









# MORGAN SINDALL GROUP

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The Construction &  
Regeneration Group  
Annual report 2014

## User guide





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# Group at a glance

Group	<p>Morgan Sindall Group is a leading construction and regeneration group operating via a network of offices around the UK. Through its construction activities the Group provides clients with design, new build, refurbishment and maintenance services for their property and infrastructure assets. Working in long-term partnerships, the Group's regeneration activities comprise mixed-use and housing developments which are creating economic and social value throughout the country. The Group's five divisions operate in the public and private sectors across a wide range of markets.</p>		<p><b>Revenue</b>  <b>£2,220m</b>                  2013: £2,095m</p> <p><b>Operating profit – adjusted*</b>  <b>£28.9m</b>                  2013: £33.6m</p>
Construction	<p><b>Construction &amp; Infrastructure</b>                  Offers design, construction and infrastructure services, working on projects, and in frameworks and strategic alliances of all sizes. Markets include commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport and water.</p> <p>The division's professional services business offers multi-disciplinary engineering and design consultancy services.</p>	<p><b>MORGAN SINDALL</b>                  CONSTRUCTION INFRASTRUCTURE</p> <p><b>MORGAN SINDALL</b>                  PROFESSIONAL SERVICES</p>	<p><b>Revenue</b>  <b>£1,172m</b>                  2013: £1,234m</p> <p><b>Operating profit – adjusted*</b>  <b>£3.5m</b>                  2013: £12.7m</p>
	<p><b>Fit Out</b>                  Specialises in fit out and refurbishment projects. Overbury operates through multiple procurement routes in the commercial, central and local government office, further education and retail banking markets. Morgan Lovell specialises in workplace strategy and the interior design and build of offices.</p>	<p>                  overbury</p> <p>                  Morgan Lovell</p>	<p><b>Revenue</b>  <b>£507m</b>                  2013: £427m</p> <p><b>Operating profit – adjusted*</b>  <b>£15.0m</b>                  2013: £10.9m</p>
Regeneration	<p><b>Affordable Housing</b>                  Specialises in the delivery of complex regeneration schemes and in the design, build, refurbishment and maintenance of homes. Operates a full mixed-tenure model, creating homes for rent, shared ownership and open market sale.</p> <p>The division's response maintenance services include facilities management and planned and responsive repairs to social housing providers and public buildings.</p>	<p><b>LOVELL</b></p> <p><b>MORGAN SINDALL</b>                  PROPERTY SERVICES</p>	<p><b>Revenue</b>  <b>£423m</b>                  2013: £381m</p> <p><b>Operating profit – adjusted*</b>  <b>£6.0m</b>                  2013: £8.6m</p>
	<p><b>Urban Regeneration</b>                  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>	<p>                  muse</p>	<p><b>Revenue</b>  <b>£113m</b>                  2013: £62m</p> <p><b>Operating profit – adjusted*</b>  <b>£10.0m</b>                  2013: £1.0m</p>
	<p><b>Investments</b>                  Creates long-term strategic partnerships to realise the potential of under-utilised assets, promotes sustained economic growth through regeneration and drives cost efficiencies through innovative and integrated estate management solutions. Markets include asset backed, education, healthcare and social care, residential, student accommodation, leisure and infrastructure.</p> <p>The division's community solutions business provides management, project development and funding through a one-stop service, allowing partners to invest in local communities.</p>	<p><b>MORGAN SINDALL</b>                  INVESTMENTS</p> <p>                  Community Solutions</p>	<p><b>Average capital employed</b>  <b>£17.3m</b>                  2013: £22.7m</p> <p><b>Operating profit – adjusted*</b>  <b>£0.9m</b>                  2013: £6.1m</p>

\*Before intangible amortisation.

## Group highlights

Revenue £m	
2014	2,220
2013	2,095

Adjusted profit before tax* £m	
2014	25.2
2013	31.3

Operating profit – reported £m	
2014	26.5
2013	16.2

Dividend pence	
2014	27.0
2013	27.0

Adjusted EPS* pence	
2014	46.7
2013	60.9

Committed order book £bn	
2014	2.7
2013	2.4

Regeneration and development pipeline £bn	
2014	3.2
2013	3.0

\*Adjusted is defined as before intangible amortisation of £2.4m (2013: £2.7m), exceptional operating items of £nil (2013: £14.7m) and (in the case of earnings per share) deferred tax credit due to a change in the statutory tax rate £nil (2013: £2.5m).

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A PDF download of our 2014 Annual report  
[www.corporate.morgansindall.com](http://www.corporate.morgansindall.com)

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

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

#### Cover image

Lee Tunnel Project by MVB joint venture for Thames Water

# Overview

## Our strategic priorities

The Group's long-term strategy, to enhance its market-leading position across its chosen markets and use the cash generated from its construction activities to invest in and grow its regeneration activities, remains unchanged.

## Our performance in 2014

Confidence in the strategy has been reinforced by a strong performance from Urban Regeneration in 2014.

## Looking forward

The Group will continue to be managed in line with its strategic priorities and to deploy its capital structure and management expertise to generate sustainable returns without taking undue risks.

<p><b>Target markets that offer the best potential for growth</b></p>	<p>Significant appointments have been secured in the Group's key markets of social housing, education, transport and commercial.</p>	<p>Further investment in regeneration opportunities supported by improvement in the Group's order book provides confidence that the Group is well positioned to deliver future growth.</p>
<p><b>Maximise returns by focusing on relationships with key customers</b></p>	<p>New work has been secured on existing long-term frameworks and appointments secured on significant new frameworks.</p>	<p>The Group is committed to developing long-term relationships, creating strategic partnerships and securing positions on major frameworks.</p>
<p><b>Utilise the Group's complementary range of skills to provide an integrated offering</b></p>	<p>Sister divisions have collaborated on long-term, complex schemes around the UK involving investment, development and construction, for example the Towcester regeneration scheme (see page 21).</p>	<p>Investments continues its strategy to unlock prime long-term construction opportunities for sister divisions.</p>
<p><b>Use the cash generated through construction activity to invest in regeneration</b></p>	<p>Urban Regeneration has performed strongly, with a significant increase in operating profit and 13% growth in its regeneration and development pipeline.</p>	<p>Firm financial discipline will be applied to overheads, cash and working capital to ensure the Group has sufficient cash to invest from its construction activities into quality regeneration opportunities.</p>

To read more see pages 9 to 11.

Pages 9 to 11 and 18 to 27.

Pages 9 to 11 and 18 to 27.

## Overview continued

## Business model

The Group's business model comprises five distinct but complementary drivers of growth that help the Group to deliver its strategy.

## 2014 key performance indicators ('KPIs')

The Group uses financial and non-financial KPIs to measure its progress in delivering its strategy priorities.

## Risk awareness

The Group has a long established culture of mature risk and control processes to manage both material and day-to-day circumstances.

## People

- Highest standards maintained in health and safety
- Morgan Sindall Group People Promise ('People Promise') launched to position the Group as employer of choice.

## Accident Incident Rate

306

## Number of graduates recruited

67

## Average number of training days per employee

2.2 days

The Group's performance and business conduct affects employees, subcontractors and the public and in turn can affect its reputation and commercial performance.

## Winning in our markets

- Close collaboration with clients and partners
- Driving continuous improvement through Perfect Delivery
- Targeting markets with highest opportunities for growth.

## Regeneration and development pipeline

£3.2bn

## Perfect delivery

81%

## Committed order book

£2.7bn

The Group undertakes several hundred contracts each year and needs to ensure that contractual terms relate to the risks arising from the nature and complexity of the works.

## Maximising efficiency

- Long-term relationships with trusted suppliers and subcontractors
- Optimising business processes and support functions
- Reducing energy consumption and carbon emissions.

## Gross margin

8.2%

## Overhead as a proportion of revenue

7.2%

## Carbon intensity (Scopes 1, 2 and 3)

16.95

If employees are not properly engaged with the culture of the business, clients are less likely to receive exceptional levels of service.

## Disciplined use of capital

- Rigorous cash management
- Long-term joint ventures and strategic alliances
- Forward selling schemes with leading financial institutions.

## Working capital as a proportion of revenue

(2.5%)

## Adjusted operating cash flow as a percentage of adjusted operating profit\*

8%

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 operate as a going concern.

## Pursuing innovation

- Empowering employees to think differently
- Identifying innovative routes to market
- Pioneering commercial structuring and funding solutions
- Creating new design and construction techniques.

## Group revenue generated from Investments funding solutions

£68.4m

If the Group fails to encourage an innovative approach across its divisions it could lose its competitive edge and suffer reputational damage.

## Chairman's statement



**Adrian Martin**  
Chairman

The Group's 2014 result has been held back by the performance of a small number of construction contracts in Construction & Infrastructure. However we were encouraged by a particularly strong performance from Urban Regeneration, reinforcing the belief in our strategy of utilising the cash generated through construction to invest in regeneration activities.

We have also seen further evidence of how the Group's broad range of capabilities adds extra resilience to the cyclical nature of individual markets. Fit Out's agility in swiftly responding to increasing industry upturn has resulted in the division's results exceeding expectation.

As I stated last year, the continued investment in our people is critical for future success. We have launched the first phase of our People Promise which has focused on implementing tools around succession planning and talent management across the Group. In addition, the Group management team has been significantly strengthened and strong foundations have been laid to realise our ambition to be the employer of choice in our industry.

We continue to work on a range of large-scale projects across the UK which are anticipated to deliver strong returns in the years ahead. With projects becoming increasingly complex, clients recognise the value we can add when two or more of our divisions work in collaboration. We continue to demonstrate across a number of large-scale projects how our integrated offering can significantly reduce complexity.

Health and safety remains a priority for the Board. Everyone affected by our activities should benefit from an incident-free environment. We were saddened by the death of one of our subcontractors this year. The incident was thoroughly investigated and as a result no changes to our processes and procedures were needed. However, our core safety policies remain under constant review.

I am pleased that our resolve to identify and manage risks associated with climate change continues to be recognised. For the third year running we are the highest-scoring construction company in the CDP's UK Climate Change Report 2014.

Geraldine Gallacher stepped down from the Board on 31 December 2014 after a seven-year tenure and I would like to extend my thanks to Geraldine for her significant contribution.

The Board proposes that the final dividend of 15.0p per share is held level with the prior year (2013: 15.0p), resulting in a total dividend for the year of 27.0p (2013: 27.0p).

Our people have remained very positive in what has been a tough year for the Group and I would like to thank them for their continued support. As we enter 2015, we will continue to face challenges, but we firmly believe that the medium- and long-term opportunities for the Group remain very attractive and that we have the right people in place to take our strategy for growth forwards.

### **Adrian Martin**

Chairman

19 February 2015

# Developing talent

The People Promise is committed to enhancing career opportunities across the Group.



**Trevor Haystead**

Joined the Group as an apprentice bricklayer in 1982. Now operations manager for Affordable Housing's East Anglia region.

**Samantha Metcalfe**

Joined as a receptionist in 2008. Now proposals manager for all of the Investment division's bids. Studying for a degree in Business and Management.



**Terri Seel**

Engineering degree sponsored through the Institution of Civil Engineers ('ICE') QUEST programme. Became graduate engineer for Construction & Infrastructure in 2012. Promoted in 2014 to section engineer, currently working on a railway under-bridge on a dual carriageway construction project.

**Mike Payton**

Started as a geologist in 1988 and became design and construction director for Urban Regeneration in 2010. Appointed director of project management in 2013.



**Lisa Giglio**

Joined Fit Out in 2013. Site based project manager, working on large turnkey fit out projects. Now working towards a Masters in Construction Management.

**Oliver Watson**

Joined Fit Out in 2004 as a management trainee. Obtained BSc Hons in Quantity Surveying. Promoted to quantity surveyor, then commercial manager and is now contracts manager on major projects.





# Our business model

## Introduction

The Group adds value through its:

- philosophy of Perfect Delivery focused on continuous improvement in business processes and in service quality and delivery
- integrated offering which enables the Group to deliver complex construction projects by providing a single solution for clients
- principles of maximising efficiency and a disciplined approach to capital management which assist in cash generated from construction activities being available to invest in regeneration
- decentralised approach which empowers people to think differently and to develop innovative ways of delivering projects.

These values are encapsulated in the Group's business model as five distinct drivers of growth:



A range of financial and non-financial KPIs are used to monitor progress where appropriate. The business model is supported by clear risk management procedures to ensure that the highest standards of integrity and ethical conduct are maintained consistently across the Group (see risk review on page 31).

## People

At the heart of the Group, and supporting the entire business model, are its people whose talent, experience and diversity are essential to deliver ever higher standards in innovation, quality and safety.

A significant milestone has been the launch of the People Promise following detailed internal research. This initiative represents a promise by the Group to all its employees explaining what they can expect from the Group and their team members and, in turn, what is expected from them. Programmes have been developed to further build the strength of the Group's talent pool. Support networks are being embedded across the Group to enable all employees to forge exciting careers in an environment where achievement is recognised. To ensure the values of the People Promise are translated into meaningful actions, metrics have been agreed to measure progress across all divisions.

Creating a safe environment for all its employees, its supply chain and the communities within which it operates is one of the Group's underlying principles. The highest standards in health and safety processes and procedures are rigorously applied across all operations. Training is provided to ensure that everyone understands their responsibilities to protect their own safety and that of others.

### Accident Incident Rate\*

2014	306
2013	385

### Number of graduates recruited

2014	67
2013	57

### Average training days per employee

2014	2.2
2013	2.3

\*Number of accidents per 100,000 employees.

## Our business model continued



### Winning in our markets

The Group's ethos is defined by its unrelenting focus on clients and its drive to achieve operational excellence and consistent delivery on projects of all scales and levels of complexity. This is demonstrated through working in close collaboration with clients and partners, understanding their needs and leveraging skills across the Group to identify innovative and cost-effective solutions.

The Group's philosophy of Perfect Delivery drives continuous improvement and higher standards of quality and service across all operations. Perfect Delivery status is granted to projects that meet four criteria, specified by each division. Client experience feedback is proactively sought to identify strengths and recognise areas that require improvement.

The Group targets key markets that best suit its skills and market knowledge. The Group has developed an in-depth understanding of the challenges faced by its clients and has built up enduring relationships and a trusted reputation for delivering added value. This enables the Group to enjoy a high level of work on large-scale regeneration programmes, complex construction projects and long-term frameworks. A rigorous approach to contract selectivity is maintained to identify opportunities that offer the best potential for growth and superior returns.

Committed order book	£bn
<b>2014</b>	<b>2.7</b>
2013	2.4

Regeneration and development pipeline	£bn
<b>2014</b>	<b>3.2</b>
2013	3.0

Percentage of completed projects achieving Perfect Delivery	%
<b>2014</b>	<b>81</b>
2013	76



### Maximising efficiency

Maximising efficiency is a priority for the Group to improve profitability and deliver positive sustainable returns to shareholders and wider stakeholders.

The Group spends a high percentage of its cost of sales on goods and subcontractor services. 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 of 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 goods and services as effectively as possible whilst retaining a level of flexibility to meet changing economic and client requirements.

A focused approach to optimise business processes and support functions has also been maintained with particular emphasis on identifying opportunities to standardise best practice products and processes to unlock greater efficiencies.

The Group's sustainability performance also impacts on efficiency. A Group-wide approach to reducing energy consumption and carbon emissions has directly translated into cost savings. The principle of sustainability is 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.

Gross margin	%
<b>2014</b>	<b>8.2</b>
2013	8.2

Overhead as a proportion of revenue	%
<b>2014</b>	<b>7.2</b>
2013	7.1

## Our business model continued

### Disciplined use of capital

The Group exercises a rigorous approach to cash management ensuring returns from investment are maximised and the cash position is closely monitored. The disciplined use of capital is essential to ensure that the Group has the available funds to invest cash generated from its construction activities into profitable regeneration opportunities and to pay dividends to shareholders.

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 tied up in customer receivables. The Group's strategy of working in long-term joint ventures and strategic alliances reduces the need to draw on its 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. By working collaboratively with landowners, it avoids the need to purchase land on the open market and uses opportunities to forward sell schemes with leading financial institutions when favourable to do so.

Working capital as a proportion of revenue		%
<b>2014</b>	<b>(2.5)</b>	
2013	(3.2)	

Adjusted operating cash flow as a percentage of adjusted operating profit*		%
<b>2014</b>	<b>8</b>	
2013	44	

### Pursuing innovation

Providing added value through innovation is a strategic priority for the Group to ensure long-term growth. 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. Creating the right culture to foster innovation is a priority for attracting and motivating the best talent and the Group actively encourages and empowers its people to think differently.

Identifying innovative routes to market that overcome barriers to success are an acknowledged specialism of the Group. Its expertise in creating pioneering commercial structuring and funding solutions enables its public sector partners and clients to unlock opportunities, operate more efficiently and realise complex regeneration visions.

The Group's investment in Building Information Modelling ('BIM') and BIM's successful deployment is achieving better outcomes for clients and is a clear business driver. BIM provides a platform for closer collaboration, reduced costs and faster delivery alongside lower environmental impacts. Across the Group, an appetite for adopting new technology is evident with examples extending from the development of an app to drive residential sales through to the use of mobile technology on site.

The Group continues to invest in research and development activity. It works with leading institutions to create innovative design and construction techniques that improve project delivery and enhance the Group's reputation. The spending incurred on research and development is generally contained within project work performed for clients and is not separately identified.

Group revenue generated from Investments funding solutions		£m
<b>2014</b>	<b>68.4</b>	
2013	8.65 <sup>†</sup>	

<sup>†</sup>Only includes revenue generated for Investments, but not other divisions. In 2014, Investments-only revenue was £24.94m.

## Strategy and markets

The Group's strategy is focused on two distinct but complementary business activities:

**Construction** which comprises the following operations and accounts for 39% of operating profit:

- Construction & Infrastructure
- Fit Out
- Affordable Housing – construction and services work focused on new build house contracting and planned and response maintenance.

**Regeneration** which comprises the following operations and accounts for 61% of operating profit:

- Affordable Housing – regeneration mixed-tenure developments focused on building and developing homes for open market sale and for social or affordable rent
- Urban Regeneration
- Investments.

Within these business activities the Group's strategic focus is to:

- target markets that offer the best potential for growth, allowing the Group to build on its market-leading positions and providing medium- to long-term opportunities with superior returns
- maximise returns within these markets by focusing on relationships with key customers to secure higher quality work, for example through repeat business, frameworks and alliances

- utilise the Group's complementary range of skills to provide an integrated offering to customers
- use cash generated through its construction activities to invest in, and grow, its regeneration activities.

The Group's strategy is underpinned by five business drivers that constitute its business model (see pages 6 to 8).

### Markets

The overall value of the construction market has increased by 5% on the previous year. The market is split into three sectors: public, regulated and private. Within these sectors, the Group targets key markets which are ahead of the previous year by 7%. The size and forecast movements of these targeted key markets are shown in the table below.

Market conditions have been mixed in 2014. Levels of activity have increased across a number of markets, in particular open market housing and commercial, whilst public sector austerity has held back growth in other areas such as healthcare and defence. The effect of increased activity in certain markets has also been evident in the supply chain, with cost inflation impacting margins.

### Strategic priorities within key markets

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 four that each contribute more than 10% of its annual revenue: social housing, education, transport and commercial.

Targeted key markets (2005 prices)	Construction market				Group revenue				
	2013-14 growth	2014 market £bn	2015-18 growth	% of 2014 revenue	Construction & Infrastructure	Fit Out	Affordable Housing	Urban Regeneration	Investments
Social housing	↑	4.7	↑	14%					
Education	↑	8.1	↑	14%					
Healthcare	↓	2.6	↑	1%					
Community, Defence, Other	↓	1.8	↑	7%					
<b>Public</b>				<b>36%</b>					
Transport	↑	6.9	↑	16%					
Energy	↑	5.1	↑	4%					
Water	↔	1.9	↑	6%					
<b>Regulated</b>				<b>26%</b>					
Commercial	↑	6.9	↑	22%					
Open market housing	↑	18.9	↑	6%					
Retail	↔	4.1	↑	2%					
Leisure	↑	4.8	↑	1%					
Industrial, Pharmachem, Other	↑	3.6	↑	7%					
<b>Private</b>				<b>38%</b>					
<b>Total</b>		<b>69.5</b>		<b>100%</b>					

Source: Office for National Statistics (ONS), Construction Products Association (Autumn 2014 edition) – 2005 prices.

