	–	(1.0)	(1.0)
<b>31 December 2013</b>	<b>0.4</b>	<b>11.0</b>	<b>11.4</b>

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

## 9 Lease commitments

The Company has an operating lease commitment in respect of land and buildings expiring in two to five years for £0.2m (2012: £0.2m expiring in less than one year). Lease payments recognised as an expense in the year amounted to £0.2m (2012: £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
<b>Joint Ventures</b>	
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 Living 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
Slough Regeneration Partnership LLP (50%)*	Mixed-tenure development
St Andrews Brae Developments Limited (50%)*	Residential development
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 12. With the exception of Newman Insurance Company Limited, registered and operating in Guernsey, all undertakings are registered in England and Wales and the principal place of business is the UK. Newman Insurance Company Limited has a year end of 30 November coterminous with the renewal date for the insurance arrangements in which it participates.

## Shareholder information



### Financial calendar 2014

Financial year end	31 December 2013
Preliminary results announcement	18 February 2014
Annual general meeting	8 May 2014
Interim management statement	8 May 2014
Final dividend:	
Ex-dividend date	30 April 2014
Record date	2 May 2014
Payment date	23 May 2014
Half year results announcement	August 2014
Interim dividend payable	October 2014
Interim management statement	November 2014

### 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, Bristol 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](mailto:webcorres@computershare.com)

**Online:** [www.investorcentre.co.uk/contactus](http://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](http://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](http://www.investorcentre.co.uk) within the Downloadable Forms section.

### Website and electronic communications

The 2013 annual report and other information about the Company are available on its website, [www.corporate.morgansindall.com](http://www.corporate.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.corporate.morgansindall.com/investors](http://www.corporate.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](http://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.

Please keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.

If you receive any unsolicited mail or investment advice:

- > make sure you get the correct name of the person and organisation
- > check the Financial Services Register at [www.fca.org.uk](http://www.fca.org.uk)
- > use the details on the Financial Services Register to contact the firm
- > call the FCA Consumer Helpline on 0800 111 6788 if there are no contact details on the Register or you are told they are out of date
- > beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details
- > use the firm's contact details listed on the Register if you want to call it back
- > search the list of unauthorised firms and individuals to avoid doing business with at [www.fca.org.uk/scams](http://www.fca.org.uk/scams)

## Shareholder information



- > report a share scam by telling the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.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.org.uk](http://www.mpsonline.org.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.

### 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 2013

	Number of accounts	% of total accounts	Number of shares	% of total shares
<b>Holding of shares</b>				
Up to 1,000	779	52.28	379,008	0.88
1,001 to 5,000	437	29.33	1,035,318	2.39
5,001 to 100,000	81	5.44	610,693	1.41
100,001 to 1,000,000	186	12.48	22,815,590	52.74
Over 1,000,000	7	0.47	18,418,721	42.58
	1,490	100.00	43,259,330	100.00

### Shareholder communication

**Email:** [enquiries@morgansindall.com](mailto:enquiries@morgansindall.com)

**Telephone:** 020 7307 9200

### Registered office

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Registered in England and Wales, No. 00521970

### Advisers

#### Brokers

Jefferies Hoare Govett  
Numis Securities Limited

#### Solicitors

Slaughter and May

#### Registrars

Computershare Investor Services 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.

# MORGAN SINDALL GROUP

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## Morgan Sindall Group plc

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