## Strategy and markets continued

2014 targeted key markets	Value	2014 strategic priorities
<p><b>Social housing</b> First-time buyers have been an important driver of growth in the market, supported in particular by the Government's Help to Buy scheme. Property prices in London and the South East increased significantly during the year but flattened towards the end of 2014. Nationally the picture in respect of property prices has been more mixed.</p> <p>Inflation in the supply chain remains a key challenge.</p>	<p><b>Market size</b> <b>£4.7bn</b> 2013: £4.5bn</p> <p><b>Group revenue</b> <b>£447m</b> 2013: £388m (includes £137m open market sales (2013: £112m))</p>	<ul style="list-style-type: none"> <li>Continued focus on larger long-term regeneration projects</li> <li>Obtain land in partnership with public sector partners via joint ventures</li> <li>Secure long-term repair and maintenance contracts</li> <li>Collaborate with other Group divisions.</li> </ul>
<p><b>Education</b> Capital investment in education is expected to increase as projects procured through the Priority Schools Building Programme ('PSBP') and other significant frameworks get underway.</p>	<p><b>Market size</b> <b>£8.1bn</b> 2013: £7.6bn</p> <p><b>Group revenue</b> <b>£308m</b> 2013: £359m</p>	<ul style="list-style-type: none"> <li>Maintain strategic approach to key clients</li> <li>Focus on winning a number of PF2 PSBP batches</li> <li>Further exploit and sell the standard design model approach to schools</li> <li>Continue to find funding solutions to otherwise non-viable opportunities.</li> </ul>
<p><b>Transport</b> Rail output continues to increase. Activity is at its peak on Crossrail and the Government continues to progress its plan for a high speed rail connection from London to the Midlands ('HS2').</p> <p>Investment in airports is expected to remain largely unchanged on current levels.</p> <p>An additional £1.5bn of investment in 84 road projects was announced by the Government in the Autumn Statement.</p>	<p><b>Market size</b> <b>£6.9bn</b> 2013: £6.4bn</p> <p><b>Group revenue</b> <b>£384m</b> 2013: £346m</p>	<ul style="list-style-type: none"> <li>Continue to expand scope of works and market share in Rail</li> <li>Secure a place at Heathrow for the next five-year procurement period</li> <li>Maintain position as a partner of choice for both client and potential joint venture partners.</li> </ul>
<p><b>Commercial</b> Growth in levels of commercial activity continued throughout 2014 with strong demand from occupiers.</p> <p>Whilst this positive trend is expected to continue, the market tends to move in line with wider macroeconomic trends and uncertainty in the economy could affect the rate of growth.</p>	<p><b>Market size</b> <b>£6.9bn</b> 2013: £6.3bn</p> <p><b>Group revenue</b> <b>£495m</b> 2013: £491m</p>	<ul style="list-style-type: none"> <li>Utilise expertise and track record of Fit Out in this market to further develop the Group's construction offering</li> <li>Target construction opportunities in larger conurbations</li> <li>Increase collaboration across the Group.</li> </ul>
<p><b>Regeneration</b> Residential volumes have increased with strong house price growth being maintained.</p> <p>Activity levels in the UK office market increased during 2014 with supply levels being eroded outside of London.</p> <p>The UK industrial market has continued to thrive with strong occupier demand led by online retailers and supermarkets.</p>	<p><b>Group regeneration &amp; development pipeline</b> <b>£3.2bn</b> 2013: £3.0bn</p>	<ul style="list-style-type: none"> <li>Expand into private rented sector</li> <li>Recycle assets when appropriate</li> <li>Secure new business.</li> </ul>

## Strategy and markets continued

Progress against 2014 strategic priorities	2015 strategic priorities
<ul style="list-style-type: none"> <li>• Contract signed for £50m mixed-use regeneration scheme for London Borough of Enfield</li> <li>• Open market sales volumes increased by 22%, supported by the Help to Buy scheme</li> <li>• Capitalised on public sector land opportunities procured through the Greater London Authority ('GLA') and the Homes and Communities Agency ('HCA') Partner Panel</li> <li>• Over £59m of new building housing contracts secured in Scotland</li> <li>• First set of homes for the Ministry of Defence ('MoD') at Beacon Barracks to be handed over spring 2015 (see page 14)</li> <li>• New management team with significant response maintenance experience.</li> </ul>	<ul style="list-style-type: none"> <li>• Grow regeneration pipeline</li> <li>• Maintain momentum across existing schemes</li> <li>• Secure more work through local authority partnerships, long-term framework opportunities and panel positions with the HCA and the GLA</li> <li>• Increase market share in areas where the Group has specialist expertise, such as environmental works</li> <li>• Secure long-term repair and maintenance contracts.</li> </ul>
<ul style="list-style-type: none"> <li>• Maintained positions on and renewed a number of frameworks, including the £100m North Lanarkshire Schools</li> <li>• Significant activity across primary, secondary and higher education</li> <li>• Appointed as selected bidder for PSBP, North West batch</li> <li>• £14m London Borough of Newham contract to upgrade six primary schools.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain strategic approach to key clients</li> <li>• Progress PSBP, North West</li> <li>• Further exploit and sell standard design model approach to schools</li> <li>• Continue to find funding solutions to otherwise non-viable opportunities</li> <li>• Focus on securing places on local frameworks.</li> </ul>
<ul style="list-style-type: none"> <li>• Won a £113m position on the rail infrastructure Edinburgh – Glasgow Improvement Programme ('EGIP') alliance</li> <li>• Secured position on Multi Assets Framework Agreement for Network Rail in joint venture</li> <li>• Secured place on £1.5bn upgrade programme at Heathrow</li> <li>• Appointed to £35m barrier renewal works on the M1 motorway</li> <li>• Significant work won on £5bn Highways Agency's National Major Projects Framework.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to expand scope of works and market share in Rail</li> <li>• Maintain position as partner of choice for clients and potential joint venture partners</li> <li>• Maximise opportunities available from key framework positions secured during 2014.</li> </ul>
<ul style="list-style-type: none"> <li>• Fit Out order book up 70% from the prior year end</li> <li>• High profile appointments by KPMG and the Canadian High Commission</li> <li>• High level of regional work secured, including 590,000 sq ft VOX Conference Centre in Birmingham and 2014's largest letting in Liverpool</li> <li>• Relaunch of response maintenance service as Morgan Sindall Property Services, offering a property service solution to the rest of the Group's client base.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain market share in fit out and refurbishment</li> <li>• Capitalise on demand for space in London and increased occupier confidence in the regions</li> <li>• Increase work secured through public sector frameworks</li> <li>• Focus on optimising operational delivery and customer experience</li> <li>• Select the right opportunities with quality customers in an improving market.</li> </ul>
<ul style="list-style-type: none"> <li>• Good progress made in private rented sector</li> <li>• Sold investment in Hull Building Schools for the Future</li> <li>• Increased residential sales totalling 347 (2013: 106) units</li> <li>• New partner-funded development agreement in Southampton</li> <li>• Over £280m of construction works currently on site</li> <li>• Selected as partner on £135m scheme in Lambeth.</li> </ul>	<ul style="list-style-type: none"> <li>• Secure new business to maintain and grow the portfolio</li> <li>• Extend relationships with key partners</li> <li>• Pursue strategic land opportunities</li> <li>• Recycle assets when appropriate</li> <li>• Collaboration with other Group divisions.</li> </ul>

## Partnering with key stakeholders in the nuclear sector

### Project

Albion Square, Whitehaven

### Partners

Copeland Borough Council, Nuclear Decommissioning Authority, Sellafield Ltd, Nuclear Management Partners, Britain's Energy Coast

### Division

Construction & Infrastructure

Albion Square was a key project for Copeland's drive to regenerate Whitehaven town centre and for Britain's Energy Coast's programme of development in West Cumbria. The new £18m office block was commissioned by the Nuclear Decommissioning Authority to accommodate around 1,000 workers being transferred from Sellafield to Whitehaven. The objectives were to free up space for decommissioning, reduce traffic to the nuclear site and boost the economy of Whitehaven's town centre. 50% of the subcontracted companies working on the project came from West Cumbria.

Albion Square comprises two four-storey office buildings, totalling 100,000 sq ft, constructed at two adjacent sites. The iconic glass-fronted development was designed as the centrepiece of a series of nuclear-funded projects set to transform the centre of Whitehaven.



# Delivering a high-tech, award-winning broadcasting centre

**Project**  
New Broadcasting House,  
Portland Place, London

**Client**  
BBC

**Division**  
Fit Out

This project has delivered a creative hub for the BBC in London, bringing together the teams from live news, radio and World Service broadcasting into one integrated, state-of-the-art media centre.

The new workplace pioneers digital technologies that encourage a flexible way of working to enhance collaboration, knowledge sharing and creativity across the BBC departments. Technical innovations incorporated into the building have involved challenges in acoustics, vibration, visual and space planning. The new hub has preserved the brand's heritage, allowing unprecedented access to the general public, and for visitors to get a sense of what the BBC is all about.

The project won the 2014 British Council for Offices ('BCO') London and South East award for Corporate Workplace and was nominated for the BCO Innovation Award.



Photograph provided by the BBC.





## Building 346 new homes for service personnel and their families

**Project**

Ministry of Defence, Stafford

**Client**

Defence Infrastructure  
Organisation

**Division**

Affordable Housing

In January 2014 the division was awarded a £51m contract to build 346 new homes for soldiers and their families who are to be based at Beacon Barracks. The development will accommodate troops from 16 Signal Regiment and 1 Armoured Division Signal Regiment.

The homes will be completed by September 2015, in time for the soldiers' return from Germany as part of the Army's rebasing programme. Punctual completion is crucial and the division will complete at an unprecedented rate of 15 units per week once handovers start in spring 2015. The development will establish Stafford as one of the Army's seven major sites and provide the town with an economic boost.



## Revitalising Britain's waterways with sustainable communities

**Project**  
Brentford Lock West

**Partner**  
Canal & River Trust

**Division**  
Urban Regeneration

Brentford Lock West is being delivered by ISIS Waterside Regeneration, a joint venture with the Canal & River Trust. This new waterside neighbourhood, which promotes sustainable living, includes apartments and town houses as well as a commercial hub with a pedestrian bridge over the canal and a new community facility for Brentford FC Community Sports Trust. It is set within pedestrian-friendly neighbourhood streets adjoining the town centre.

The first apartments and town houses were completed in 2014. The overall scheme, designed to maximise the benefit of the water frontage of the 11-acre site, is sensitively landscaped to incorporate 520 homes and 75,000 sq ft of commercial development.

## Creating opportunities for other divisions

### Project

Bournemouth Local Asset  
Backed Vehicle

### Partner

Bournemouth Borough Council

### Division

Investments

This 50:50 joint venture partnership with Bournemouth Borough Council was set up to deliver the Town Centre Regeneration Vision for Bournemouth. The 20-year scheme includes construction of The Citrus Building, a 64-apartment, residential development on the site of an old car park at Leyton Mount, as well as a 382-space car park and a 378-bed student accommodation block, both situated on Madeira Road.

The car park and student accommodation were handed over in 2014. The car park is owned and operated by the council and the student accommodation has been leased to the Arts University of Bournemouth. The construction was carried out by the Construction & Infrastructure division.

Investments will be reviewing options and development appraisals on a number of other sites in Bournemouth in 2015.





## Designing a multi-purpose space for disruptive thinking

**Project**  
Wardour Street, London

**Client**  
ThoughtWorks

**Division**  
Fit Out

Technology innovation consultancy, ThoughtWorks, prides itself on its ambitious missions and disruptive thinking and its London office was designed to reflect this.

An agile and multifunctional space was created that would accommodate teams rotating on a project-by-project basis. The bold and bright back-of-house space features a variety of work settings and quiet rooms. Standing-height tables enable healthy working, there are closed, two- and three-person meeting rooms with coloured windows and a central hub area doubles as seminar space. The office also features a games room and dedicated art wall with a variety of modern prints as well as space for ThoughtWorks people to create their own works of art.

## Chief Executive's review

**The continued positive momentum expected within Fit Out, Affordable Housing and Urban Regeneration, together with further investment programmes in regeneration opportunities and supported by the improvement in the quality of our order book, provides confidence that the Group is well positioned to deliver overall growth in 2015 and beyond.**

John Morgan  
Chief Executive



## Chief Executive's review continued

Group revenue for the year was 6% up on the prior year at £2.22bn, with all divisions delivering revenue growth with the exception of Construction & Infrastructure. Growth was driven by Fit Out (up 19%), Affordable Housing (up 11%) and Urban Regeneration (up 83%), whilst Construction & Infrastructure revenue was down 5%.

Group profitability was adversely impacted by a small number of construction contracts in Construction & Infrastructure which was announced in October and which offset strong performances from Fit Out and Urban Regeneration. This resulted in adjusted operating profit of £28.9m, down 14% on the prior year, with adjusted operating margin of 1.3% (2013: 1.6%). Operating profit included a significantly lower profit from the sale of investments of £1.9m compared to the prior year (2013: £9.9m). 2014 has seen a significant shift in the balance of our profits with the anticipated increase in contribution from Urban Regeneration, reinforcing our confidence in the Group's long-term strategy of investment in both construction and regeneration activities. Urban Regeneration's performance has been recognised by winning the coveted Estates Gazette's National Property Company of the Year 2014 award.

The Group's committed order book\* as at 31 December 2014 was £2.7bn, an increase of 11% since the previous year end, driven by growth in the order books of Fit Out (up 70%), Affordable Housing (up 16%), Urban Regeneration (up 38%) and Construction & Infrastructure (up 3%). Our regeneration and development pipeline has grown by 6% to £3.2bn (2013: £3.0bn) with our Urban Regeneration division delivering a strong set of results and Affordable Housing now well positioned to increase its contributions from regeneration in 2016 and beyond.

The general operating environment for construction has undoubtedly remained challenging this year despite the more positive market conditions. Margins have remained under pressure from cost inflation and skills shortages and this has been most acute in London and the South East. However, as a result of the upturn in activity, the quality of our order book has improved as the tendering process returns to higher levels of negotiated two-stage tenders rather than fixed price contracts. Our Fit Out division has traded strongly, performing above expectation through its ability to react quickly to increased occupier confidence and capitalising on its reputation as a leading specialist in fit out and refurbishment projects. Across the Group, the divisions have been successful in securing major contracts, winning positions on new frameworks and delivering a high level of work through long-term frameworks.

Within the Construction & Infrastructure division, a flatter management structure has been introduced to create a more efficient company for growth. We have welcomed Pat Boyle to the business with overall responsibility for the division's construction and design business and Nick Fletcher has taken on responsibility for the division's infrastructure activities. Both are highly respected and experienced professionals, who report directly to me, and they are working closely together to deliver complex integrated construction and infrastructure projects for our clients.

More than ever, collaboration is a vital component in the UK construction industry today. We continue to work closely with clients and partners to gain a real understanding of the challenges they face and to build long-term relationships. Our divisions are identifying opportunities to work together to secure competitive advantage and demonstrate how our integrated capability can add value. We continue to develop stronger relationships with our supply chain to ensure that together we can deliver ever higher standards in quality and safety through our philosophy of Perfect Delivery.

### Basis of preparation

The term 'adjusted' excludes the impact of intangible amortisation of £2.4m (2013: intangible amortisation (£2.7m), exceptional operating items (£14.7m) and the deferred tax credit arising due to the change in the UK corporation tax (£2.5m)).

We remain committed to sustainability. As one of the UK's leading construction groups, we take our responsibilities seriously within our sphere of influence and strive to minimise any adverse impact of our operations on the communities within which we operate and on the wider environment. Successful sustainable business practice creates value by enabling growth, delivering cost savings and enhancing our risk management processes. It also provides a key differentiator for the Group as we continue our focus on attracting and retaining the best talent in the industry.

Looking ahead to 2015, lower returns in Construction & Infrastructure are expected to remain for at least the first half of the year, as lower margin construction contracts tendered in 2012–2013 are worked through to completion. However, the continued positive momentum expected within Fit Out, Affordable Housing and Urban Regeneration, together with further investment programmes in regeneration opportunities, and supported by the improvement in the quality of our order book, provides confidence that the Group is well positioned to deliver overall growth in 2015 and beyond.

## Business Review

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

### Order book and regeneration and development pipeline

The divisional split of the Group's committed order book\* as at 31 December 2014 is shown below.

Order book	FY 2014 £m	FY 2013 £m	% change
Construction & Infrastructure	1,537	1,499	+3%
Fit Out	241	142	+70%
Affordable Housing			
– construction and services	673	581	+16%
Urban Regeneration	197	143	+38%
Investments	19	38	-50%
Inter-divisional eliminations	(9)	–	
<b>Group committed order book</b>	<b>2,658</b>	<b>2,403</b>	<b>+11%</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.

In addition, the Group's regeneration and development pipeline<sup>†</sup> was £3.2bn, an increase of 6% from the previous year end.

Regeneration and development pipeline	FY 2014 £m	FY 2013 £m	% change
Affordable Housing – mixed tenure	770	715	+8%
Urban Regeneration	2,215	1,953	+13%
Investments	242	368	-34%
<b>Group regeneration and development pipeline</b>	<b>3,227</b>	<b>3,036</b>	<b>+6%</b>

<sup>†</sup>'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

<b>Revenue</b> £m	-5%
<b>2014</b>	<b>1,172</b>
2013	1,234
<b>Operating profit – adjusted*</b> £m	-72%
<b>2014</b>	<b>3.5</b>
2013	12.7
<b>Operating margin – adjusted</b> %	-70bps
<b>2014</b>	<b>0.3</b>
2013	1.0

The Construction & Infrastructure result for the year was down significantly on the prior year, being severely impacted by the performance of the Construction activities in the second half.

Divisional revenue of £1,172m was down 5% on the prior year (2013: £1,234m), primarily driven by lower activity in Construction arising from ongoing contract selectivity and a focus on the operational delivery of active projects. Split by type of activity, Construction accounted for 55% of divisional revenue at £639m, which was down 11% compared to prior year, whilst Infrastructure was 45% of divisional revenue at £533m, up 3%.

Whilst the Infrastructure business performed reasonably well across the year, delivery pressures in London and the South's Construction activities during the second half resulted in an escalation of costs and increased forecast costs to complete, thereby adversely impacting profitability and margin. These delivery pressures related mainly to a small number of construction contracts which are all due to complete within the first half of 2015 and which all experienced programme slippage and increases in costs to complete as a result of inflation and additional unforeseen resource requirements. The full impact was mitigated in part by further overhead cost savings and provision movements including property dilapidation provisions no longer required.

Consequently, divisional operating margin reduced to 0.3% (2013: 1.0%), giving an operating profit of £3.5m (2013: £12.7m).

In order to address these operational issues and to support the platform for future profitable growth, management teams have been changed and strengthened at both local and divisional levels during the year. In enhancing the skills and experience in the division this has reinforced the necessary systems and disciplines within bid selection, winning work and procurement to support future margin improvement.

The committed order book at the year end was £1,537m, up 3% since the start of the year. Importantly, the quality of the order book has improved significantly, with only 15% of the order book by value being won through competitive single-stage procurement processes with the remaining 85% being derived through negotiated/framework/two-stage bidding

procurement processes. At the same time last year, the proportion of work derived through negotiated/framework/two-stage bidding procurement processes was only 62% by value and this positive shift in the balance of orders by procurement type supports the opportunity for future margin improvement.

In terms of market sectors served, the largest market was Transport (Highways, Aviation and Rail) at 33% of divisional revenue, with Education remaining a significant 23% and Water contributing 11%.

Within Highways, significant work has been won through the Highways Agency's National Major Projects Framework. Awards have included the appointment, in joint venture and as one of four delivery partners, to a £184m contract to upgrade 17 miles of the M60 and M62 to a smart motorway and also, in joint venture, a £35m barrier renewal works package between junctions 19 and 16 of the M1 to facilitate a future smart motorway scheme. Building on this success, the division has been appointed, in joint venture, by the Highways Agency to the largest ever framework for the improvement of England's motorways and major A roads. The four-year framework, with an option to extend by a further two years, is estimated to be worth up to £150m per annum to the joint venture. Within Aviation, the division has been selected as one of four partners at Heathrow Airport to deliver a £1.5bn programme of upgrades and improvements over the next five years following the completion of the rehabilitation of the northern and southern runways.

### An integrated approach to community regeneration

#### Investment

- Slough Borough Council
- Investments

Joint venture partnership delivering housing and social infrastructure to Slough over a 15-year period

#### Construction

- Construction & Infrastructure
- Affordable Housing

In Rail, operating centres in Manchester and Rugby, worth £19.7m and £17m respectively, have been handed over and a £113m position on the £250m EGIP alliance has been awarded by Network Rail. This two-year project will deliver a critical rail infrastructure upgrade and forms part of the £742m Scottish Government-funded investment to transform transport in the country. Work has also been secured through the Multi-Asset Framework Agreement including a £20m contract, in joint venture, to refurbish roof spans at Paddington Station.

In Water, the division continues to work within three frameworks, all of which have been extended into AMP6, the 2015–2020 asset management period.

Highlights within Energy have included new framework agreements and awards within existing long-term frameworks. Western Power Distribution has awarded the division a three-year framework agreement, with two one-year extension options, at an estimated annual value of over £30m to deliver the excavation, cable laying and reinstatement works within its West Midlands region. A five-year agreement, in joint venture, has been signed

## Chief Executive's review continued

for electricity transmission overhead line work with Scottish Hydro Electric Transmission plc and a position on National Grid's National Onshore Underground Cabling framework has been secured. In the nuclear sector the division, along with The S. M. Stoller Corp. and Newport News Nuclear, both subsidiary companies of Huntington Ingalls Industries, has signed a long-term agreement to work together to offer a combined delivery capability to the UK nuclear market. Given the UK Government investment in the nuclear industry, the collaboration enables the division to provide an enhanced range of new build and decommissioning services. At Sellafield, the division continues to provide a range of essential infrastructure asset services through its joint venture Infrastructure Strategic Alliance contract. Secured in 2012, the contract has a potential value of £1.1bn over a possible maximum duration of 15 years.

### An integrated approach to modernising a historic market town

#### Investment

- South Northamptonshire Council
- Investments

#### Construction

- Affordable Housing
- Construction & Infrastructure

Regeneration and preservation of the Moat Lane area in Towcester with a new civic building and high quality retail, commercial and residential developments

Within other parts of Infrastructure, the division has continued to target growth sectors with high barriers to entry. It is currently working on some of the UK's most complex civil infrastructure projects including providing its industry-leading expertise in Tunnelling in joint venture on Thames Water's £635m Lee Tunnel and on the C510 Whitechapel and Liverpool Street Station tunnels contract for Crossrail.

The value of the division's integrated Construction and Infrastructure capabilities was recognised in the award of, alongside two other contractors, a position on a major £300m eight-year redevelopment programme for BAE Systems which will transform its submarine building capabilities. The programme will include a mix of new build projects and the refurbishment of existing facilities in what is the most significant redevelopment of the Barrow-in-Furness site since the 1980s.

Within Education, the division will play a significant role within the PF2 PSBP, North West batch following the appointment of the Investments division and Equitix Limited by the Education Funding Agency as the selected bidder to deliver five secondary and seven primary schools across the region. Also within Education, the London Borough of Newham has awarded the division a circa £14m contract to upgrade six primary schools.

Overall, the division's operating environment has improved over the year as the market recovery has gained traction, despite the challenges presented by cost inflation driven by labour and material demands. Looking ahead to 2015, continued lower returns are expected through the first half at least as the construction contracts in London and the South are completed and other lower margin construction contracts procured during the more difficult pricing environment of 2012–2013 are worked through to delivery and completion. Thereafter, the division is expected to generate increasing margins and returns from the higher quality order book.

## Fit Out

<b>Revenue</b> £m	+19%
<b>2014</b>	<b>507</b>
2013	427
<b>Operating profit – adjusted*</b> £m	+38%
<b>2014</b>	<b>15.0</b>
2013	10.9
<b>Operating margin – adjusted %</b>	+40bps
<b>2014</b>	<b>3.0</b>
2013	2.6

Fit Out has delivered a strong performance in the year, driven by improved market conditions and the division's ongoing focus on operational delivery. Revenue of £507m (2013: £427m) was up 19%, with operating margin increasing to 3.0%, resulting in operating profit of £15.0m (2013: £10.9m), up 38%.



## Creating a workspace that stimulates innovation

**Project**  
Walbrook Building,  
London

**Client**  
Xchanging

**Division**  
Fit Out

Global technology company Xchanging's strapline is 'inspiring innovation' and their new offices were designed and built to do just that.

The 50,000 sq ft office in the Walbrook Building was designed for activity-based working, with spaces for private conversations, quiet work, phone booths and client areas. Hot-desking was introduced, with each person allocated a locker rather than a desk. High-tech demonstration rooms provided places to showcase Xchanging's innovative solutions.

The new office reflects Xchanging's core values and provides a more engaging environment for their employees and clients.



## Chief Executive's review continued

The division has successfully balanced the significant upturn in activity and the consequent demands placed on the supply chain, with improved operational performance which has supported the margin improvement in the year. The second half of the year particularly has seen a significant increase in activity in line with the improving market conditions, with 62% of annual revenue being generated during that period. Additionally, the upturn in bidding activity and number of contract wins in the year has led to the committed order book at the year end being £241m, up a strong 70% from the prior year end, and includes a higher level of contracts on less onerous terms and conditions.

The London region accounted for 67% of revenue (2013: 74%), with other regions at 33% (2013: 26%) all showing strong revenue and profit growth in the year. Split by type of work, 79% of revenue was traditional fit out work, compared to 21% 'design and build', whilst 74% of revenue related to fitting out of existing space (31% refurbishment 'in occupation'), compared to 26% which was new office fit out.

A number of notable appointments in the year have emphasised the division's expertise in refurbishment of offices whilst in occupation. KPMG appointed the division to fit out 215,000 sq ft of office space in Canary Wharf, along with client and executive areas at its W1 premises, with a combined value of over £40m, and the division won the Canadian High Commission's £30m renovation and refurbishment project of Canada House and an adjacent property.

Additionally, the division's Guardian News & Media project in London received a national accolade when presented with the British Council for Office's 2014 'Test of Time' award. The division successfully fitted out the 142,000 sq ft purpose-built Kings Place that provides a setting fit for the world's oldest independent newspaper whilst providing the technological and environmental requirements demanded by a global media brand.

Outside London, a high level of work has been secured through public sector construction frameworks, working alongside Construction & Infrastructure. These include major projects for Reading Borough Council through the iESE framework, for Bristol City Council through the Construction Framework South West and also for Luton Borough Council under the SMARTE East Framework. In Birmingham, fit out is underway on the VOX Conference Centre, an integral part of the new circa 590,000 sq ft Resorts World complex on the NEC campus.

Split by end market sector, key markets served are commercial offices (74% of revenue), higher education (8% of revenue), together with retail banking, government and local authority work and work for charitable organisations.

The commercial office sector remains the division's core market, which has driven growth throughout the year through continuing positive market sentiment, the predicted spike in lease expiries combined with a shortage of premium Grade A office space, and ongoing pressure on central and local government to consolidate property portfolios.

Higher education has presented some positive opportunities for the division as competition amongst universities to attract students remains strong. In London, the division is working for eight leading universities, including a major contract for University College London and new wins for London School of Economics and Kingston University. Retail banking continues to offer opportunities as banks continue to consolidate and rationalise their estates.

Looking ahead, it is anticipated that Fit Out will build on the current positive momentum through 2015 and beyond and with its commitment to operational improvement and customer focus, the division is well placed to deliver further margin and profit growth.

## Affordable Housing

<b>Revenue</b> £m	+11%
<b>2014</b>	<b>423</b>
2013	381
<b>Operating profit – adjusted*</b> £m	-30%
<b>2014</b>	<b>6.0</b>
2013	8.6
<b>Operating margin – adjusted</b> %	-90bps
<b>2014</b>	<b>1.4</b>
2013	2.3

Total divisional revenue of £423m was up 11% (2013: £381m), whilst operating profit of £6.0m was down 30% on the prior year (2013: £8.6m), impacted by an expected loss of £3.5m in the response maintenance activities.

Affordable Housing's activities are divided into two main categories: Regeneration (27% of revenue) which refers to the division's mixed-tenure regeneration housing schemes; and Construction & Services (73% of revenue) which includes new build housing contracting and planned and response maintenance services. Together, the division delivers a full range of housing solutions for its partners and customers.

In Regeneration, revenue was up 6% to £115m (2013: £108m) with operating profit of £10.7m. Of this, 69% of revenue related to open market sales at an average sales price of £167,000, whilst 31% of revenue related to approximately 300 units through the social housing contracting element of the mixed-tenure schemes.

Capital employed in the Regeneration activities at the year end was £123m, up by 27% over the year. Of this, £75m is capital invested in returning active mixed-tenure schemes, £30m relates to historic shared equity loans and rental properties and £18m relates to land not currently being actively developed.

The 8% increase in its regeneration and development pipeline at the year end to £770m (2013: £715m) has reinforced the market position and profit potential of this area of the business. Confidence in the housing market, supported by the Government's Help to Buy initiative, has resulted in new opportunities in mixed-tenure projects developed in partnership with housing associations and local authorities and increased sales activity across all regions.

During the year, the division has capitalised on public sector land opportunities procured through the GLA and the HCA Partner Panels. The division has positions on the four-year London Development Panel which is expected to procure up to £5bn of housing-led mixed-use developments on public land and on all four Regional Lots on the HCA's four-year Delivery Partner Panel 2 £4bn housing framework. New awards this year include the London Borough of Enfield's major £50m Ponders End Electric Quarter development, the appointment as preferred partner for the delivery of 600 homes working in partnership with the Borough Council of King's Lynn and West Norfolk and the commencement of the four-year £40m mixed-tenure homes scheme in Cockermouth, West Cumbria.

## Chief Executive's review continued



### Providing a 24-hour reactive repairs service for 3,300 homes

**Project**

Response and planned maintenance services – Essex, Greater London and Suffolk

**Client**

Estuary Housing Association

**Division**

Affordable Housing

Estuary Housing Association appointed the division to provide repairs services to over 3,300 homes. Residents are provided with a 24-hour, 365 day-a-year, reactive repairs service. The five-year, £22m contract also includes planned maintenance programmes and work carried out to refurbish empty properties to return them to rentable condition.

Sharing Estuary's commitment to communities, the division expects to create eight apprenticeships over the life of the contract as well as a significant number of work placements and training programmes.

Positive momentum has also been maintained across all the division's existing landmark regeneration programmes, further underpinning the division's expertise in delivering complex, long-term schemes. In London, work has started on site on the London Borough of Barking and Dagenham six-year £83.8m Lymington Mews housing development and demolition is underway on the £270m Woolwich regeneration programme where 1,500 mixed-tenure homes are being created in partnership with Royal Borough of Greenwich and asra Housing Group. Both these schemes will require working capital investment through 2015, with the resultant profits being generated in 2016 and beyond.

Working as a partner in the Compendium Living joint venture with Riverside Housing, the circa 10-year £108m Castleward Urban Village project is moving forward as the division progresses the first phase, creating 164 mixed-tenure homes and 12 commercial units.

Collaboration with other Group divisions has provided additional growth opportunities with the division delivering quality affordable housing within large-scale mixed-use regeneration programmes alongside Investments, Urban Regeneration and Construction & Infrastructure.

In Construction & Services new build housing contracting revenue of £139m (2013: £92m) equates to approximately 1,150 units completed and has increased by 51% with the business maintaining its rigorous selection process although margins have been impacted by materials and skills shortages as well as inflationary pressures and continued competitive tendering. Scotland has proved to be one of the most successful regions with over £59m of contracts secured. Increased levels of local authority work have been won as councils are granted new powers to borrow to fund the construction of new council homes. At MOD Stafford, the division is on schedule to complete a £51m contract and hand over 346 new homes for Army families returning to the UK.

In planned maintenance, revenue of £108m (2013: £113m) represented a 4% decline on last year. The market continues to provide a steady flow of work as local authorities and housing associations invest in improving housing stock. The division has capitalised on its proven track record in external environment improvements, further extending its specialist expertise in working on high-rise tower blocks through its appointments to deliver circa £11m of high-rise improvement programmes in Aberdeen and Glasgow. The division is currently working for Sandwell Metropolitan Borough Council on the refurbishment of high-rise buildings and the relationship has been further extended through the appointment to a framework that will undertake a £50m package of repairs and improvements to 6,000 council homes.

Response maintenance revenue of £61m (2013: £68m) has declined by 10%, with an operating loss as expected of £3.5m (2013: loss £1.2m). As part of the repositioning and turnaround of the business, a new and sector-experienced management team has been recruited during the year and investment made in business systems to improve operational efficiencies and enhance productivity and delivery. Additionally, the recent rebranding and relaunch of the business as Morgan Sindall Property Services paves the way to offer a broader property service solution to a client base across the rest of the Group, with a plan to achieve a minimum of break-even by 2016.

A key challenge for response maintenance remains winning work on acceptable terms and progress has been made in this respect. During the year, a number of contracts have been won including the provision of facilities management services within a 28-year £32.8m North Tyneside Council Sheltered Housing PFI and a five-year £22m agreement with Estuary Housing Association to provide repairs services to its stock of over 3,900 homes.

Overall, the committed order book for Construction & Services was £673m (2013: £581m), an increase of 16%. Of this, response maintenance accounted for £355m (2013: £257m).

Looking ahead, Affordable Housing will continue with its strategy of growing its regeneration pipeline, increasing development across all its existing schemes and winning new opportunities to unlock land and deliver complex mixed-tenure schemes through local authority partnerships and collaborative working with Group divisions. Due to the timing of current developments and new opportunities, an increase in working capital is expected in 2015, with significant profit benefit anticipated in 2016 and beyond. Notwithstanding this, 2015 is expected to show margin and profit growth through a combination of its existing mixed-tenure schemes, a more positive contracting environment and an improved performance from response maintenance.



### Building 413 new mixed-tenure, energy-efficient homes

#### Project

Lymington Fields, Dagenham

#### Partners

Greater London Authority and Home Group

#### Division

Affordable Housing

Lymington Fields was one of the first sites to be released by the Mayor of London as part of his drive to unlock development on public sector-owned land in East London.

This brownfield site regeneration project started in January 2014 and will deliver 413 new homes by 2019. Of these, 252 homes will be for private sale by the Affordable Housing division and 161 affordable homes for Home Group for rent and shared ownership. All homes will incorporate energy-efficient features including photovoltaic solar panels and high efficiency boilers.

The £83.8m development is part of Affordable Housing's strategy to deliver large-scale mixed-tenure regeneration projects across England, Scotland and Wales.

### An integrated approach to new and improved schools

#### Investment

- Equitix Limited and Education Funding Agency
- Investments

#### Construction

- Construction & Infrastructure

Priority Schools Building Programme, North West batch – five new secondary and seven primary schools that will benefit 8,150 pupils and also create 124 nursery places

## Urban Regeneration

### Average capital employed<sup>1</sup> (last 12 months) £m

2014	49.9
2013	53.5

### Capital employed<sup>1</sup> at year end £m

2014	49.4
2013	51.4

### Revenue £m

+83%

2014	113
2013	62

### Operating profit – adjusted\* %

+900%

2014	10.0
2013	1.0

Urban Regeneration has delivered a strong performance, with a significant increase in operating profit to £10.0m (2013: £1.0m) generated from its development portfolio as scheme phases reach completion. Working with landowners and public sector partners to unlock value from underdeveloped assets and bring about urban renewal, the division has also increased its regeneration and development pipeline by 13% to £2.2bn.

Capital employed<sup>1</sup> at the year end was £49.4m. This is calculated after deducting non-recourse debt of £17m and deferred consideration on the purchase of interests in the ISIS Waterside Regeneration Joint Venture of £14m. Average capital employed<sup>1</sup> was £49.9m, with the overall return on average capital employed<sup>2</sup> of 17%.

Major contributors to the increase in profit include completions of the sixth phase of the Smithfield Northern Quarter regeneration scheme in Manchester, KPMG's pre-let regional headquarters in Leeds and a multi-storey car park in Stockport.

Additionally, good progress has been made with developments through its two strategic joint ventures, the government-backed English Cities Fund ('ECf') and ISIS Waterside Regeneration. The success of ECf, a partnership with the HCA and Legal & General Property, has resulted in completions of the hotel and car park elements of the Salford Central regeneration scheme, plus completions at Canning Town and Plymouth. Through ISIS Waterside Regeneration, a partnership with the Canal & River Trust, profits have been generated from completions at Brentford and Islington Wharf, Manchester.

## Chief Executive's review continued

Across all its developments, improved residential sales totalling 347 units (2013: 158) have underpinned the performance, with schemes prioritising their residential content to meet national demand. Good progress has also been made in the growing institutional private rented sector ('PRS') with investors forward buying over 200 units within schemes located in Manchester, Bristol and Lewisham.

Four new development agreements valued at £300m have been secured during the year, including the Warrington Town Centre development and an agreement with Lambeth Council to deliver a £135m regeneration scheme in Brixton.

Within the currently active schemes, planning consents have been granted on 10 major projects with a total development value of £500m. Most notable was the full approval of the planning application for the £107m Marischal Square development, fully funded by Aviva Investors and set to transform a key location in Aberdeen city centre. Other projects which are currently being advanced are the first phase of the South Shields 365 regeneration project, Phase Three of the £180m Rathbone Market scheme in Canning Town through ECf, creating 216 homes, and Logic Leeds, where work has commenced on the division's 110-acre manufacturing and distribution development in the Leeds City Regional Enterprise Zone.

Major milestones include the commencement of construction on the first phase of the £200m Lewisham Gateway development in South East London. A total of £280m of ongoing construction activity is currently underway across 18 sites with other major site starts including the John Lewis at Home and Waitrose stores in Basingstoke, new office buildings in Chester and Salford and a new state-of-the-art Innovation Centre at the £100m Northshore regeneration scheme in Stockton-on-Tees. Additionally, the division continues to add value to partnerships and create valuable opportunities for sister divisions, providing work for Construction & Infrastructure and Affordable Housing on four major schemes. Affordable Housing is also a joint venture partner on two major regeneration schemes in Scotland and at Northshore in Stockton-on-Tees.

Looking forward, Urban Regeneration is expected to continue to deliver strong profits as schemes within its forward development programme mature, providing a consistent annual double digit return on average capital employed<sup>2</sup>. With over 750 residential units scheduled for completion in 2015, the division is well placed to help meet the demand for quality homes in sustainable regeneration locations as it continues to bring forward residential elements and increase its footprint across regeneration areas. As a result, further working capital will be invested through 2015 and 2016 to support the division's ongoing developments and overall regeneration strategy.

<sup>1</sup> Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax and inter-company financing). At year end, non-recourse debt was £17.0m (2013: £8.1m) and deferred consideration was £13.6m (2013: £17.8m). Average non-recourse debt was £16.2m (2013: £3.9m) and average deferred consideration was £15.7m (2013: £18.3m).

<sup>2</sup> Return on average capital employed = adjusted operating profit (less interest on non-recourse debt less unwind of discount on deferred consideration) divided by average capital employed. Interest on non-recourse debt was £1.2m (2013: £0.2m) and the unwind of discount on deferred consideration was £0.5m (2013: £0.6m).



### Transforming derelict land into a vibrant, mixed-use community

**Project**  
Millbay, Plymouth

**Partners**  
Legal & General and the Homes and Communities Agency

**Division**  
Urban Regeneration

As development partner in English Cities Fund, Urban Regeneration is transforming the derelict 15-acre Brunel docks area into an exciting new harbourside community. The scheme will deliver a mix of residential and commercial space, including bars, restaurants, and shops.

The first and second phases of predominantly residential development are complete and 102 homes at Quadrant Quay are due for completion in early 2015.

In addition to its own investment, the division has leveraged other investment into the area. The total investment in Millbay to date is in excess of £90m.



## Regenerating town centre with 1.1m sq ft, mixed-use development

### Project

Talbot Gateway, Blackpool

### Partner

Blackpool Borough Council

### Division

Urban Regeneration

Talbot Gateway is a major mixed-use scheme, delivered in partnership with Blackpool Borough Council, which is regenerating the area around Blackpool North railway station and Talbot Road. It will provide a new central business district and civic quarter with 1.1m sq ft of development including Grade A offices, a hotel, a refurbished multi-storey car park, a supermarket, retail units, cafés and restaurants.

The first phase of development, comprising a new council office building, Sainsbury's supermarket and a refurbished 650-space multi-storey car park, was completed in 2014. The second phase will deliver a new town centre hotel on the site of an existing surface car park.

## An integrated approach to sustainable housing

### Development

- Doncaster Metropolitan District Council
- Urban Regeneration

### Construction

- Affordable Housing

'The Gables' – 54 modern, high quality homes in Doncaster with low running costs and maintenance needs

## Investments

### Average capital employed<sup>1</sup> (last 12 months) £m

2014	17.3
2013	22.7

### Capital employed<sup>1</sup> at year end £m

2014	20.2
2013	18.7

### Operating profit – adjusted\* %

2014	0.9
2013	6.1

The strategic rationale for Investments is to unlock prime long-term construction and regeneration opportunities for other divisions and create value from investments for the Group. The division creates long-term strategic partnerships with public and private sector organisations to realise the potential of under-utilised assets, to promote sustained economic growth through regeneration and to drive cost efficiencies through innovative and integrated estate management solutions.

During the year, the division has disposed of its interests in the Hull Building Schools for the Future programme for £5.9m, resulting in a profit of £1.7m and its shares in PFF Lancashire Ltd for £0.3m, resulting in a profit of £0.2m. The divisional result also reflected the impact of a non-cash impairment charge of £1m, which is non-recurring by its nature, against the carrying value of one of its remaining investments.

In regeneration, the division has an acknowledged track record in Local Asset Backed Vehicle ('LABV') joint ventures and land swaps, providing commercial structuring, financing solutions and development expertise. Steady momentum has been maintained across its major programmes, the £1bn 15-year Slough Borough Council LABV and the £350m+ 20-year Bournemouth Town Centre LABV, with work procured for Construction & Infrastructure and Affordable Housing. In Bournemouth, two major projects have been handed over, with a private rental sector residential project scheduled to commence in 2016 and two further residential schemes to begin in 2015. In Slough, the £16m community development 'The Curve' is scheduled for completion in 2015 and detailed planning for 73 homes has been granted. The £38m Towcester mixed-use Regeneration and Civic Accommodation project is also underway in partnership with Construction & Infrastructure and Affordable Housing.

## Chief Executive's review continued

The division has developed significant PFI expertise within the education sector and has been appointed with Equitix Limited by the Education Funding Agency as its selected bidder for the PF2 PSBP, North West batch. With a capital value of between £80m and £120m, the programme will provide five secondary and seven primary schools that will benefit from Construction & Infrastructure's experience in school design and construction.

### An integrated approach to new health centres in Scotland

#### Investment

- Western Territory hub Programmes Board
- Investments

#### Construction

- Construction & Infrastructure

Part of the hub West Scotland joint venture, a 10-year programme to deliver £200m of public sector infrastructure projects across West Scotland, including a primary school, community centre and five healthcare centres

The division has also secured increased workloads through the WellSpring Partnership, which it leads in Scotland and which is delivering £200m public sector healthcare and education projects for the Western Territory Hub Programme Board and the Scottish Futures Trust. £30m of schemes have been delivered this year through the Group's integrated capability, with design and construction services provided by Construction & Infrastructure. Through its community solutions business, the division has continued to contribute revenue and profit through a growing number of management and service agreements across a portfolio of health and local authority buildings with an asset value of around £750m. With its services in increasing demand from NHS Trusts and local authorities seeking greater efficiencies, Investments anticipates future opportunities to work with new public sector partners.

In looking to widen the scope of business opportunities for Investments, the division is focusing on transferring knowledge and specialist expertise developed across its strategic alliances to new areas of its core sectors, healthcare and education. By positioning itself as development partner with private operators, the division is looking to capitalise on the increasing number of Foundation Trusts seeking to open private patient units, whilst also supporting health services, local authorities and care providers across the country as it delivers a rolling programme of supported living accommodation and services through its strategic joint venture HB Community Solutions.

Looking forward, delivering projects within its long-term regeneration programmes will remain the key strategic focus for 2015. At the same time, the division will maintain its drive to identify opportunities to work with new partners and clients, creating innovative capital-efficient partnerships and leveraging its expertise in project finance, development and asset management and the Group's integrated delivery capability.

<sup>1</sup> Capital employed = total assets (excluding goodwill, intangibles, corporation tax credit and cash) less total liabilities.

#### Note:

Directors' valuation of investments can only be made in circumstances where future cash flows are near certain. The Investments division holds a number of interests in developments, arrangements and schemes which are also included in 'capital employed'. Where directors' valuation is appropriate, current valuation is £3.0m relating to two (2013: four) investments with carrying value of £3.0m.



### Innovating to minimise passenger disruption

**Project**  
Haymarket Station,  
Edinburgh

**Client**  
Network Rail

**Division**  
Construction &  
Infrastructure

Scotland's fourth busiest railway station was redeveloped to increase capacity. The Grade A listed station now has a larger, modern concourse with ticket office and retail space, improved platforms, new bridging structure and redeveloped entrance.

As a key stop on the Edinburgh-Glasgow route, continued operation was crucial and the team worked closely with Network Rail, ScotRail and station staff on a daily basis. To minimise passenger disruption, an innovative prefabrication system was devised to install the bridge by assembling two 100 tonne-modules away from the tracks and lifting them into position with a 1,000 tonne crane. The method was tested using a 4D Building Information Model ('BIM').

The £25m project won a number of 2014 awards including Rail Supplier of the Year at the Scottish Transport Awards and the Community Engagement category at the Network Rail Partnership Awards.

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## **Group profitability was adversely impacted by a small number of construction contracts in Construction & Infrastructure, which offset strong performances from Fit Out and Urban Regeneration.**

Steve Crummett  
Finance Director



## Finance review continued

	2014	2013
Revenue	£2,220m	£2,095m
Operating profit – adjusted*	£28.9m	£33.6m
Profit before tax – adjusted*	£25.2m	£31.3m
Earnings per share – adjusted*	46.7p	60.9p
Year end net cash balance	£55.7m	£69.7m
Average net debt	(£8.8m)	(£19.0m)
Dividend per share	27.0p	27.0p
Operating profit – reported	£26.5m	£16.2m
Profit before tax – reported	£22.8m	£13.9m
Basic earnings per share	42.3p	35.4p

\*Adjusted is defined as before intangible amortisation £2.4m, exceptional operating items (nil) and (in the case of earnings per share) deferred tax credit due to changes in the statutory tax rate (nil) (2013: intangible amortisation £2.7m, exceptional operating items £14.7m and deferred tax credit due to changes in the statutory tax rate £2.5m).

### Trading performance

Revenue increased by 6% to £2,220m (2013: £2,095m) with committed order book increasing 11% to £2.7bn and the regeneration and development pipeline increasing 6% to £3.2bn.

Adjusted\* gross margin was unchanged at 8.2% (2013: 8.2%), with strong margin improvements in Fit Out and Urban Regeneration diluted by underperformance in Construction & Infrastructure.

Adjusted\* operating profit of £28.9m was down 14%, with adjusted\* operating margin of 1.3% (2013: 1.6%). This included profit from the sale of investments totalling £1.9m (2013: £9.9m) and property provision releases of £4.8m (2013: £2.8m).

### Net finance expense

Net finance expense increased to £3.7m (2013: £2.3m), impacted primarily by higher amortisation of bank fees and non-utilisation charges, together with higher net interest on net debt and lower interest received from joint ventures.

### Tax

The Group's adjusted tax rate increased to 21%, close to the UK statutory corporation tax rate of 21.5%. Almost all the Group's operations and profits are in the UK, and the Group maintains an open and constructive working

relationship with HMRC. In 2013 the Group's effective tax rate was much lower, due to a revaluation of deferred tax balances to reflect a reduction in the UK statutory tax rate, and having recognised a number of gains on the disposals of joint ventures which did not give rise to tax liabilities.

### Earnings per share

Adjusted earnings per share decreased by 23% from 60.9p to 46.7p. Basic earnings per share has increased by 19% to 42.3p from 35.4p as there were no exceptional operating items in the current year (2013: £14.7m).

### Dividends

The Board recommends a final dividend of 15.0p payable on 29 May 2015 to shareholders on the register at the close of business on 1 May 2015. The ex-dividend date is 30 April 2015. This takes the total dividend to 27.0p (2013: 27.0p), level with the previous year.

### 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, capitalised arrangement fees and interest accruals'.

Net working capital of (£55.2m) has increased principally due to investment in regeneration activities in Affordable Housing and Urban Regeneration. Net working capital/revenue ratio was (2.5%) (2013: (3.2%)).

### Free cash flow reconciliation £m

Operating profit – adjusted <sup>1</sup>	28.9
Non-cash adjustments <sup>2</sup>	(3.7)
Net capital expenditure and finance leases	(6.8)
Working capital	(11.8)
Other <sup>3</sup>	(4.2)
<b>Operating cash flow</b>	<b>2.4</b>
Net interest (excluding joint ventures)	(4.7)
Tax	(4.4)
<b>Free cash flow</b>	<b>(6.7)</b>

1 Before intangible amortisation (£2.4m).

2 Adjustments include depreciation, share option charge, shared equity valuation movements, elimination of joint venture profits, investment impairment and net non-cash provision movements.

3 'Other' includes joint venture dividends and interest income, joint venture gains on disposal, cash provisions utilised, sale of investment properties, shared equity redemptions and additional pension contributions.



## Finance review continued

### Cash flow

The Group generated an adjusted operating cash inflow of £2.4m compared to an inflow in 2013 of £14.9m. This is due to increased investment in inventory of £41.2m and higher receivables due to increased trading volumes. After corporation tax payments and finance costs, there was a free cash outflow of £6.7m.

### Net cash

Net cash decreased by £14.0m to £55.7m at 31 December 2014. This reflected a free cash outflow of £6.7m, dividends paid of £11.5m, offset by proceeds from the disposal of investments totalling £6.2m and proceeds from the issue of new shares of £4.0m. The average daily net debt for the year was £9.0m, an improvement on last year (2013: net debt £19.0m).

### Banking facilities committed until 2018

In July 2014, the Group signed a new £140m committed revolving loan facility with four banks, which will mature in September 2018. Together with £30m of facilities signed in 2013 which mature in 2016, this leaves the Group appropriately financed for its anticipated funding requirements. 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 any 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 2014, contract bonds in issue under uncommitted facilities covered £208.1m (2013: £185.3m) of contract commitments of the Group.

Further information on the Group's use of financial instruments is explained in note 27 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 2014, the Group had net cash of £55.7m and undrawn committed banking facilities of £175m, of which £155m are in place for greater than one year. 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

The Board recognises the importance of risk in running the business and that risks need to remain under regular review. Owing to the nature of its activities, risk is at the heart of everything the Group does but careful risk management is also perceived as an opportunity. Accordingly the Group has a long established culture of mature risk and control processes to manage both material and day-to-day circumstances.

The Group's risk and governance model is designed so that the Board maintains overall responsibility for risk while each division independently works to identify, control and mitigate threats within their operations to the Group achieving its goals. The reporting structure ensures that risk appetite is determined and risks managed within tolerance levels acceptable to the Board. The processes for the given business period are described in principle below:

- Each year the divisional boards undertake a comprehensive business planning process to identify objectives and set strategies to achieve their goals
- The executive directors meet with the divisions monthly throughout the year, using an established agenda and reporting format covering a range of matters that must be brought to their attention. This allows the executive directors to ensure that the Board maintains oversight and control over the material aspects of strategic, financial, operational and risk issues
- The risk environment is further underpinned by a clear set of Group and divisional delegated authorities that define processes and procedures for approving material decisions, particularly with regard to project selectivity, 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 executive directors, with other key corporate functions, compile their own assessment thus ensuring that a top-down, bottom-up approach is undertaken when considering the Group-wide environment. These risks are then routinely considered at the Board meetings, to ensure that they remain under continuous review
- An annual internal audit plan, approved by the audit committee and covering both project and corporate level risks, is developed by focusing upon the principal 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 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 Group's overall view of risk can be summarised as follows:**

**General:** There is an underlying decrease in the overall risk perceived by the Group, due partly to the completion of a small number of contracts in Construction & Infrastructure which had experienced timetable slippages and increased costs. Other factors reducing risk are the increase in more favourable project tendering terms into 2015 and the continued recovery of the UK housing market, although there are signs of the housing market cooling. This is discussed in more detail in the following risk report, but is substantially a result of the improving market conditions currently prevailing in the UK economy, although there remains some uncertainty ahead of the General Election in 2015 and the effect this may have on market confidence.

**Construction:** Contracts, terms, procurement routes and entry margins are all more favourable. Recessionary projects that were secured with less favourable terms are drawing to a close and should be substantially traded out by the half year, which added to improvements in project controls means the Group anticipates a more favourable risk and opportunity profile than in recent years.

**Development:** The Group's schemes are subject to economic viability, are non-speculative and have robust risk and capital controls, allowing the Group to take advantage of the current prevailing UK economy, but at the same time limiting any possible negative fluctuations in the market.

**Capital and cash:** The Group's banking facilities were substantively renewed this year and will mature in September 2018, which together with its robust cash and capital controls allow the Group to confidently manage its investment portfolio into the foreseeable future.

**Resource:** The People Promise initiated in 2014 is gathering momentum. People boards have been developed in each division to implement tools focused on succession planning and talent management. 2015 will see this investment begin to secure and develop the talent required to enable the Group's longer-term growth plans.

The Board has identified principal risks to the Group achieving its strategic goals, aligned to different elements of the Group's business model (see pages 6 to 8). The Group's risk management process ensures that principal risks are appropriately mitigated, allowing the Group to deliver value to all stakeholders. The principal risks and mitigations are shown in the table overleaf.

**Group risk and governance model**



Principal risks	Macro trend	Subcategory – Description and impacts
<p><b>Markets</b></p> <p>The markets in which the Group operates are affected to varying degrees by general macroeconomic conditions. The Group is therefore focused on capitalising on the improving economic conditions and shaping the business to take account of future growth indicators. However, there is a risk that business opportunities within the Group's strategy may be delayed.</p> <p>There is still some sensitivity in predicting the longer-term outlook. There remains uncertainty surrounding the UK's General Election in 2015 and its potential effects on market confidence and Government investment programmes that could impact on the Group's long-term strategy.</p>	<p>&gt;</p>	<p><b>Macroeconomic – new opportunities</b></p> <p>The Group has identified the markets and sectors in which it anticipates future growth. Within those areas it remains focused on selecting opportunities that will provide sustainable margins and repeat business. The Group must seek to anticipate and appropriately respond to changes in the macroeconomic environment that may negatively impact on these chosen markets and sectors.</p> <p><i>Failure to anticipate and respond to macroeconomic changes could result in inappropriate allocation of resources and capital. This could affect the Group's profitability and cash generation.</i></p>
	<p>v</p>	<p><b>Market capacity</b></p> <p>Positive market conditions have resulted in a risk of potential overtrading. The Group and its supply chain are facing upward pressure on cost and skills availability.</p> <p><i>Increased activity levels require rigorous reviews of resource levels against anticipated workloads. Cost inflation in the supply chain could impact on the Group's margins.</i></p>
	<p>&gt;</p>	<p><b>Exposure to UK housing market</b></p> <p>The UK housing sector is strongly influenced by Government stimulus and consumer confidence.</p> <p><i>If mortgage availability and affordability become untenable this could make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital.</i></p>



## Risk review continued

Mitigation	Key monitors/ Instruments for subcategory	Risk change in 2014
<ul style="list-style-type: none"> <li>Strategic focus on market spread, geographical capability and diversification offer measured protection against the cyclical effect of individual markets</li> <li>Business planning process focuses on future markets and opportunities that fit the Group's risk appetite</li> <li>Scale adds resilience by enabling the Group to compete and work in areas with higher barriers to entry</li> <li>Added value can be offered to clients when Group divisions work together</li> <li>Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities</li> <li>Market intelligence helps detect potential shifts in spending and allows the Group to adapt its strategy if necessary.</li> </ul>	<ul style="list-style-type: none"> <li>Annual business planning process</li> <li>Ongoing Group and division delegated authorities reporting and approval process ('DELAPS')</li> <li>Monthly Board reporting</li> <li>Weekly pipeline and order book reporting</li> <li>Weekly sales and marketing report.</li> </ul>	<p>Decrease </p> <ul style="list-style-type: none"> <li>The Group is enjoying greater levels of opportunity in its Construction and Regeneration markets and increased development scheme volumes</li> <li>This is partially tempered by levels of competition in the Construction market, albeit procurement routes, margins and terms are more favourable</li> <li>Development schemes are sensitive to market and consumer confidence. The Group's strategy is geared to commit only if schemes prove economically viable. This means the impact of any negative market fluctuations can be minimised</li> <li>Construction &amp; Infrastructure has been restructured to take advantage of the current economic climate to minimise its risk exposure and to maximise opportunities to secure growth</li> <li>The Group's DELAPS has been redesigned to align with its future strategic aims, risk appetite and capital allocation.</li> </ul>
<ul style="list-style-type: none"> <li>Rigorous DELAPS requires teams at bid stage to verify that appropriate levels of qualified resource are available</li> <li>Regular review of the Group's operational resource levels against anticipated workload</li> <li>Supply chain utilisation monitoring and reporting and continued focus on initiatives within each division</li> <li>The Group seeks to differentiate itself by being the customer of choice to its partners through the development and management of effective supply chain relationships</li> <li>The appointment of a supply chain leadership team is planned for the Construction &amp; Infrastructure division.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing DELAPS</li> <li>Weekly resource planning reviews</li> <li>Ongoing supply chain feedback reporting</li> <li>Ongoing tender review boards.</li> </ul>	<p>Increase </p> <ul style="list-style-type: none"> <li>The industry continues to experience skills and cost inflation pressures that the Group is managing through disciplined bid and project selection processes</li> <li>People Promise initiative to help secure and develop talent.</li> </ul>
<ul style="list-style-type: none"> <li>Monitoring of key UK statistics including unemployment, lending and affordability</li> <li>The Board carefully controls commitments to development schemes via its rigorous three-stage development approval process</li> <li>Development structures limit speculative development to minimise the impact of negative market fluctuations</li> <li>Where possible, the forward purchase of land is subject to economic viability prior to commitment</li> <li>When feasible, sections of large-scale residential schemes are forward sold to institutional investors.</li> </ul>	<ul style="list-style-type: none"> <li>Annual business planning process</li> <li>Monthly Board reporting</li> <li>Monthly sales and marketing report</li> <li>Monthly development forecasting.</li> </ul>	<p>No change </p> <ul style="list-style-type: none"> <li>Sales volumes, pace and inflation have all increased in both the investor and private markets. However, macroeconomic influences are difficult to predict and could affect future confidence.</li> </ul>


**Risk review** continued

Principal risks	Macro trend	Subcategory – Description and impacts
<div data-bbox="135 349 188 405" style="background-color: #ccc; width: 23px; height: 25px; margin-bottom: 5px;"></div> <p><b>People</b></p> <p>The Group's performance and business conduct affects employees, subcontractors and the public and, in turn, can affect its reputation and commercial performance. The Group prides itself on its industry-leading practices and works in some high profile and technically challenging environments.</p> <p>As markets emerge from recession employee turnover has increased. If the Group does not succeed in attracting and retaining the right talent for its future needs it will not be able to develop the business as anticipated.</p>	>	<p><b>Environmental or safety incident</b></p> <p>With upward pressure on the supply chain there is an increased risk of an accident or incident occurring, causing harm to an individual or a community.</p> <p><i>This could result in legal proceedings, financial penalties, insurance claims, reputational damage and project delays.</i></p> <p><i>Consequently the Group fails to pre-qualify in its markets due to a poor health, safety and environmental ('HSE') record and ultimately fails to deliver its targets.</i></p>
	>	<p><b>Failing to attract and retain talented people</b></p> <p>In the current rising economic environment, it may become increasingly difficult to attract and retain the best people. This could impact on the Group's ability to create the most talented teams possible.</p> <p><i>Without talent, it becomes very difficult to maintain the highest levels of customer service and technical excellence that the Group strives for.</i></p>

Risk review continued

Mitigation	Key monitors/ Instruments for subcategory	Risk change in 2014
<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 widely communicated and senior managers appointed to manage them in each division and at project level</li> <li>• Group-wide HSE forum operates to share learning, best practice and emerging risks</li> <li>• Established safety systems, site visits, monitoring and reporting procedures, including near-miss and potential hazard reporting, are in place across the Group</li> <li>• Investigation and root cause analysis of accidents, incidents and near misses are undertaken</li> <li>• Regular HSE training, including behavioural training, and update courses are provided</li> <li>• Major incident management plans and business continuity plans are in place and periodically reviewed and tested.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly HSE Board report</li> <li>• Quarterly Group HSE forum</li> <li>• Ongoing HSE project audit and training schedules and ratios</li> <li>• Ongoing HSE incident investigation report.</li> </ul>	<p>No change </p> <ul style="list-style-type: none"> <li>• The Group monitors comparable industry leading statistics. A significant level of work is carried out in highly complex and very public environments, which requires strict observation of the highest levels of Health and Safety Executive standards.</li> </ul>
<ul style="list-style-type: none"> <li>• Launch of the People Promise which aims to build the Group's talent pool, identify people with high potential for future leadership, offer exciting careers and recognise achievement</li> <li>• Further 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>• 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>	<ul style="list-style-type: none"> <li>• Monthly HR Board reporting</li> <li>• Weekly employee joiners and leavers report</li> <li>• Annual appraisal process</li> <li>• Regular divisional People boards to review talent.</li> </ul>	<p>Decrease </p> <ul style="list-style-type: none"> <li>• Although the industry is suffering from a lack of skilled talent and this will remain an issue for the foreseeable future, the Group's investment in the People Promise and associated initiatives will help position it to meet its growth strategy.</li> </ul>

Risk review continued



Principal risks	Macro trend	Subcategory – Description and impacts
 <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 contracts and that these risks are effectively managed.</p>	<p>▼</p>	<p><b>Mispricing contracts</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 that reduces overall gross margin. May also lead to damaged client and project team relationships.</i></p>
	<p>&gt;</p>	<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 and delayed cash. Ultimately the Group may need to resort to legal action to resolve disputes which can prove costly, with uncertain outcomes, and can adversely affect the Group's client relationships.</i></p>
	<p>▼</p>	<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 but of varying quality, coupled with a limit on the availability of the appropriate skills and resources.</p> <p><i>This may lead to poor understanding of project risks and poor project delivery and may ultimately result in contract losses and reputational damage.</i></p>

## Risk review continued

Mitigation	Key monitors/ Instruments for subcategory	Risk change in 2014
<ul style="list-style-type: none"> <li>• Robust DELAPS governs the selection of all bids and the acceptance of work at key stages</li> <li>• Well established and experienced bidding teams and tender process</li> <li>• Robust pre-selection, due diligence and risk assessment of individual bids</li> <li>• Contract tender reviews at three key stages: pre-qualification, pre-tender and final tender submission – each stage approved by appropriate level of senior management via tender review boards.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing DELAPS</li> <li>• Ongoing tender review boards</li> <li>• Monthly Board reporting.</li> </ul>	<p>Decrease <b>V</b></p> <ul style="list-style-type: none"> <li>• Improving contract procurement routes and terms</li> <li>• Recessionary contracts with less favourable terms substantially traded out by 2014 year end.</li> </ul>
<ul style="list-style-type: none"> <li>• Work carried out under standard terms wherever possible</li> <li>• Contract terms reviewed at tender stage and any variations approved by the appropriate level of management</li> <li>• Well established systems of measuring and reporting project progress and estimated outturns, including contract variations</li> <li>• Enhanced project management systems with lead indicators that assist in the early identification of potential issues</li> <li>• Increasing BIM adoption helping to overcome potential design and constructability issues before they become too costly or time consuming</li> <li>• Regularised project review process including peer reviews to ensure rigour is applied in core processes, to facilitate early warning and subsequent mitigation strategies</li> <li>• Decision to take legal action based on appropriate legal advice and suitable provision made for legal costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing project financial performance</li> <li>• Ongoing project operational performance</li> <li>• Ongoing electronic project management tool dashboard.</li> </ul>	<p>Decrease <b>V</b></p> <ul style="list-style-type: none"> <li>• Improving contract procurement routes and terms with an increasing two-stage and negotiated approach</li> <li>• Enhanced contract early warning techniques.</li> </ul>
<ul style="list-style-type: none"> <li>• Business planning identifies markets, sectors and clients that the Group will target</li> <li>• Plans for specific types of work and contract size agreed by each division</li> <li>• System of delegated authorities governs bid selectivity and the acceptance of work</li> <li>• Staff planning to ensure appropriate levels and calibre of resource</li> <li>• Initiatives to select supply chain partners that match the Group's expectations in terms of quality, sustainability and availability.</li> </ul>	<ul style="list-style-type: none"> <li>• Weekly pipeline and order book reporting</li> <li>• Ongoing tender review boards</li> <li>• Ongoing DELAPS</li> <li>• Monthly Board reporting</li> <li>• Ongoing sales and marketing reporting</li> <li>• Ongoing supply chain feedback reporting.</li> </ul>	<p>Decrease <b>V</b></p> <ul style="list-style-type: none"> <li>• Majority of material projects are secured with repeat clients with strong relationships</li> <li>• Current market allows the division to be more selective in respect of which contracts to bid for.</li> </ul>




Risk review continued

Principal risks	Macro trend	Subcategory – Description and impacts
 <p><b>Winning in our markets</b> continued</p>	<p>&gt;</p>	<p><b>Poor project delivery</b>                      The quality of workmanship or poor commercial and operational delivery of a contract, whether by the Group, a joint venture partner or a subcontractor, does not meet expectations of clients.</p> <p><i>Interim cash receipts may be withheld, impacting on working capital. Project issues may also affect contract profitability, corporate reputation and the Group's ability to win repeat business.</i></p>
 <p><b>Maximising efficiency</b>                      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 and its people do not fully adopt the philosophy and culture of Perfect Delivery.</p> <p><i>Project failures that will likely 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 client referrals.</i></p>

Risk review continued

Mitigation	Key monitors/ Instruments for subcategory	Risk change in 2014
<ul style="list-style-type: none"> <li>Regular project review process to facilitate early warning and subsequent mitigation strategies</li> <li>Development of electronic project management workbooks to enhance functionality, efficiency and ability for 'live' reporting of key project metrics such as programme, margin, change and cash</li> <li>Escalation process to ensure senior management intervention at early stage</li> <li>Formal internal peer reviews to highlight areas of improvement and/or risk/best practice</li> <li>Collation and review of client feedback via Customer Satisfaction Questionnaires ('CSQs') and Perfect Delivery process</li> <li>Lessons-learned exercises carried out on projects</li> <li>Employees incentivised on basis of qualitative contract performance</li> <li>Strategic supply chain trading arrangements in place to help ensure consistent quality.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing electronic project management tool</li> <li>Ongoing project financial performance</li> <li>Ongoing project operational performance</li> <li>Monthly CSQ and Perfect Delivery performance monitoring.</li> </ul>	<p>Decrease <b>V</b></p> <ul style="list-style-type: none"> <li>The improving market and terms under which the Group contracts, alongside its drive to achieve operational excellence and consistent delivery, reduce the probability of disputes. However the upward pressure on skills and commodities needs close management.</li> </ul>
<ul style="list-style-type: none"> <li>Continuing engagement with employees, clients and supply chain on Perfect Delivery</li> <li>Dedicated internal Perfect Delivery teams to maximise engagement and embed culture</li> <li>Perfect Delivery led from the Board</li> <li>Teams incentivised on Perfect Delivery outcomes to achieve high levels of customer satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>Monthly Perfect Delivery performance monitoring</li> <li>Monthly CSQ reporting</li> <li>Ongoing project operational performance.</li> </ul>	<p>Decrease <b>V</b></p> <ul style="list-style-type: none"> <li>Perfect Delivery differentiates the Group's offering and is being embedded in each division</li> <li>The Group's recent investment in its talent strategy and initiatives will position the Group to meet its long-term growth.</li> </ul>


Risk review continued

Principal risks	Macro trend	Subcategory – Description and impacts
 <p><b>Disciplined use of capital</b> 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>In a rising market there is an increased risk that the Group's counterparties overtrade which could affect their liquidity.</p>	>	<p><b>Insolvency of key client, subcontractor or supplier</b> Risk that insufficient credit checks and due diligence are not undertaken and that a key client, subcontractor or supplier becomes insolvent. There is also a risk that, given the wider macroeconomic climate, historical credit checks are relied upon that have subsequently been overtaken by events.</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>
	>	<p><b>Treasury and Funding</b> Risk that the Group fails to ensure that sufficient funding is in place to accommodate the strategic plans of the business.</p> <p><i>The lack of liquidity may impact the Group's ability to continue to trade or restrict its ability to invest in regeneration schemes or growth markets.</i></p>
	>	<p><b>Management of working capital</b> Risk that poor management of working capital leads to inadequate liquidity and funding problems.</p>



## Risk review continued

Mitigation	Key monitors/ Instruments for subcategory	Risk change in 2014
<ul style="list-style-type: none"> <li>• Work only carried out for financially sound clients, established through rigorous due diligence and credit checks</li> <li>• Seek and obtain financial security where required including specific commercial terms, such as payment terms, with escrow accounts used as appropriate</li> <li>• Contracts with clients, subcontractors or suppliers only entered into after review at the appropriate level of delegated authority</li> <li>• Work with approved suppliers wherever possible</li> <li>• Regular meetings with key supply chain members to give and receive feedback and maintain the quality of the relationship</li> <li>• Business strategy largely focused on public and commercial clients based in sound market sectors, reducing the risk of failure.</li> </ul>	<ul style="list-style-type: none"> <li>• Weekly pipeline and order book reporting</li> <li>• Ongoing tender review boards</li> <li>• Daily work in progress/debt/retention monitoring</li> <li>• Ongoing supply chain feedback reporting</li> <li>• Ongoing supply chain prequalification.</li> </ul>	<p>No change </p> <ul style="list-style-type: none"> <li>• Need to remain vigilant as clients and supply chain emerge from recessionary into accelerating market, which may overstress their finances.</li> </ul>
<ul style="list-style-type: none"> <li>• Recent banking facility renewal securing £140m maturing in September 2018, enabling the Group to fund its planned investment portfolio</li> <li>• Enhanced three-stage requirement for development- and investment-related schemes to give an early indication of potential long-term balance sheet commitments</li> <li>• Group disciplined capital allocation including for significant project-related capital and monitoring versus consideration of future requirements and return on investment</li> <li>• Daily monitoring of cash levels and regular forecasting of future cash balances and facility headroom</li> <li>• Regular stress testing of long-term cash forecasts</li> <li>• Group delegated authorities ensure prior approval is sought for significant project-related capital.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly management accounts</li> <li>• Daily monitoring of cash levels</li> <li>• Weekly cash forecast report.</li> </ul>	<p>Decrease </p> <ul style="list-style-type: none"> <li>• The Group has recently refinanced a substantial part of its facilities to September 2018</li> <li>• Debt availability and terms improving for the Group, its clients and supply chain.</li> </ul>
<ul style="list-style-type: none"> <li>• Working capital monitored and managed as appropriate, with acute focus on any overdue work in progress, debtors or retentions</li> <li>• Ongoing cash management focus continues to improve. Business remains vigilant and keeps driving a positive cash culture.</li> </ul>	<ul style="list-style-type: none"> <li>• Daily monitoring of cash levels</li> <li>• Weekly cash forecast report.</li> </ul>	<p>No change </p> <ul style="list-style-type: none"> <li>• Working capital is expected to improve as recessionary projects unwind and general market terms improve</li> <li>• Increased cash optimisation focus and controls.</li> </ul>

**Risk review** continued

Principal risks	Macro trend	Subcategory – Description and impacts
<p> <b>Pursuing innovation</b></p> <p>The Group is committed to offering customers innovative and cost-effective solutions. If it fails to encourage an innovative approach across the Group it will lose its competitive edge and suffer reputational damage.</p> <p>This is coupled with the risk that the Group’s systems will not provide appropriate security levels or resilience needed to ensure reliable levels of business continuity.</p>	<p>&gt;</p>	<p><b>Innovation</b></p> <p>Failure to adopt appropriate innovations in new products or techniques.</p> <p><i>The Group becomes less effective than its competitors and is not able to secure best value for, or offer the best solutions to, its clients. New technologies and innovation are not promoted into the business environment making it a less attractive proposition to new and existing talent.</i></p>
	<p>^</p>	<p><b>Information Technology</b></p> <p>That the Group does not manage and optimise its IT infrastructure environment to avoid business interruptions, maximise efficiencies, keep pace with emerging technology, together with the prevalence of security and data threats.</p> <p><i>If the Group fails to manage and invest in its IT environment it will ultimately not meet the future needs of the business in terms of expected growth, security and future innovation requirements, ultimately meaning that it will fail to maintain a sustainable business.</i></p>

Risk review continued

Mitigation	Key monitors/ Instruments for subcategory	Risk change in 2014
<ul style="list-style-type: none"> <li>• BIM strategy developed to provide more efficient asset management across the whole lifecycle</li> <li>• A culture of innovation is encouraged and relevant ideas, sourced via employees, supply chain, customers and external sources, are promoted into the business environment</li> <li>• Reviews undertaken to promote elimination of waste of both resources and process, adopting lean methodology where appropriate</li> <li>• IT forum structure in place to review, sponsor and promote new innovations into the business</li> <li>• Significant innovation and IT capital expenditure is subject to delegated authority sign-off by senior management.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly work winning process</li> <li>• Ongoing project operational performance reviews</li> <li>• Ongoing IT change and programme reporting</li> <li>• Annual budgets.</li> </ul>	<p>Decrease </p> <ul style="list-style-type: none"> <li>• The industry is slow in adopting new technologies, that if not reversed will stifle talent, efficiency and sustainability</li> <li>• Recent innovations include the roll out of Lync, BIM, enhanced project management tools and smartphone facilitation.</li> </ul>
<ul style="list-style-type: none"> <li>• Group-wide IT strategy remodelled to encompass an optimised shared services approach, direction and investment</li> <li>• Co-ordinated services approach driving efficiency and performance across the whole technology environment</li> <li>• Group-wide IT forum structure in place ensuring focused strategic development and day-to-day running of the Group's technology environment</li> <li>• Progressive IT investment now yielding real infrastructure, application and service delivery improvements</li> <li>• Group-wide risk and security strategies enacted, creating awareness, providing threat alerts and addressing risk and vulnerability prioritisation and response.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly Group and divisional IT forums</li> <li>• Ongoing IT monitoring and performance reporting.</li> </ul>	<p>No change </p> <ul style="list-style-type: none"> <li>• The ever-evolving technology environment and cyber security threat will remain a threat for the foreseeable future</li> <li>• The Group's progressive investment in its IT strategy and programme is maturing.</li> </ul>

## Sustainability review

The Group recognises that being a responsible and sustainable business is fundamental to its future success. Its commitment to sustainability extends across its social, environmental and economic obligations, and the Group is steadfast in its efforts to minimise any adverse impacts from its activities.

A committed approach to sustainability delivers widespread benefits. It enables the Group to maximise efficiencies, strengthens its ability to win work and enhances its reputation as a leading construction and regeneration group. It also plays a key role in positioning the Group as a preferred employer.

Sustainability is an important element in the Group's procedures to mitigate risk and create opportunities as it influences the Group's ability to deliver its strategy. In recognition of this, material issues related to sustainability are identified through extensive stakeholder engagement and are mapped, updated and regularly reviewed within a sustainability risk and opportunity register.

Today the construction industry faces multi-faceted sustainability-related challenges ranging from climate change, dwindling natural resources and population growth through to complex regulation, rapidly advancing technology and changing societal expectations. As one of the UK's principal contractors, the Group fully embraces its responsibilities to lead by example and to influence how the industry operates today to contribute towards a healthy and sustainable future.

### The Group's Total Commitments

<b>People</b>	<ul style="list-style-type: none"> <li>• Providing a safe work environment</li> <li>• Developing talented employees</li> </ul>
<b>Planet</b>	<ul style="list-style-type: none"> <li>• Reducing energy consumption and carbon emissions</li> <li>• Reducing waste</li> </ul>
<b>Profit</b>	<ul style="list-style-type: none"> <li>• Improving sustainable procurement</li> <li>• Supporting local economic growth</li> </ul>

The Total Commitments comprise the Group's sustainability strategy and are co-ordinated at Group level to ensure consistency and to share best practice across all divisions. Continuous improvement is driven through measurement, reporting, transparency and comprehensive stakeholder engagement.

For the second year running, the Group has reported its performance using the Global Reporting Initiative's ('GRI') Sustainability Reporting Framework. The GRI's G4 reporting guidelines place a greater emphasis on materiality and the process of identifying and prioritising the most important challenges and opportunities that impact on the Group and its stakeholders. More information, including the Group's 2014 sustainability report, can be found at [www.corporate.morgansindall.com/sustainability](http://www.corporate.morgansindall.com/sustainability).

### Milestones in 2014

To inform the development of its sustainability strategy and activities, the Group has formed three stakeholder panels whose insight helps raise the Group's awareness of potential threats and emerging opportunities:

<b>Client Panel:</b>	For the Group to gain a deeper understanding of its clients' sustainability ambitions and how better to work collaboratively with clients to help drive sustainability standards across the industry.
<b>Supply Chain Panel:</b>	To achieve a fully aligned supply chain that understands the Group's sustainability strategy and approach. In turn the panel enables the Group to understand the challenges faced by its suppliers and subcontractors in meeting its sustainability requirements.
<b>2025 Next Generation Panel:</b>	To capture the opinions of younger employees on sustainability and the Group's approach towards it.

Talented people are the cornerstone of the Group's success. A key focus for the Group is to become an employer of choice within the industry and to maintain a balance between retaining a diverse and experienced workforce and attracting new talent. This, combined with the People Promise, is critical to delivering growth for the Group.

Number of apprentices directly employed	
<b>2014</b>	<b>94</b>
2013	89

As co-founder of the Supply Chain Sustainability School, the Group has continued to invest in the School to promote the importance of aligned supply chains across the industry and to help construction suppliers and subcontractors develop their own knowledge and competence across the sustainability landscape. Since the launch of the School in 2012, over 1,700 members of the Group's supply chain have undertaken training, improving their own sustainability credentials and strengthening their ability to meet the Group's expectations.

## Sustainability review continued

For the third year running, the Group has been rated the highest-scoring construction company in the Carbon Disclosure Project's UK Climate Change Report 2014, continuing its year-on-year score improvement by achieving a 97/B (2013: 91/B). This is a considerable achievement that reflects the investment and effort made across the Group to identify and manage risks associated with climate change and to improve the management of emissions.

In recognition of the Group's continuing efforts to ensure the construction industry is highly regarded both on and off site, Construction & Infrastructure secured an industry-leading number of accolades at the 2014 Considerate Construction Scheme ('CCS') National Site Awards. Thirty-eight awards were secured which demonstrate the division's commitment to the community, the environment and the workforce on its sites. The Group as a whole achieved 48 awards with the balance awarded to the Affordable Housing and Fit Out divisions.

The Group aims to create social and economic value within its local communities in order to contribute towards a local positive legacy which endures long after a project is completed. To measure and demonstrate added value from its activities, the Group has invested in the Local Multiplier 3 ('LM3') tool that is being rolled out across all divisions. LM3 is recognised in the UK as best practice in measuring local economic contribution from construction spend promoting sustainable development and it will also allow the Group to identify best practice and replicate successful approaches across other projects.

#### Measured Performance

Performance against the Group's Total Commitment KPIs is set out below. Unfortunately performance against a number of KPIs has deteriorated in 2014. In particular, the Group's commitment to reducing waste has been impacted by the nature of work undertaken in 2014 and by a project in Scotland towards the end of last year where there was no alternative other than to landfill a significant quantity of material. Whilst it is disappointing that the Group's RIDDOR has increased by one incident in 2014 over the prior year, the accident incident rate for the Group as shown on page 6 actually fell by 21% during the year, a significant reduction reflecting the hours worked.

#### Total Commitment to a safe work environment

Total number of RIDDOR* incidents	
2014	68
2013	67

\*The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR).

#### Total Commitment to developing talented employees

Average number of training days per employee	
2014	2.2
2013	2.3

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

Total carbon emissions CO <sub>2</sub> e	
2014	37,627
2013	45,901

#### Total Commitment to reducing waste

Total waste produced Tonnes	
2014	1,326,247
2013	943,958

#### Total waste diverted from landfill Tonnes

2014	1,140,306
2013	855,935

#### Waste diverted from landfill %

2014	86
2013	91

#### Total Commitment to improving sustainable procurement

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

2014	72
2013	71

#### Total Commitment to supporting local economic growth

##### Measurement of local multiplier effect on applicable projects £

2014	14
2013	N/A

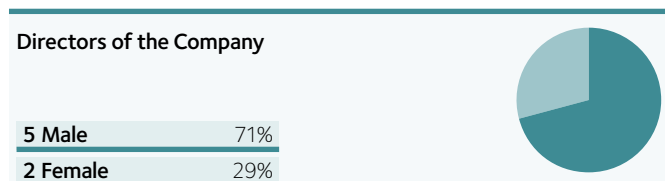
#### Diversity

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.

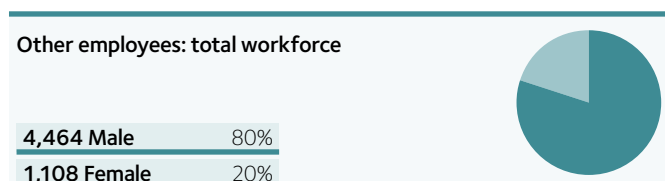
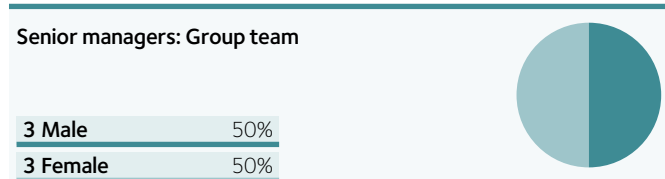


Sustainability review continued

A breakdown by gender of the number of persons who were directors of the Company, senior managers and other employees as at 31 December 2014 is set out below.



Geraldine Gallacher stepped down from the Board on 31 December 2014.



The Group fully supports the principles set out in the UN Universal Declaration of Human Rights and the UN Global Compact, in particular with regard to equal opportunity, freedom from discrimination, freedom of association and collective bargaining.

**2015 priorities**

The Group's health and safety forum is implementing a focused 'Close the Gap' plan in 2015 that will address previous under-performance and emerging challenges the industry is facing as markets improve. As part of the People Promise, the Group's management development programme has been redesigned and will be launched in the second half of 2015. Each division is tailoring the People Promise to their particular business needs for attracting and retaining the right talent.

**Greenhouse gas emissions**

The Group's greenhouse gas 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. 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 (2014)**

Total: 37,626

Scope 1	<b>25,244</b>
Scope 2	<b>9,168</b>
Scope 3	<b>3,214</b>

**Scope 1 Tonnes CO<sub>2</sub>e**  
Direct emissions resulting from fuel combustion (bulk fuels, natural gas) and vehicle fleet emissions.  
2010 (baseline) 33,357

<b>2014</b>	<b>25,244</b>
2013	32,878

**Scope 2 Tonnes CO<sub>2</sub>e**  
Indirect emissions resulting from electricity purchased by the Group (including landlord supplied). The Group consumed 15,306.6MWh, not including electricity provided as part of serviced office rental.  
2010 (baseline) 25,288

<b>2014</b>	<b>9,168</b>
2013	10,570

**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.  
2010 (baseline) 5,097

<b>2014</b>	<b>3,214</b>
2013	2,453

**Intensity measurement (scope 1, 2 and 3)**  
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.  
2010 (baseline) 30.32

<b>2014</b>	<b>16.95</b>
2013	21.91

**Approval of the strategic report**

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

**John Morgan**  
Chief Executive  
19 February 2015

# Corporate governance report

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## Governance

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### Governance

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# Chairman's statement

As a Board of directors we are committed to maintaining the highest standards of corporate governance as we believe this helps to facilitate the success of the Company. Our corporate governance report is set out on pages 52 to 57 and explains how we manage the Group and comply with the provisions of the UK Corporate Governance Code 2012 (the 'Code')\*.

For the Company, good governance involves establishing appropriate policies, procedures and guidelines to underpin our ability to deliver our strategy. It involves ensuring 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 and scrutiny of these matters and its role in providing constructive challenge 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.

Key areas that we have focused on this year include board effectiveness, succession planning, and further strengthening our management team to drive forward delivery of our strategy. We continued our work with the external team, H Cubed Limited, who undertook our board evaluation last year as I felt it was important for consistency to review the progress of the Board in playing to its strengths and addressing areas for improvement, and the consequent impact on the organisation. The outcome of the review is given in more detail on page 53, and I am pleased to report that no material weaknesses were identified. Over the next six months we will be seeking to recruit a new non-executive director to replace Geraldine Gallacher who stepped down from the Board on 31 December 2014. Further details can be found on page 55.

I am committed to ensuring that the Company manages its affairs in compliance with the principles and provisions of the Code. Whilst subject to the provisions of the Code applicable to smaller companies, the Company seeks, where appropriate, to follow those applicable to FTSE 350 companies. I am pleased to report that we have complied in full with the Code requirements throughout the accounting period.

Over the last couple of years we have focused on ensuring that the views presented in our annual report are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In order to comply with this requirement those individuals with overall responsibility for each section of the annual report were given a set of criteria by which to assess whether their respective sections were fair, balanced and understandable. The audit committee was then asked to assess the document as a whole against the same criteria. Comments were incorporated into the final version of the document which was submitted for approval by the Board.

I hope that the following report provides you with a meaningful insight into how we operate and the matters on which we have focused during the year.

**Adrian Martin**  
Chairman  
19 February 2015

\*A copy of the Code can be found on the financial reporting council's website at <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>

# Board of directors



**Adrian Martin**  
Chairman

Appointed: December 2008

In November 2012, Adrian was appointed non-executive chairman of the Board having previously held the role of senior independent director. Adrian has previously served on the board of a number of plcs and is currently a non-executive director of M&C Saatchi 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.

**Skills, competencies and experience**

Adrian has over 30 years' audit and corporate finance experience. Having held senior board positions at leading companies in non-executive capacities, he brings substantial leadership experience.

**Committees**

Adrian is chair of the nominations committee.



**John Morgan**  
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.

**Skills, competencies and experience**

John has in-depth knowledge of the construction and regeneration markets. He has significant executive leadership skills and experience.

**Committees**

John is a member of the nominations committee.

Board of directors continued



**Steve Crummett**  
Finance Director

Appointed: February 2013

Steve was previously finance director of Filtrona plc (now Essentra plc). 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 chair of the audit committee and a non-executive director of Consort Medical plc since June 2012.



**Patrick De Smedt**  
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, Easynet GmbH and Kodak Alaris Holdings Limited. He is an investor in several European technology companies.



**Simon Gulliford**  
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 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 plc.



**Liz Peace, CBE**  
Non-Executive Director

Appointed: November 2012

In 2014 Liz was appointed as a non-executive director of Redrow plc. She is 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. Liz spent 12 years as chief executive officer of the British Property Federation between 2002 and 2014. This followed 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).

**Skills, competencies and experience**

Steve brings wide-ranging financial and significant listed company experience.

**Skills, competencies and experience**

Patrick, having held board positions including as chair of the remuneration committee and senior independent director at other public companies, brings considerable experience to the Board.

**Skills, competencies and experience**

Simon has substantial executive management and strategic marketing experience through the various positions that he has held.

**Skills, competencies and experience**

Liz has considerable experience in the property sector but also brings experience of management of a wide range of businesses. Liz has relevant financial experience gained from the various positions that she has held.

**Committees**

Steve attends the meetings of the audit committee at the invitation of the committee chair.

**Committees**

Patrick is chair of the remuneration committee, and is a member of the audit and nominations committees.

**Committees**

Simon is a member of the audit, nominations and remuneration committees.

**Committees**

Liz is chair of the audit committee and is a member of the remuneration and nominations committees.

**Board composition**

Executive	2	Male	5
Non-executive	4	Female	1



# Group management team



**John Morgan**  
Chief Executive\*

See page 48 for biography.



**Steve Crummett**  
Finance Director\*

See page 49 for biography.



**Andy Saul**  
Group Commercial Director\*

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



**Helen Mason**  
General Counsel\*

Helen joined the Group in July 2014 from London law firm Fieldfisher. Helen is a construction lawyer with 15 years' experience gained in-house and in private practice, in the UK and in Australia. Helen is responsible for looking after the Group's relationships with external law firms. Helen is also at the heart of the Group's approach to compliance with its statutory responsibilities.



**Clare Sheridan**  
Company Secretary\*

Clare has been with the Company for 17 years, and was appointed company secretary in June 2014 having previously been deputy company secretary. Prior to this, she was general manager of a theatre production company producing musicals and pantomimes across the UK. Clare is a qualified chartered secretary.



**Camilla Aitchison**  
Director of People\*

Camilla 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.



**Pat Boyle**  
Managing Director  
Construction and Design

Pat holds overall responsibility for Construction & Infrastructure's construction and design business. A member of the Chartered Institute of Building, he joined the Group in 2014 from Lend Lease, where he was most recently head of their public sector construction division. Prior to this, Pat held various wide-ranging senior level roles within Laing and Laing O'Rourke, including regional director, group HR director and managing director of Select Plant Hire.



**Nick Fletcher**  
Managing Director  
Infrastructure

Nick is a chartered civil engineer with over 25 years' UK and international experience. A Fellow of the Institution of Civil Engineers, Nick holds overall responsibility for Construction & Infrastructure's infrastructure business which includes transport, tunnelling and utility services, in addition to board responsibilities for aviation and Magnor Plant Hire. Nick joined the Group in 2014 from Laing O'Rourke where he was most recently operations director of its infrastructure division. Prior to this, he was managing director of Laing O'Rourke Ireland.

**Group management team** continued



**Chris Booth**  
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, progressing 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**  
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 and progressing to commercial director.



**Gary Lester**  
Managing Director  
Morgan Sindall Property Services

Gary has a history of leading successful repairs and maintenance businesses including national businesses of gas servicing, maintenance, facilities management and energy solutions. Gary joined the Group in August 2014 and brings a wealth of operational experience gained from 17 years in the housing sector and a further 14 years in the building industry. An electrician by trade, he has been directly involved in the building and maintenance industry from leaving school, rising to the position of managing director and assuming that role at Morgan Sindall Property Services.



**Matt Crompton**  
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, a £100m mixed-use regeneration vehicle owned by Muse Developments, Legal & General and the Homes and Communities Agency. His earlier career included development positions at both London & Metropolitan and Chestergate Seddon.



**Lisa Scenna**  
Managing Director  
Investments

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.

**Group management team composition**

Male	9
Female	4



**Group team composition**

Male	3
Female	3



\*Member of the Group team

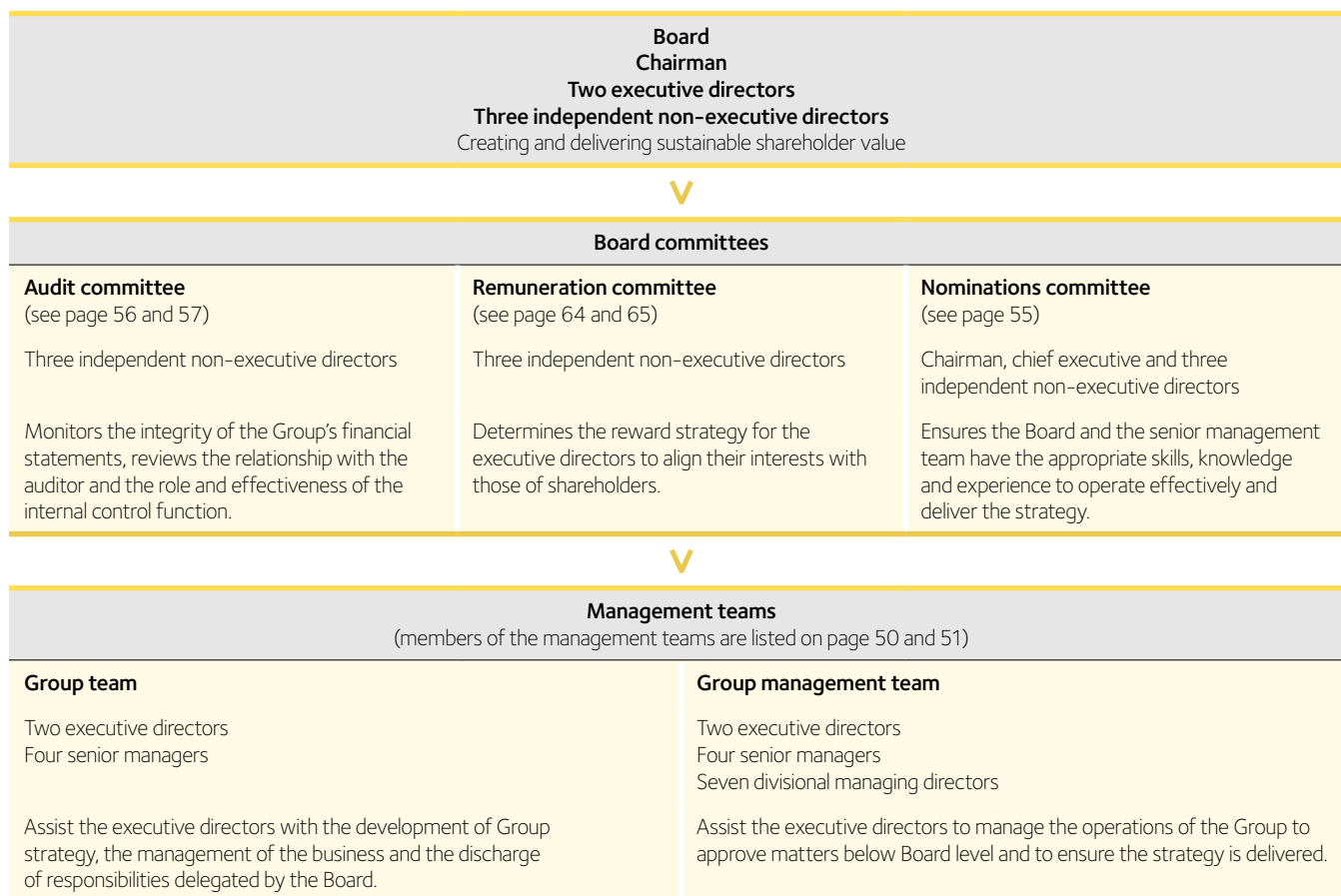
# Corporate governance report

## Leadership

### Role of the Board

The Board is responsible for creating and delivering sustainable shareholder value. This includes setting the strategic direction of the Group, reviewing all significant aspects of the Group's activities, overseeing the executive management and reviewing the overall internal control and risk management systems. Individually, the directors act in a way they consider will promote the long-term success of the Group for the benefit of, and with regard to the interests of its various stakeholders.

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, risk management strategy, significant capital expenditure and investment proposals, funding decisions including loans and charges over the Company's assets, 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.



The chairs of the three principal committees provide detailed reports to the Board on the matters discussed at the committee meetings, thereby ensuring that all directors have visibility and the opportunity to discuss such matters.

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

The Board has agreed a clear division of responsibility between the chairman and chief executive. John Morgan, as chief executive, has principal responsibility for proposing and developing the overall strategy and the day-to-day management of the operational activities of the Group in accordance with the strategy and policies determined by the Board. Adrian Martin, as chairman, is 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 and ensuring that the Board as a whole is involved in refining and determining Group strategy.

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.

### 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 ('the Act') 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.

## Corporate governance report continued

### 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 to the Company by ordinary resolution or by the Board.

The Board has agreed that notwithstanding the requirements of the Articles all directors will retire at each AGM and may offer themselves for re-election by shareholders. All of the existing directors will therefore be standing for re-election at the 2015 AGM and their biographies are set out on pages 48 and 49. The Board is satisfied that the performance of all of the non-executive directors and the chairman continues to be effective and that they continue to show commitment to their respective roles.

During the year, no director had any interests in any shares of the Company's subsidiaries, or any material interests in any contract with the Company or subsidiary being a contract of significance in relation to the Company's business.

### Operation of the Board

#### Board meetings and Board attendance

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 2014 at scheduled Board meetings and meetings of the remuneration, audit and nominations committees

is set out below. Sufficient time is given at the end of each meeting for the chairman to meet privately with the senior independent director and non-executive directors to discuss any matters. The chairman met formally with the non-executive directors without the executive directors present on one occasion during the year following the strategy review.

	Board	Percentage attendances	Remuneration committee	Audit committee	Nominations committee
<b>Total number of meetings</b>	11	%	5	3	1
Adrian Martin <sup>1</sup>	11	100%		1	1
John Morgan	11	100%			1
Steve Crummett	11	100%			
Patrick De Smedt <sup>2</sup>	10	91%	5	3	1
Simon Gulliford <sup>3</sup>	10	91%	1	3	1
Liz Peace	11	100%	5	3	1
Geraldine Gallacher <sup>4</sup>	9	82%	4	3	1

1 Adrian Martin stepped down from the audit committee on 8 May 2014 due to a conflicting commitment. He attended all meetings prior to his resignation from the committee.

2 Patrick De Smedt was unable to attend one meeting of the Board due to a conflicting commitment.

3 Simon Gulliford was unable to attend one meeting of the Board due to illness. Simon was appointed to the remuneration committee on 1 December 2014 and attended all meetings following his appointment.

4 Geraldine Gallacher stood down as a non-executive director on 31 December 2014. Geraldine was unable to attend two meetings of the Board and one remuneration committee meeting due to conflicting commitments that had previously been agreed with the chairman.

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. A summary of key Board activity in the year is set out below:

Strategy	Leadership and employees	Shareholder engagement	Governance
<ul style="list-style-type: none"> <li>Annual strategy review to consider and approve the Group's five-year strategic plan and divisional operating plans</li> <li>Annual review to consider and approve the Group's 2015 budget.</li> </ul>	<ul style="list-style-type: none"> <li>Discussion of the composition and succession of the Board and the committees.</li> </ul>	<ul style="list-style-type: none"> <li>Held an analysts' session with the executive directors and divisional managing directors</li> <li>Shareholder consultation on proposed remuneration policy changes (see page 62).</li> </ul>	<ul style="list-style-type: none"> <li>Review of risks identified and mitigation plans including a detailed consideration of principal risks (see pages 31 to 43 for more detailed information).</li> </ul>

Whilst the Board did not make any site visits as a group during the year, all of the non-executive directors did have the opportunity to visit the divisions to meet with the divisional teams to gain a better understanding of the Group's operations. As part of the Group's strategy review the chief executive, chairman and a non-executive director met with the managing directors of the divisions to discuss their divisional strategic plans in detail prior to the review in October. Each non-executive director provided a summary to the Board of their findings during the strategy review.

### Effectiveness

#### Board evaluation

The 2013 evaluation had identified a number of recommendations with a view to enhancing the Board's contribution to the governance of the Company and to the quality of debate and decision-making at Board meetings. The Board has sought to act on these recommendations during the year.

The 2014 evaluation undertaken by H Cubed in July and August reviewed the progress of the Board over the year and was based on an online questionnaire followed by a 30-minute telephone call with each director and the company secretary to clarify any matters raised in the questionnaires. The process focused on the Board's:

- governance processes
- balance of skills and experience
- diversity
- dynamic in respect of debate and decision making.

The review found that the Board and the committees were operating effectively and that good progress had been made against some of the areas identified for improvement in the 2013 evaluation although it was agreed that further development was needed in the areas of transparency and clarity of strategic direction, the level of challenge and scrutiny in Board meetings and the focus on talent and succession for key individuals and leaders.



## Corporate governance report continued

### Training, development and advice

Newly appointed directors receive a full induction, including a detailed information pack (containing information about sustainability and governance matters relevant to the Group), visits to the Group's operations and meetings with senior divisional management. Training on the role and responsibilities of directors is offered on appointment and subsequently as necessary. Other training needs for the directors are kept under review during the year, with briefings on new legislation and guidance affecting them provided by the 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 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 executive directors held a meeting with analysts and the divisional managing directors in November 2014 to enable the analysts to meet members of the senior management team and to gain a greater understanding of the Group's operations. 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. Towards the end of 2014, the chair of the remuneration committee consulted with major shareholders regarding proposed changes to the Group's remuneration policy (see page 62).

The Company encourages all shareholders to use the AGM as an opportunity for effective communication with the Company. All of the directors, except Geraldine Gallacher, attended the AGM held in 2014. Geraldine had previously agreed with the chairman that she could miss the AGM to attend an overseas charity event. Details of proxy votes submitted for each resolution at the 2014 AGM, including proxy directions to withhold votes, are published on the Company's website.

### Accountability

#### Risk management and internal controls

The Board has reserved for itself specific responsibility for the formulation of the risk management strategy of the Group. A formal process is in place which identifies the principal risks attached to the Group's strategy and objectives and root cause for each risk; it confirms the internal controls in place to mitigate the risk and any further actions required. The Board combines a top-down risk review with a complementary bottom-up approach to ensure that risks are fully considered. 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 processes 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 reviewed by the Board at least twice yearly. Further details of the Group's approach to risk, including the roles of the Board and the audit committee, and the principal risks identified as facing the Group are highlighted in the risk review on pages 31 to 43. In addition, 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 them.

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 controls, which includes financial, operational and compliance controls, are based on a process of identifying, evaluating and managing risks. It accords with the guidance in the Financial Reporting Council's ('FRC') Internal Control Revised Guidance for Directors ('the Guidance') 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.

#### 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.

#### Investment and capital expenditure

There are detailed procedures and defined levels of authority, depending on the value and/or nature of the investment or contract, in relation to corporate transactions, investment, capital expenditure, significant cost commitments and asset disposals.

#### Tender, project selection and contract controls

Individual tenders 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. In addition, robust procedures exist to manage the ongoing risks associated with contracts with monthly reviews of each contract's performance.

#### 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 pages 34 and 35 and in the sustainability review on pages 44 to 46.

Corporate governance report continued

**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 external call 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.

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 2014 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, as well as a review of the results of internal audit work and the overall effectiveness of the process.

**Nominations committee report**

Members
Adrian Martin (chair)
John Morgan
Patrick De Smedt
Simon Gulliford
Liz Peace
Geraldine Gallacher (until 31 December 2014)

**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 are recommended for appointment to the Board.

The terms of reference of the committee are available on the Company's website ([www.morgansindall.com](http://www.morgansindall.com)) and on request from the company secretary at the Company's registered office.

**Activities**

The nominations committee met on 6 November 2014 to review the structure, size and composition of the Board following Geraldine Gallacher's decision to step down from the Board on 31 December 2014. In particular the committee:

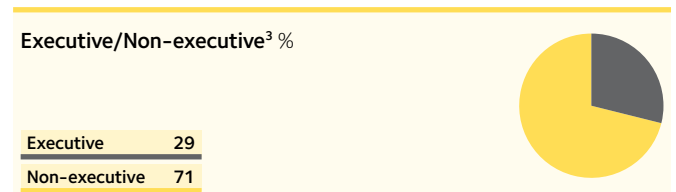
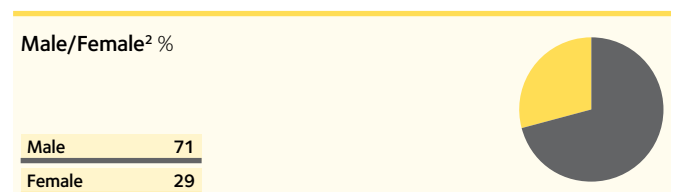
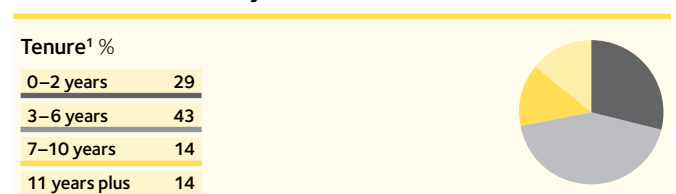
- considered the overall structure and balance of the Board, including the experience required for a new independent non-executive director appointment
- agreed that the committee would issue a brief and commence the process for the selection of a new director in 2015
- considered succession planning 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 2014 was 29%, over the 25% minimum representation level to be achieved by 2015 as recommended by the Davies Review. Following Geraldine Gallacher's resignation from the Board as at 31 December 2014, the female representation on the Board has dropped to 17%. Whilst the committee will aspire to maintain a 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 without resort to quotas.

The Group's equality and diversity policy is discussed further in the sustainability review on pages 45 and 46.

**Board tenure and diversity**



1 As of 1 January 2015, the tenure of the Board is 33%, 50%, 0% and 17% respectively.  
 2 As of 1 January 2015, the split between males and females is 83% and 17% respectively.  
 3 As of 1 January 2015, the split between executives and non-executives is 33% and 67% respectively.

## Audit committee report

### Members

Liz Peace (chair)  
 Patrick De Smedt  
 Simon Gulliford  
 Geraldine Gallacher (until 31 December 2014)  
 Adrian Martin (until 8 May 2014)

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. Biographical details of each member of the committee are set out on page 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, 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.

### 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 (available on the Company's website at [www.morgansindall.com](http://www.morgansindall.com)) sets 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 view presented in the annual report 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 or removal of the external auditor, including consideration of putting the external audit out to tender, and to approve the external auditor's 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 chair of the audit committee met with the finance director and the external audit partner individually during the year. The committee's authorities and calendar of work remain in line with the requirements of the Code and the Guidance.

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 including the contracts in Construction & Infrastructure that were affected by timetable slippages and increased costs
- 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
- review of the Group's risk register and principal risks at both the July and December audit committee meetings
- 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 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 on page 55.

### Significant 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.

## Corporate governance report continued

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:

### Contract receivables and 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.

### 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.

### Segmental analysis

The Group has reorganised parts of its business and introduced new reporting lines directly to the chief executive. The committee has reviewed management's assessment of the impact of these changes on the Group's reportable segments.

### Valuation of shared equity receivables

The valuation of shared equity receivables 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.

### Going concern

The committee reviewed papers supporting the going concern assessment which was compiled based on the latest management forecasts. In addition a number of sensitivities were considered to determine the effect on headroom against the Group's committed facilities. The review covers an 18-month period from the 31 December 2014 balance sheet date.

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

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. 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.

### 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 December, noting at that time the significant issues being addressed by the external auditor. At the meeting prior to the announcement of the preliminary results, the committee 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 selected 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.

### Policy on the auditor providing non-audit services

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 2014 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 7% of the audit fee and comprised primarily other assurance services. The committee has reviewed the nature of the work and level of fees for these services and concluded that they have not affected Deloitte LLP's objectivity or independence.

### Reappointment of external auditor

Deloitte LLP 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 is keeping under consideration the timing of a formal tender, having regard to the regulatory requirements including the 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 2014. The report is split into three sections, namely: (i) this annual statement; (ii) the remuneration policy (which sets out the shareholder approved directors' remuneration policy, including a number of changes we are planning to make, as explained below); and (iii) the annual report on remuneration (explaining payments made in the year under review and how the policy will be operated for 2015). At the forthcoming AGM on 7 May 2015, the remuneration policy report will be subject to a binding vote and the annual remuneration report will be subject to an advisory vote by shareholders.

### Review of remuneration for 2014

Conditions have remained challenging throughout 2014 across most of our markets, with margins restrained by competitive pressures and upward pressure on supply chain costs. In addition the Group's results have been adversely impacted by a small number of construction contracts in Construction & Infrastructure, which was announced in October. As a result the profit for the year fell short of the threshold profit before tax and amortisation ('PBTA') target in respect of the financial element of the executive directors' annual bonus resulting in no bonus award for 2014. Further, the long-term incentive awards granted in 2012 based on a three-year performance period ending 31 December 2014 failed to vest, with performance against earnings per share and relative total shareholder return targets falling below the threshold targets.

### Remuneration arrangements for 2015

Following a review of the Group's long-term strategy, which aims to deliver a significant increase in profit over the next five years by a step change in driving efficiencies to improve net margin, improved project management and a significant investment in people to ensure the Group has the right talent, the remuneration committee has reviewed the remuneration policy to ensure it remains fit for purpose.

Following this review, the committee was satisfied with respect to the structure and quantum of fixed and short-term incentive pay. Therefore, consistent with the general workforce increase, the base salary increases for John Morgan and Steve Crummett were limited to 3%, no changes were made to benefit or pension provision and the quantum and structure of the annual bonus for 2015, which is 100% based on challenging financial targets, is broadly similar to that operated for 2014.

However, the committee has decided to make a change to the Long Term Incentive Plan ('LTIP') policy for 2015 onwards. When we sought shareholder approval for the LTIP last year, we set the maximum individual limit in the plan rules at 150% of base salary (with no exceptional award limit) albeit we decided to limit the initial 2014 award to 100% of salary (only using the 150% of base salary in exceptional circumstances) and review the policy towards the end of 2014. Following this review and after discussions with major shareholders, the committee has decided to increase the normal annual award level to 150% of base salary from 2015 onwards with no exceptional award limit. Rather than the current 50% EPS, 50% relative TSR performance targets, the committee wishes to incentivise the additional 50% of base salary based on challenging EPS growth targets over and above the normal award. These 'Stretch EPS targets' will be significantly above forecast EPS for 2017. In addition, the 'Core EPS targets' will be made more challenging and the percentage of salary available for achieving the top end of the Core EPS targets will be reduced. The TSR performance condition will be unchanged, requiring our TSR performance to be between median and second place of a peer-based comparator group of eight companies. In addition to amending the LTIP normal grant limit, the committee will:

- increase the shareholding guideline from 100% to 200% of base salary for executive directors from the 2015 AGM onwards (as per emerging best practice); and
- expand the clawback triggers and extend the period over which amounts may be clawed back. From 2015 onwards, consistent with best practice, the clawback triggers will be extended to include misstatement, calculation errors and where an employee has (or would have) been dismissed for gross misconduct. In addition, the clawback period will be extended from one to three years.

No other changes have been made to the remuneration policy as approved by shareholders at the 2014 AGM.

### Alignment and dialogue with shareholders

While the committee was delighted with the support received from shareholders in respect of last year's remuneration report and remuneration policy, the committee remains mindful of our shareholders' views and concerns. As such, we consulted with our major shareholders and representative bodies at the end of 2014/early 2015 in respect of the proposed revised LTIP policy and the response was encouraging. We hope to continue to receive your support at the forthcoming AGM.

### Patrick De Smedt

Chair of the Remuneration Committee  
19 February 2015

## Directors' remuneration report continued

### Remuneration policy report

The key aim of the remuneration policy is to align the interests of the executive directors with those of shareholders by supporting delivery of the Group's strategy. In setting the remuneration policy, the committee takes into consideration amongst other matters, investor guidelines and the maximum amount of remuneration that each executive director could receive should all targets be met. Each of the key elements of the remuneration package is designed to drive the creation of long-term shareholder value, without encouraging the executive directors to take inappropriate risks. The policy report will be put to a binding shareholder vote at the 2015 AGM and the policy will, subject to approval, take formal effect from that date.

#### Remuneration policy table

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 pre-determined.	N/A
Pension	To provide a pension arrangement to contribute towards retirement planning.	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  The Company may also consider a cash alternative (e.g. where a director has reached HMRC's lifetime or annual allowance limit).	Employer contributions are 10% of base salary  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').	N/A

## Directors' remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Annual bonus	Rewarding 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, error or gross misconduct. The period over which amounts may be clawed back is three years.</p>	Maximum opportunity of 100% of base salary.	<p>All or a majority of the bonus will be based on 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 LTIP	<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 the interests of shareholders.</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, error or gross misconduct. The period over which amounts may be clawed back is three years.</p>	150% of base salary.	<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, no more than 25% of the awards will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.</p>
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

## Directors' remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
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

A description of how the Company intends to implement the above policy for 2015 is set out in the annual report on remuneration.

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.

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.

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 ('the SAYE Scheme').

The committee will operate the incentive plans in accordance with their respective rules, the Listing Rules of the Financial Conduct Authority ('FCA') 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.

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 continued

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

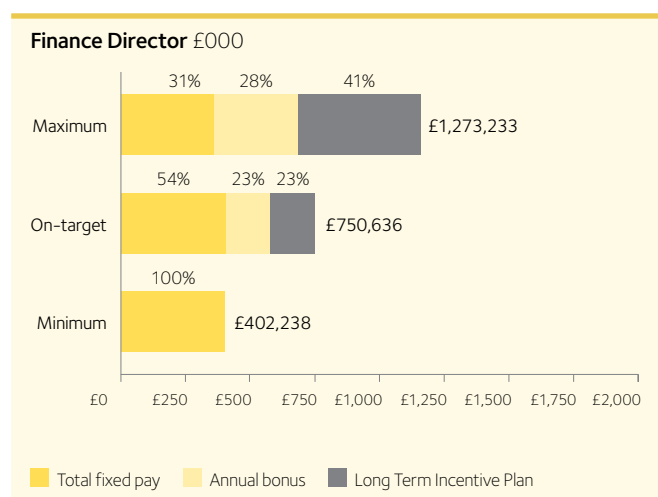
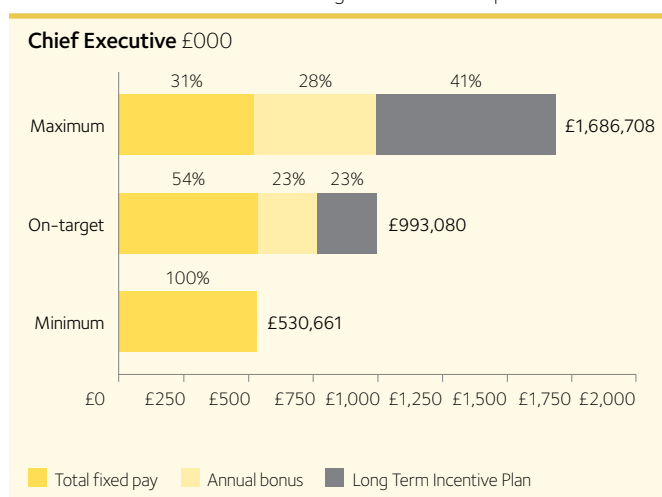
The committee takes account of remuneration levels offered to other senior executives within the Group as well as pay awards affecting Group employees generally when considering policy in relation to executive directors. When considering the executive directors' remuneration structure and levels for 2015, 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 end of 2013 in respect of the replacement share plans and again at the end of 2014/beginning of 2015 in respect of the revised LTIP policy. 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, for illustrative purposes only, an estimate of the potential future remuneration payable for the executive directors under the policy 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.



- Base salary levels applying on 1 January 2015
- The value of benefits has been estimated
- The value of pension receivable is the equivalent of 10% of base salary
- Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the LTIP, on-target performance assumes, for simplicity, 50% is earned under the annual bonus plan and 50% is achieved under the LTIP whereas maximum performance assumes full vesting under both plans (100% of salary under the annual bonus plan and 150% of base salary under the LTIP)
- 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 and a maximum LTIP award of 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' remuneration report continued

### 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 cases 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 LTIP will be determined by the LTIP 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 Morgan Sindall Executive Remuneration Plan 2005 ('ERP 2005'), the awards will be determined by the ERP 2005 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

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 FCA and the relevant schedules of 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 <sup>1</sup>	16 August 2007	August 2010

<sup>1</sup> Geraldine Gallacher stepped down from the Board on 31 December 2014.

All of the above non-executive directors (except Geraldine Gallacher) are subject to annual re-election by shareholders.

## Directors' remuneration report continued

### Annual report on remuneration

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

#### Remuneration committee

Members
Patrick De Smedt (chair) Liz Peace Simon Gulliford (from 1 December 2014) Geraldine Gallacher (until 31 December 2014)

All members are independent.

#### 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. The terms of reference of the committee are available on the Company's website ([www.morgansindall.com](http://www.morgansindall.com)).

#### Activities of the committee

The committee met on five occasions during the year and attendance at meetings is disclosed in the corporate governance report on page 53. The meetings covered the normal business of confirming performance-related pay for the year ended 31 December 2014 and setting bonus and long-term incentive targets for 2014, and the proposed revisions to the remuneration policy. 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, part of Aon plc, in relation to its consideration of the structure of the executive directors' remuneration for 2014 and 2015 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. New Bridge Street 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 New Bridge Street's position as an independent adviser to the committee.

The fees paid by the Company to New Bridge Street during the financial year for advice to the committee were £75,315, of which £34,900 related to the advice to the Company referred to above.

New Bridge Street 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 8 May 2014, the directors' remuneration policy and the directors' remuneration report (excluding the remuneration policy) for the year ended 31 December 2013 received the following votes from shareholders:

	Directors' remuneration policy		Annual statement and annual report on remuneration		Approval of 2014 LTIP		Approval of the 2014 Share Option Plan	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	32,042,366	99.93	32,686,427	99.95	31,731,857	98.5	32,189,558	99.92
Against	22,315	0.07	16,114	0.05	483,597	1.5	25,896	0.08
<b>Total votes cast (for and against)</b>	<b>32,064,681</b>	<b>100</b>	<b>32,702,541</b>	<b>100</b>	<b>32,215,454</b>	<b>100</b>	<b>32,215,454</b>	<b>100</b>
Votes withheld <sup>1</sup>	717,459		79,600		566,687		566,687	
<b>Total votes cast (including withheld votes)</b>	<b>32,782,140</b>		<b>32,782,141</b>		<b>32,782,141</b>		<b>32,782,141</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.

## Directors' remuneration report continued

### Implementation of the Remuneration Policy for 2015

#### Base salaries

In setting the 2015 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 3%, and determined that the executive directors should receive the same increase. Accordingly, annual base salaries for the executive directors for 2015 will be as follows:

	From 1 January 2015 £	From 1 January 2014 £	Increase
John Morgan	<b>462,419</b>	448,950	3%
Steve Crummett	<b>348,398</b>	338,250	3%

#### Pension arrangements

The Company will contribute the equivalent of 10% of base salary, in the case of Steve Crummett, to the Retirement Plan and, in the case of John Morgan, to his individual personal pension plan and/or as a cash supplement.

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 NIC.

#### Annual bonus

The maximum annual bonus potential for 2015 will remain at 100% of base salary. To ensure that management is focused on the financial performance of the Company in 2015, 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

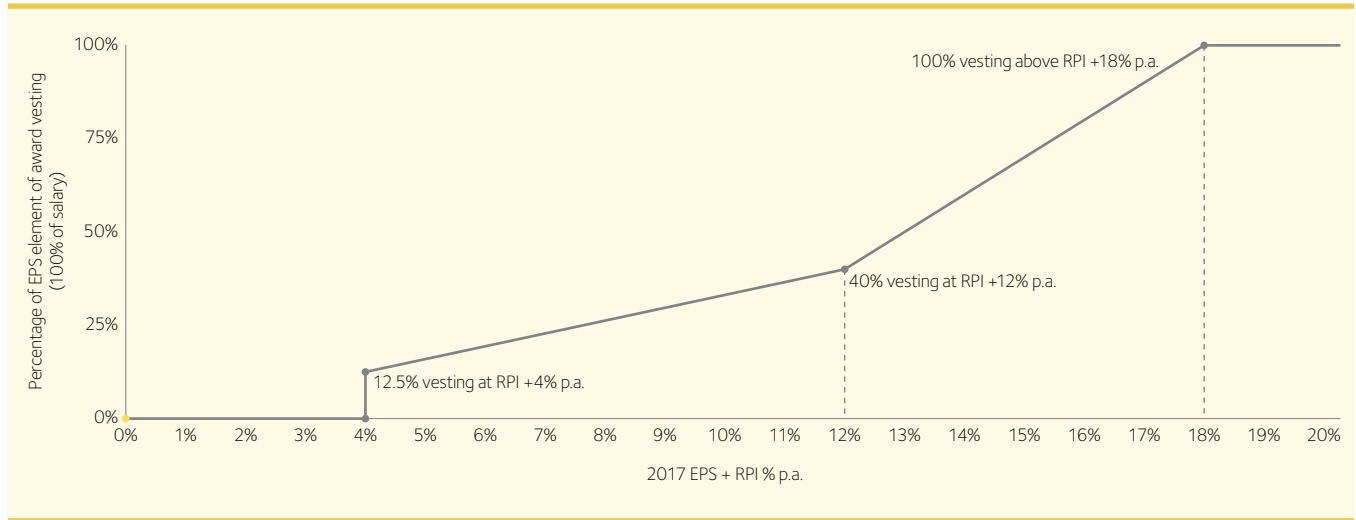
The committee intends to make awards to the executive directors under the 2014 LTIP.

As detailed above and following an extensive investor consultation exercise, the awards to be granted in 2015 will be set at 150% of base salary. To enable awards to be made at the same time as other employees being granted share awards under the 2014 LTIP and share options under The Morgan Sindall 2014 Share Option Plan ('2014 SOP'), the exceptional limit of 150% of salary will be relied upon for the 2015 awards in advance of shareholders being asked to approve the revised remuneration policy at the AGM on 7 May 2015. If shareholder approval is not obtained at the 2015 AGM, the additional 50% of salary award will fall away. Two thirds of awards (100% of salary) will be based on an EPS performance target and the remaining one third of awards (50% of salary) will, consistent with prior years, be based on a condition measuring the Company's TSR compared with eight of its UK-listed peers, over a three-year period.

Directors' remuneration report continued

EPS performance condition

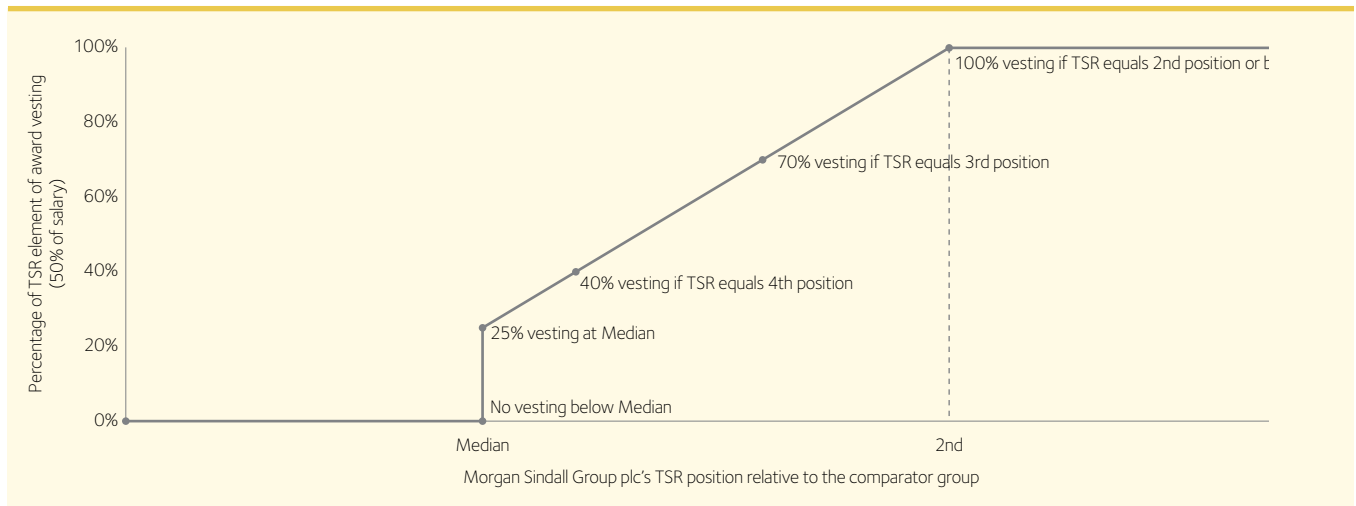
The vesting range for the EPS targets is shown graphically below:



TSR performance condition (one third of the awards)

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

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



For this purpose, median of the TSR comparator group is defined as the TSR value halfway between the comparator companies ranked fourth and fifth.

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 LTIP awards will be subject to clawback provisions.

## Directors' remuneration report continued

### Fees for the non-executive directors

The chairman's fee is determined by the committee while the non-executive directors' remuneration is determined by the Board (excluding non-executive directors) within the limits set by the Articles and is based on market data, together with external advice as appropriate. Fees were increased by 3% for 2015. The additional fees for committee chairs remain unchanged. Accordingly the annual fees are as follows:

	2015 £	2014 £	Increase
Chairman	<b>139,050</b>	135,000	3%
Base fee	<b>43,497</b>	42,230	3%
Additional fees:			
Audit committee chair	<b>7,500</b>	7,500	–
Remuneration committee chair	<b>6,000</b>	6,000	–

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.

### Dilution and share usage under employee share plans

Shares required for The Morgan Sindall Employee Share Option Plan 2007 ("ESOP 2007") are satisfied by shares purchased in the market via The Morgan Sindall Employee Benefit Trust ('the 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 Investment Association (10% of issued ordinary share capital for all employee share plans over a 10-year period and, within this limit, no more than 5% of issued ordinary share capital for executive or discretionary share plans). The outstanding level of dilution against these limits equates to 3.58% of the current issued ordinary share capital under all employee share plans, of which 0% relates to discretionary share plans.

Separately, the Trust currently holds 545,767 shares which may be used to satisfy awards.

## Directors' remuneration report continued

## Directors' remuneration (audited)

		Fees/ basic salary £000	Benefits <sup>1</sup> £000	Pension contributions £000	Annual cash bonuses <sup>2</sup> £000	Value of long-term incentives <sup>3</sup> £000	Employment termination payments £000	Total remuneration £000
<b>Executive directors</b>								
John Morgan	2014	449	22	45	–	–	–	516
	2013	438	22	47	–	–	–	507
Steve Crummett (appointed 25 February 2013)	2014	338	19	34	–	–	–	391
	2013	280	18	28	–	–	–	326
<b>Non-executive directors</b>								
Adrian Martin	2014	135	–	–	–	–	–	135
	2013	135	–	–	–	–	–	135
Patrick De Smedt	2014	48	–	–	–	–	–	48
	2013	47	–	–	–	–	–	47
Simon Gulliford	2014	42	–	–	–	–	–	42
	2013	41	–	–	–	–	–	41
Liz Peace	2014	50	–	–	–	–	–	50
	2013	46	–	–	–	–	–	46
Geraldine Gallacher <sup>4</sup>	2014	42	–	–	–	–	–	42
	2013	41	–	–	–	–	–	41
<b>Former directors</b>								
David Mulligan (resigned 10 April 2013)	2014	–	–	–	–	–	–	–
	2013	88	6	10	–	–	315	419
Paul Whitmore (resigned 31 December 2013)	2014	–	–	–	–	–	–	–
	2013	319	20	34	–	–	373	746

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

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

The table below shows performance against PBTA targets for 2014 representing 100% of the bonus potential:

Performance condition	Threshold target £m	50% target £m	Maximum target £m	Actual performance £m	Percentage of salary
Adjusted Group PBTA for the year ended 31 December 2014	32.0	34.0	38.1	25.2	0%

3 Based on awards granted in 2012 under the ERP 2005, which were due to vest on 21 May 2015 subject to EPS and relative TSR performance for the year ended 31 December 2014. As set out in the table below, the Company did not meet the threshold targets resulting in no share awards vesting:

Performance condition	Threshold target	50% target	Maximum target	Actual performance	% vesting
Adjusted EPS	80.0p	91.9p	106.0p	47.4p	Nil
Relative TSR	Median	N/A	2nd position	Below median	Nil
<b>Total vesting</b>					<b>Nil</b>

4 Geraldine Gallacher stepped down from the Board on 31 December 2014.

## Directors' remuneration report continued

### Share awards granted during the year (audited)

	Type of award	Date of grant	Basis of award granted	Share price at date of grant	Number of shares over which award was granted	Face value of award* £	% vesting at threshold	Performance period
John Morgan	LTIP	19 May 2014	100% of salary	£7.95	55,687	£442,712	25%	Three financial years to 31 December 2016
Steve Crummett	LTIP	19 May 2014	100% of salary	£7.95	41,956	£333,550	25%	

\*Based on the closing share price at 19 May 2014.

### Directors' interests in shares (audited)

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 200% of base salary (increased in line with best practice from 100% of salary from the 2015 AGM). 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.

	31 December 2014 No. of shares	31 December 2013 No. of shares
Adrian Martin	12,000	12,000
John Morgan	3,999,322	3,997,508
Steve Crummett	12,200	–
Patrick De Smedt	2,000	2,000
Simon Gulliford	3,350	3,350
Liz Peace	–	–
Geraldine Gallacher*	7,772	7,772

\*Geraldine Gallacher stepped down from the Board on 31 December 2014.

There have been no changes in the interests of the directors between 31 December 2014 and 19 February 2015.

### Directors' outstanding share incentives

Details of the executive directors' interests in long-term incentive awards as at 31 December 2014 and movements during the year are as follows:

#### Performance shares

	Date of award	No. of awards outstanding as at 1 January 2014	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 2014	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
	19.5.2014	–	55,687	–	–	–	55,687	31.12.2016	19.5.2017
<b>Total</b>		<b>149,410</b>	<b>55,687</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>205,097</b>		
Steve Crummett	26.2.2013	91,751	–	–	–	–	91,751	31.12.2015	26.2.2016
	19.5.2014	–	41,956	–	–	–	41,956	31.12.2016	19.5.2017
<b>Total</b>		<b>91,751</b>	<b>41,956</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>133,707</b>		

- The awards granted in 2012 under the ERP 2005 failed to vest with earnings per share for the year ended 31 December 2014 falling below the threshold targets.
- 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.
- The awards of performance shares made in 2014 are subject to adjusted EPS growth targets and a TSR performance condition with full vesting of 50% of the awards for achieving adjusted EPS growth of RPI+10% p.a. reducing on a sliding scale to 12.5% vesting for achieving EPS growth of RPI+4% p.a. There is no vesting for this part of an award for EPS growth less than RPI+4% p.a. The other 50% of the award is subject to the same TSR condition described above.



## Directors' remuneration report continued

### Share options

	Date of grant	No. of options outstanding as at 1 January 2014	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2014	End of performance period	Exercise price	Date from which exercisable
John Morgan	20.5.2005	107,736	–	–	<b>107,736</b>	31.12.2007	£7.24	20.5.2008
	5.4.2006	81,016	–	–	<b>81,016</b>	31.12.2008	£12.59	5.4.2009
	17.3.2010	106,364	–	–	<b>106,364</b>	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>495,116</b>	–	<b>(200,000)</b>	<b>295,116</b>			

- No options were granted during the year.
- The outstanding options granted in 2005, 2006 and 2010 have satisfied their performance condition and are exercisable.
- The threshold performance condition in respect of the options granted on 30 March 2011 was not met and the awards lapsed.
- 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 2014 was £6.20 and the range during the year was £5.865 to £8.705.

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

John Morgan held the following options granted under the SAYE scheme, which vested on 1 November 2014.

	Date of grant	Outstanding as at 1 January 2014	Exercised during the year	Outstanding as at 31 December 2014	Option exercise price	Dates within which exercisable
John Morgan	27.9.2011	1,814	1,814	–	£4.96	1.11.2014 – 1.5.2015

John Morgan exercised 1,814 share options on 3 November 2014. The closing share price on 3 November 2014 was £6.57.

### Payments for loss of office (audited)

There were no payments made in respect of a loss of office during the year under review.

### Payments to former directors (audited)

The threshold performance condition in respect of the share awards granted on 30 March 2011 to Paul Smith, David Mulligan and Paul Whitmore was not met and the awards lapsed on 30 March 2014. No other payments were made to former directors during the year.

### Percentage change in remuneration levels

The table below shows the movement in salary, benefits and annual bonus for the chief executive between the 2013 and 2014 financial years, compared to that for the average of all employees of the Group.

	% change
<b>Chief Executive</b>	
Salary	3
Benefits	–
Bonus	–
<b>Average employee</b>	
Salary	3.2
Benefits	(9.9)
Bonus	25.5

### Relative importance of spend on pay

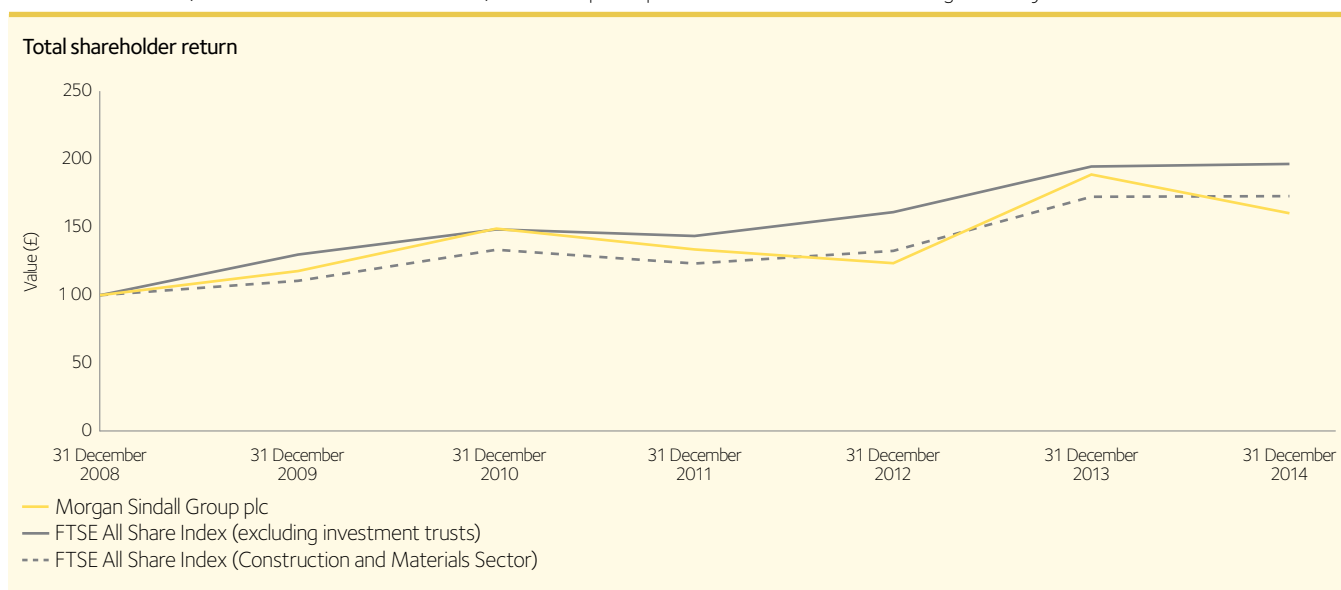
The following table sets out the percentage change in profit, dividends and overall spend on pay in 2014 compared to 2013:

	2014	2013	% change
Adjusted EPS (pence)	<b>46.7</b>	60.9	(23)
Dividends paid during the year (£m)	<b>11.5</b>	11.5	–
Employee remuneration costs (£m)	<b>325.8</b>	315.6	3.2

## Directors' remuneration report continued

### Six-year performance graph and table

The graph below shows the TSR for the Company's shares over the last six financial years. It shows the value to 31 December 2014 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 six 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	2014 John Morgan <sup>1</sup>	2013 John Morgan <sup>1</sup>	2012 John Morgan <sup>1</sup>	2012 Paul Smith <sup>2</sup>	2011 Paul Smith <sup>2</sup>	2010 Paul Smith <sup>2</sup>	2009 Paul Smith <sup>2</sup>
Total remuneration (£000)	516	507 <sup>3</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	–	–	25.0
LTIP share options vesting %	–	–	46.3	46.3	–	–	–

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

2 Paul Smith resigned on 5 November 2012 and ceased employment on 31 December 2012.

3 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  
19 February 2015

# 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 2014. The Act requires the directors to present a fair review of the business during the year to 31 December 2014 and of the position of the Company at the end of the financial year along with a description of the principal risks and uncertainties which the Group faces. 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 report which can be found on pages 52 to 57.

There were no significant events since the balance sheet date. 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 27 to the consolidated 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.

The table below sets out where key information can be found across the annual report:

Subject	Page reference
<b>Dividends</b>	See page 94 of the consolidated financial statements.
<b>Capital structure (details of the issued share capital)</b>	See page 103 of the consolidated financial statements.
<b>Appointment and replacement of directors</b>	See page 53 of the corporate governance report.
<b>Directors</b>	<ul style="list-style-type: none"> <li>• See page 68 of the remuneration report detailing the directors who served during the year.</li> <li>• Biographical details of the directors of the Company who are seeking re-election are set out on pages 48 and 49.</li> <li>• Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on pages 69 and 70.</li> </ul>
<b>The Morgan Sindall Employee Benefit Trust ('the Trust')</b>	Details of the shares held by the Trust may be found in the consolidated financial statements on page 103.
<b>Environmental, social and governance ('ESG') disclosures</b>	Details of the Group's approach to diversity and ESG disclosures can be found in the sustainability review on pages 44 to 46, the risk review on pages 34 and 35 and in the corporate governance report on pages 52 to 57.
<b>Morgan Sindall Group plc Long Term Incentive Plan</b>	Details of the Group's LTIP is set out in note 25 of the consolidated financial statements on page 104.
<b>Greenhouse gas emissions</b>	All disclosures on the Group's greenhouse gas emissions (as required to be disclosed under Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (pursuant to the Act (Strategic Report and Directors' Report Regulations 2013)), are contained in the sustainability review on page 46.

## Capital structure

At each AGM the Board seeks authorisation from its shareholders to allot shares. The directors were granted authority at the AGM on 8 May 2014 to allot relevant securities up to a nominal amount of £108,160. That authority will apply until the conclusion of this year's AGM and a resolution to renew the authority will be proposed at this year's AGM, as explained further in the notice to shareholders accompanying this report.

A special resolution will also be proposed to renew the directors' power to make non-preemptive issues for cash, as explained in the notice accompanying this report. The Board confirms that the Company has not used this authority in the last three years and there are no immediate plans to make use of this provision.

## Directors' report continued

### 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 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 of members 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 FCA 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 or voting rights.

### Purchase of own shares

At the AGM on 8 May 2014, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,326,408 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 8 August 2015 and a resolution to renew this authority will be proposed at this year's AGM, as explained further in the notice to shareholders accompanying this report.

### Dividends and distributions

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

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest 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 Trust, held 1.24% of the issued share capital of the Company as at 31 December 2014 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, those shares. The Trust agreed to waive its right to both the final and interim dividends payable in 2014 which equated to 1.28% of the total dividend paid.

## Directors' report continued

### 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' 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. Neither the indemnity nor the insurance cover provides cover in the event that a director (or officer or company secretary as the case may be) is proved to have acted fraudulently or dishonestly.

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 Retirement Plan in respect of certain losses or liabilities to which they may be exposed due to their office.

The indemnity is categorised as a 'qualifying third-party indemnity' for the purposes of the Act and will continue in force for the purposes of the Act and for the benefit of directors (or officers or company secretary as the case may be) on an ongoing basis.

### Amendment of articles of association

The Company's constitution, known as the Articles of Association, is essentially a contract between the Company and its shareholders, governing many aspects of the management of the Company. The Articles may be amended by special resolution of the Company's shareholders and are available on the Company's website at [www.morgansindall.com](http://www.morgansindall.com).

### Substantial shareholdings

As at 31 December 2014, the Company had been notified of the following interests of 3% or more total voting rights attaching to the Company's shares in accordance with chapter 5 of the Disclosure and Transparency Rules of the FCA:

Name of holder	No. of shares	% holding	Direct/indirect holdings
Franklin Templeton Institutional, LLC	6,490,859	14.72	Indirect
John Morgan	3,999,322	9.07	Direct
Old Mutual plc <sup>1</sup>	2,835,270	6.55	Indirect
JO Hambro Capital Management Group Ltd	2,239,565	5.08	Direct
Ameriprise Financial Inc.	2,232,808	5.06	99% Indirect 1% Direct
JP Morgan Chase & Co	2,123,287	4.81	Indirect
Standard Life	2,025,053	4.59	99% Indirect 1% Direct
Aberdeen Asset Managers Ltd	2,010,042	4.56	Indirect
John James Clifford Lovell	1,715,273	3.89	Direct

<sup>1</sup> Old Mutual plc notified the Company on 9 February 2015 that it had increased its indirect shareholding in the Company to 3,218,478 (7.30%).

All related party transactions have been reviewed and approved by the Board and disclosure transactions that are significant, whether by virtue of their significance to the business, the individuals involved or the perception of potential conflict.

### Change of control

The Group's banking facilities which are described in the finance review on page 30 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.

### Disabled employees

Applications for employment by disabled people are always fully and fairly 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.

## Directors' report continued

### 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.

The Group also introduced two new long-term incentive plans in 2014 with the intention to better incentivise the interests of the employees with the long-term success of the Company. The 2014 LTIP will provide incentives for the executive directors and certain other senior employees and the 2014 SOP will provide share option awards for certain senior and business critical employees below Board level across the Group.

### 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 reasonable 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 7 May 2015 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:

### Clare Sheridan

Company Secretary  
19 February 2015

## 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 Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the group financial statements, IAS 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Responsibility statement

We confirm that to the best of our knowledge:

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

This responsibilities statement was approved by the Board of directors on 19 February 2015 and is signed on its behalf by:

**John Morgan**  
Chief Executive  
19 February 2015

**Steve Crummett**  
Finance Director  
19 February 2015

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# Financial statements

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## Consolidated financial statements

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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 2014 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 ('IFRS's) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; 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 28, the Company balance sheet, the Company statement of changes in equity, significant accounting policies and the related Company only notes 1 to 2. 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 Financial Reporting Standard 101 Reduced Disclosure Framework.

### Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the finance review on page 30 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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>Revenue from construction contracts at 31 December 2014 was £1,867.5m (2013: £1,817.2m) as set out in note 1. Amounts due from construction contract customers was £241.5m (2013: £209.7m) as set out in note 16. Trade receivables were £176.7m (2013: £149.2m) as set out in note 15.</p>	<p>We evaluated the design and implementation of controls over revenue recognition, amounts due from construction contract customers and contract receivables.</p> <p>We selected a sample of contracts to allow us to assess and challenge the most significant and more complex contract positions and the accounting thereon under the percentage of completion methodology. The sample selected was based on both quantitative and qualitative factors.</p> <p>For this sample of contracts, we critically assessed the forecast costs to complete, variations within contract revenue and contract costs, the recoverability of amounts due from customers, and the completeness and validity of provisions arising from customer disputes.</p> <p>This assessment included agreeing contract valuation positions to third party certificates, reviewing contract terms and conditions, interviewing and challenging contract managers and commercial directors and reviewing correspondence with customers and solicitors.</p> <p>For the sample of contracts selected we tested the recoverability of amounts due from construction contract customers and the related receivables by agreeing to certifications and cash receipt.</p> <p>We assessed the completeness and validity of allowances recorded based upon the liabilities that may arise from disputes with customers or rectification works required through interviewing and challenging contract managers, commercial directors and a review of correspondence with customers and solicitors.</p>

## Independent auditor's report

to the members of Morgan Sindall Group plc continued

Risk	How the scope of our audit responded to the risk
<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. Determination of the recoverable amount is based upon management estimates of future cash flows and application of appropriate discount rates.</p> <p>Carrying value of goodwill at 31 December 2014 was £213.9m (2013: £213.9m).</p>	<p>We challenged the 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-generating units identified and goodwill allocation during the period; the cash flow projections relative to previous performance and Office for National Statistics ('ONS') guidance on construction growth rate; benchmarking against the wider peer group; and recalculating the discount rates and perpetuity rates used. We challenged management's sensitivity analysis on the cash flow projections and the discount rate and utilised our internal valuation experts to assist in the assessment of the appropriateness of the discount rate.</p>
<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>Carrying value of inventory at 31 December 2014 was £202.2m (2013: £161.0m) as set out in note 14.</p>	<p>We have evaluated the assumptions made on a sample of land and development appraisals such as market values, local demand and planning applications, which underpin the assessments by scrutinising them against recent sales information and external market data on house prices. We have tested the future development cost assumptions against detailed site appraisals and to contractual documentation. We have reviewed and challenged 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 Affordable Housing requires judgment in relation to the discount rate, rate of expected default and forecast house price growth.</p> <p>Carrying value of shared equity loan receivables at 31 December 2014 was £20.4m (2013: £19.7m).</p>	<p>We have reviewed, challenged and sensitised the assumptions in accounting for shared equity schemes and assessed the model methodology, as disclosed in note 13. 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 has set out their key accounting judgments and estimates in relation to each of the risks above on page 90.

The description of risks above should be read in conjunction with the significant issues considered by the audit committee discussed on page 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 £2.7m (2013: £3.1m), which is 7.5% (2013: 7.5%) of the five-year average pre-tax profit before exceptional items, and approximately 1% (2013: approximately 1%) of net equity. We use pre-tax profit before exceptional items as it represents a key performance measure for the Group. Pre-tax profit before exceptional items can vary significantly year on year, dependent on factors like key contract performance, while the overall nature and scale of the Group's activities remains broadly unchanged. To reflect this dynamic in determining an appropriate materiality level, we use a five-year average pre-tax profit before exceptionals as a benchmark.

We agreed to report to the audit committee all audit differences in excess of £0.1m (2013: £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.

## Independent auditor's report

to the members of Morgan Sindall Group plc continued

### 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 this assessment, our Group audit scope focused primarily on the audit work at the significant components which were selected based on our assessment of the identified risks of material misstatement identified above. These represent the principal business units within the Group's reportable segments. We have performed full audit procedures for the significant components which account for 97% (2013: 98%) of the Group's revenue, 78% (2013: 95%) of the Group's adjusted profit before tax and 93% (2013: 87%) of the Group's net assets. The coverage of Group profit before tax has fallen in the year due to the relative performance of the components within the Group.

Our audit work on the remaining components was determined based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those components. The components which had individual materially significant balances were subject to an audit of specified account balances. Those that were qualitatively material were subject to analytical review procedures, with no further audit procedures performed on the remaining components.

Our audit work on all components was executed to a lower level of materiality ranging from 50% – 70% of Group materiality (2013: 55% – 70%).

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.

### 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. We have nothing to report arising from these matters.

#### Corporate governance report

Under the Listing Rules we are also required to review the part of the corporate governance report relating to the Company's compliance with ten 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.

## Independent auditor's report

to the members of Morgan Sindall Group plc continued

### 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

19 February 2015

# Consolidated income statement

for the year ended 31 December 2014

	Notes	2014 Total £m	Before exceptional items £m	2013 Exceptional operating items £m	Total £m
Revenue	1	2,219.8	2,094.9	–	2,094.9
Cost of sales		(2,038.8)	(1,923.6)	(14.7)	(1,938.3)
<b>Gross profit</b>		<b>181.0</b>	171.3	(14.7)	156.6
Administrative expenses		(160.3)	(148.5)	–	(148.5)
Share of net profit of joint ventures	12	6.3	0.9	–	0.9
Other gains and losses	12	1.9	9.9	–	9.9
<b>Operating profit before amortisation of intangible assets</b>		<b>28.9</b>	33.6	(14.7)	18.9
Amortisation of intangible assets	9	(2.4)	(2.7)	–	(2.7)
<b>Operating profit</b>		<b>26.5</b>	30.9	(14.7)	16.2
Finance income	5	1.0	1.2	–	1.2
Finance expense	5	(4.7)	(3.5)	–	(3.5)
<b>Profit before tax</b>	3	<b>22.8</b>	28.6	(14.7)	13.9
Tax	6	(4.8)	(2.3)	3.4	1.1
<b>Profit for the year</b>		<b>18.0</b>	26.3	(11.3)	15.0
Attributable to:					
Owners of the Company		18.1	26.4	(11.3)	15.1
Non-controlling interests		(0.1)	(0.1)	–	(0.1)
<b>Profit for the year</b>		<b>18.0</b>	26.3	(11.3)	15.0
<b>Earnings per share</b>					
Basic	8	42.3p			35.4p
Diluted	8	41.6p			34.9p

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

# Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
<b>Profit for the year</b>		<b>18.0</b>	15.0
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Actuarial gain arising on retirement benefit obligation	19	0.1	0.9
Deferred tax on retirement benefit obligation	20	(0.2)	–
		(0.1)	0.9
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Movement on cash flow hedges in joint ventures	12	(0.2)	0.2
Losses on cash flow hedges transferred to the income statement on disposal of joint ventures		–	1.4
Foreign exchange movement on translation of overseas operations		(0.2)	(0.4)
Other movement on cash flow hedges		–	0.1
		(0.4)	1.3
<b>Other comprehensive (expense)/income</b>		<b>(0.5)</b>	2.2
<b>Total comprehensive income</b>		<b>17.5</b>	17.2
Attributable to:			
Owners of the Company		17.6	17.3
Non-controlling interests		(0.1)	(0.1)
<b>Total comprehensive income</b>		<b>17.5</b>	17.2

# Consolidated balance sheet

at 31 December 2014

	Notes	2014 £m	2013 £m
<b>Assets</b>			
Goodwill and other intangible assets	9	218.1	220.5
Property, plant and equipment	10	19.2	18.3
Investment property	11	9.5	10.0
Investments in joint ventures	12	55.0	54.0
Investments		0.3	0.4
Shared equity loan receivables	13	20.4	19.7
Retirement benefit asset	19	0.8	–
<b>Non-current assets</b>		<b>323.3</b>	322.9
Inventories	14	202.2	161.0
Trade and other receivables	15	442.4	385.5
Cash and cash equivalents	27	87.6	92.8
Asset held for sale		–	3.1
<b>Current assets</b>		<b>732.2</b>	642.4
<b>Total assets</b>		<b>1,055.5</b>	965.3
<b>Liabilities</b>			
Trade and other payables	17	(690.1)	(613.5)
Current tax liabilities		(5.2)	(5.3)
Finance lease liabilities	18	(1.6)	(1.5)
Provisions	21	(1.2)	(2.2)
<b>Current liabilities</b>		<b>(698.1)</b>	(622.5)
<b>Net current assets</b>		<b>34.1</b>	19.9
Trade and other payables	17	(22.0)	(20.6)
Finance lease liabilities	18	(2.5)	(3.9)
Borrowings	27	(31.9)	(23.1)
Deferred tax liabilities	20	(16.5)	(16.0)
Provisions	21	(16.6)	(22.2)
<b>Non-current liabilities</b>		<b>(89.5)</b>	(85.8)
<b>Total liabilities</b>		<b>(787.6)</b>	(708.3)
<b>Net assets</b>		<b>267.9</b>	257.0
<b>Equity</b>			
Share capital	24	2.2	2.2
Share premium account		30.9	26.9
Other reserves		(0.8)	(0.4)
Retained earnings		236.2	228.8
<b>Equity attributable to owners of the Company</b>		<b>268.5</b>	257.5
Non-controlling interests		(0.6)	(0.5)
<b>Total equity</b>		<b>267.9</b>	257.0

The consolidated financial statements of Morgan Sindall Group plc were approved by the Board on 19 February 2015 and signed on its behalf by:

**John Morgan**  
Chief Executive

**Steve Crummett**  
Finance Director

# Consolidated cash flow statement

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
<b>Operating activities</b>			
Operating profit		26.5	16.2
Adjusted for:			
Amortisation of intangible assets	9	2.4	2.7
Share of net profit of equity accounted joint ventures	12	(6.3)	(0.9)
Depreciation	10	4.8	5.2
Share option expense	25	0.7	1.2
Profit on disposal of interests in joint ventures	12	(1.9)	(9.9)
(Gain)/loss on disposal of property, plant and equipment		(0.2)	0.2
Non-cash impairment of investments		1.0	–
Movement in fair value of shared equity loan receivables	13	(1.8)	(0.2)
Non-cash exceptional operating items	3	–	14.7
Additional pension contributions	19	(0.7)	(0.7)
Net disposals of investment properties	11	0.5	1.3
Net disposals of/(additions to) shared equity loan receivables	13	1.1	(0.3)
Decrease in provisions	21	(6.6)	(3.1)
<b>Operating cash flows before movements in working capital</b>		<b>19.5</b>	<b>26.4</b>
Increase in inventories		(41.2)	(1.6)
(Increase)/decrease in receivables		(55.7)	3.8
Increase/(decrease) in payables		85.1	(10.6)
<b>Movements in working capital</b>		<b>(11.8)</b>	<b>(8.4)</b>
<b>Cash inflow from operating activities</b>		<b>7.7</b>	<b>18.0</b>
Income taxes paid		(4.4)	(1.2)
<b>Net cash inflow from operating activities</b>		<b>3.3</b>	<b>16.8</b>
<b>Investing activities</b>			
Interest received		0.9	1.5
Dividends from joint ventures	12	0.8	0.4
Proceeds on disposal of property, plant and equipment		0.4	0.3
Purchases of property, plant and equipment		(5.7)	(3.9)
Net payments to acquire or increase interests in joint ventures		(6.0)	(4.9)
Proceeds on disposal of interests in joint ventures		5.9	23.6
Proceeds on disposal of other investment		0.3	–
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(3.4)</b>	<b>17.0</b>
<b>Financing activities</b>			
Interest paid		(4.9)	(2.0)
Dividends paid	7	(11.5)	(11.5)
Repayments of obligations under finance leases		(1.5)	(1.2)
Proceeds from long-term borrowings	27	8.8	23.1
Proceeds from issue of share capital	24	4.0	0.2
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(5.1)</b>	<b>8.6</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5.2)</b>	<b>42.4</b>
Cash and cash equivalents at 1 January		92.8	50.4
<b>Cash and cash equivalents at 31 December</b>	27	<b>87.6</b>	<b>92.8</b>

# Consolidated statement of changes in equity

for the year ended 31 December 2014

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2013	2.2	26.7	(1.7)	222.5	249.7	(0.4)	249.3
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>1 January 2014</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>
Total comprehensive income	–	–	(0.4)	18.0	17.6	(0.1)	17.5
Share option expense	–	–	–	0.7	0.7	–	0.7
Issue of shares at a premium	–	4.0	–	–	4.0	–	4.0
Tax relating to share option expense	–	–	–	0.2	0.2	–	0.2
Dividends paid	–	–	–	(11.5)	(11.5)	–	(11.5)
<b>31 December 2014</b>	<b>2.2</b>	<b>30.9</b>	<b>(0.8)</b>	<b>236.2</b>	<b>268.5</b>	<b>(0.6)</b>	<b>267.9</b>

## Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2013: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.8m) (2013: (£0.6m)) 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 (£0.6m) (2013: (£0.4m)) 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 2014 was 545,767 (2013: 575,397) with a cost of £4.1m (2013: £4.3m).



# Significant accounting policies

for the year ended 31 December 2014

## Reporting entity

Morgan Sindall Group plc (the 'Group' or 'Company') is domiciled and incorporated in the UK. 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 30 and in accordance with 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.

- IAS 27 (revised) 'Separate Financial Statements'. Introduces new disclosure requirements to investment entities.
- IAS 28 (revised) 'Investments in Associates and Joint Ventures (2011)'. This standard was issued and supersedes IAS 28 (2003) and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- IAS 32 (amended) 'Financial Instruments: Presentation'. This amendment clarifies existing application issues relating to the offsetting financial assets and financial liabilities.
- IAS 36 (amended) 'Impairment of Assets'. The amendments remove the requirement to disclose the recoverable amount of a cash generating unit (or group of cash generating units) to which a significant amount of goodwill or intangible assets with indefinite useful lives has been allocated in periods when no impairment or reversal has been recognised and introduce additional disclosure requirements in respect of assets for which an impairment has been recognised or reversed and for which the recoverable amount is determined using fair value less costs of disposal.
- IAS 39 (amended) 'Financial Instruments: Recognition and Measurement'. The amendments allow the continuation of hedge accounting when a derivative is novated to a clearing house counterparty and certain conditions are met.
- IFRS 2 (amended) 'Share-based Payment'. As part of the 2010-2012 cycle of the Annual Improvements Project, the definitions of 'vesting condition' and 'market condition' were amended and definitions added of 'performance condition' and 'service condition' to clarify how such conditions are reflected in the recognition and measurement of share-based payment expenses.
- IFRS 3 (amended) 'Business Combinations'. As part of the 2010-2012 cycle of the Annual Improvements Project, this standard was amended to clarify that all contingent consideration classified as an asset or liability should be measured at fair value at each reporting date.
- IFRS 10 'Consolidated Financial Statements'. This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11 'Joint Arrangements'. This standard establishes the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.

- IFRS 12 'Disclosure of Interests in Other Entities'. This standard requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

#### (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 2010-2012 cycle
- Annual improvements 2011-2013 cycle
- Annual improvements 2012-2014 cycle
- IAS 16 (amended) 'Property, Plant and Equipment'
- IAS 19 (amended) 'Employee Benefits'
- IAS 27 (amended) 'Separate Financial Statements'
- IAS 28 (amended) 'Investments in Associates and Joint Ventures'
- IAS 38 (amended) 'Intangible Assets'
- IFRS 9 'Financial Instruments'
- IFRS 10 (amended) 'Consolidated Financial Statements: sale or contribution of assets between an investor and its associate or joint venture'
- IFRS 11 (amended) 'Joint Arrangements: Accounting for acquisitions of interests in joint operations'
- IFRS 14 'Regulatory Deferral Accounts'
- IFRS 15 'Revenue from Contracts with Customers'.

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:

- The directors are in the process of assessing the potential impact of IFRS 15 on both revenue recognition and disclosure requirements.

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.

## Significant accounting policies continued

### (a) Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control is exerted where the Group has the power to govern, directly or indirectly, the financial and operating policies of the entity so as to obtain economic benefits from its activities. Typically, a shareholding of more than 50% of the voting rights is indicative of control. However, the impact of potential voting rights currently exercisable is taken into consideration.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control is obtained to the date that control ceases. The accounting policies of new subsidiaries are changed where necessary to align them with those of the Group.

Non-controlling interests in the net assets of 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 arrangements

A joint arrangement 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) Joint ventures

A joint venture generally involves the establishment of a corporation, partnership or other entity in which each venturer has an interest and joint control over strategic, financial and operating decisions. 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, and if so it is written off in the period in which those circumstances are identified. 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) Joint operations

Construction contracts carried out as a joint arrangement without the establishment of a legal entity are joint operations. The Group's share of the results and net assets of these joint 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. The margin recognised 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) 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.

#### (e) 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.

## Significant accounting policies continued

### (f) 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.

#### (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 one 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.

### 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.

## Significant accounting policies continued

### 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 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 operating profit 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 retirement benefit obligation is recognised in the balance sheet and represents the deficit or surplus in the Group's defined benefit scheme. The calculation is performed by a qualified actuary on an annual basis using the projected unit credit method. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of the unconditional right to refunds from the scheme or reductions in future contributions to the scheme. The retirement benefit obligation 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 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.

### 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 uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against the provision. Changes in the carrying amount of the allowance are recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss previously recognised decreases and this decrease can be objectively related to an event that occurred after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

### Share-based payments

The Group issues equity-settled share-based payments (share awards or share options) to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant and are recognised as an employee expense, with a corresponding increase in equity, over the period from the date of grant to the date on which the employees become unconditionally entitled to the awards or options.

### 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 2014

The preparation of financial statements under IFRS requires the Company's 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.

# Notes to the consolidated financial statements

## 1 Revenue

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

	2014 £m	2013 £m
Revenue from construction contracts	1,867.5	1,817.2
Other services	99.3	99.2
<b>Construction revenue</b>	<b>1,966.8</b>	1,916.4
Regeneration revenue	253.0	178.5
<b>Total revenue</b>	<b>2,219.8</b>	2,094.9

Finance income of £1.0m (2013: £1.2m) is excluded from the table above.

## 2 Business segments

For management purposes, the Group is organised into five operating divisions and this is the basis on which financial information is presented to the chief operating decision maker. The divisions' activities are as follows:

- **Construction & Infrastructure:** offers design, construction and infrastructure services, working on projects, and in frameworks and strategic alliances of all sizes. Markets include commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport and water. The division's professional services business offers multi-disciplinary engineering and design consultancy services.
- **Fit Out:** specialises in fit out and refurbishment projects. Overbury operates through multiple procurement routes in the commercial, central and local government office, further education and retail banking markets. Morgan Lovell specialises in workplace strategy and the interior design and build of offices.
- **Affordable Housing:** specialises in the delivery of complex regeneration schemes and in the design, build, refurbishment and maintenance of homes. Operates a full mixed-tenure model creating homes for rent, shared ownership and open market sale. The division's response maintenance services include facilities management and planned and responsive repairs to social housing providers and public buildings.
- **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:** creates long-term strategic partnerships to realise the potential of under-utilised assets, promotes sustained economic growth through regeneration and drives cost efficiencies through innovative and integrated estate management solutions. Markets include asset backed, education, healthcare and social care, residential, student accommodation, leisure and infrastructure. The division's community solutions business provides management, project development and funding through a one-stop service, allowing partners to invest in local communities.

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 analysis below includes the measures reported to the chief operating decision maker. The comparative data has been restated on a comparable basis.

### 2014

	Construction & Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group activities £m	Eliminations £m	Total £m
External revenue	1,159.0	503.6	419.6	112.7	24.9	–	–	2,219.8
Inter-segment revenue	12.7	3.3	3.0	–	–	–	(19.0)	–
<b>Total revenue</b>	<b>1,171.7</b>	<b>506.9</b>	<b>422.6</b>	<b>112.7</b>	<b>24.9</b>	<b>–</b>	<b>(19.0)</b>	<b>2,219.8</b>
<b>Operating profit/(loss) before amortisation of intangible assets and exceptional operating items</b>	<b>3.5</b>	<b>15.0</b>	<b>6.0</b>	<b>10.0</b>	<b>0.9</b>	<b>(6.5)</b>	<b>–</b>	<b>28.9</b>
Amortisation of intangible assets	–	–	(0.6)	(1.8)	–	–	–	(2.4)
Exceptional operating items	–	–	–	–	–	–	–	–
<b>Operating profit/(loss)</b>	<b>3.5</b>	<b>15.0</b>	<b>5.4</b>	<b>8.2</b>	<b>0.9</b>	<b>(6.5)</b>	<b>–</b>	<b>26.5</b>
Other information:								
Average number of employees	3,507	592	1,478	55	89	29	–	5,750
Total assets	514.1	193.0	247.6	135.5	14.9	402.6	(452.2)	1,055.5

## Notes to the consolidated financial statements continued

## 2 Business segments continued

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)	–
<b>Total revenue</b>	<b>1,234.4</b>	<b>427.3</b>	<b>381.0</b>	<b>61.6</b>	<b>8.7</b>	<b>–</b>	<b>(18.1)</b>	<b>2,094.9</b>
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)
<b>Operating profit/(loss)</b>	<b>(2.0)</b>	<b>10.9</b>	<b>7.9</b>	<b>(1.0)</b>	<b>6.1</b>	<b>(5.7)</b>	<b>–</b>	<b>16.2</b>
Other information:								
Average number of employees	3,438	579	1,567	53	91	24	–	5,752
Total assets	547.1	133.8	213.0	99.8	15.5	363.8	(407.7)	965.3

During the year ended 31 December 2014 and the year ended 31 December 2013, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

## 3 Profit for the year

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

	2014 £m	2013 £m
Exceptional operating items – impairment of trade and other receivables in relation to four older construction contracts	–	14.7
Government grants	<b>(3.1)</b>	(0.7)

## Auditor's remuneration

	2014 £m	2013 £m
Audit of the Company's annual report	<b>0.1</b>	0.1
Audit of the Company's subsidiaries and joint ventures	<b>0.6</b>	0.7
<b>Total audit fees</b>	<b>0.7</b>	0.8
Other services	<b>0.1</b>	0.1
<b>Total non-audit fees</b>	<b>0.1</b>	0.1
<b>Total fees</b>	<b>0.8</b>	0.9

## 4 Staff costs

	2014 £m	2013 £m
Wages and salaries	<b>285.2</b>	276.2
Social security costs	<b>31.7</b>	31.0
Other pension costs (note 19)	<b>8.9</b>	8.4
	<b>325.8</b>	315.6

## Notes to the consolidated financial statements continued

## 5 Finance income and expense

	2014 £m	2013 £m
Interest receivable from joint ventures	0.8	1.0
Other interest income	0.2	0.2
Finance income	1.0	1.2
Interest payable on bank overdrafts and borrowings	(1.6)	(1.3)
Interest payable on finance leases	(0.3)	(0.3)
Loan arrangement and commitment fees	(1.9)	(1.2)
Other interest payable	(0.9)	(0.7)
Finance expense	(4.7)	(3.5)
<b>Net finance expense</b>	<b>(3.7)</b>	<b>(2.3)</b>

Included within other interest payable in 2014 is discount unwind of £0.5m (2013: £0.6m) in relation to deferred consideration on the acquisition of an increased investment in a joint venture and £0.4m (2013: £nil) discount unwind on deferred land payments.

## 6 Tax

	2014 £m	2013 £m
<b>Current tax expense:</b>		
UK corporation tax	3.4	1.0
Adjustment in respect of prior years	0.9	0.3
	4.3	1.3
<b>Deferred tax (credit)/expense:</b>		
Current year	0.8	(2.3)
Adjustment in respect of prior years	(0.3)	(0.1)
	0.5	(2.4)
<b>Income tax expense/(credit) for the year</b>	<b>4.8</b>	<b>(1.1)</b>

Corporation tax is calculated at 21.50% (2013: 23.25%) of the estimated assessable profit for the year.

In 2014 a net tax charge of £4.8m has arisen, comprising a current tax charge of £4.3m and a deferred tax charge of £0.5m (2013: net tax credit £1.1m). The table below reconciles the tax charge for the year to tax at the UK statutory rate:

	2014 £m	2013 £m
<b>Current tax expense:</b>		
Profit before tax	22.8	13.9
Less: post tax share of profits from joint ventures	(6.3)	(0.9)
	16.5	13.0
UK corporation tax rate	21.50%	23.25%
Income tax expense at UK corporation tax rate	3.5	3.0
<b>Tax effect of:</b>		
Gain on disposal of joint ventures not giving rise to a tax liability	(0.4)	(2.3)
Non-taxable income and expenses	(0.2)	0.2
Tax liability upon joint venture profits <sup>1</sup>	1.1	–
Adjustments in respect of prior years	0.6	0.2
Expected forthcoming change in tax rates upon deferred tax balance	–	(2.5)
Other	0.2	0.3
<b>Income tax (credit)/expense for the year</b>	<b>4.8</b>	<b>(1.1)</b>

<sup>1</sup> Certain of the Group's joint ventures are partnerships for which profits are taxed within the Group rather than within the joint venture.



## Notes to the consolidated financial statements continued

## 7 Dividends

Amounts recognised as distributions to equity holders in the year:

	2014 £m	2013 £m
Final dividend for the year ended 31 December 2013 of 15.0p per share	6.4	–
Final dividend for the year ended 31 December 2012 of 15.0p per share	–	6.4
Interim dividend for the year ended 31 December 2014 of 12.0p per share	5.1	–
Interim dividend for the year ended 31 December 2013 of 12.0p per share	–	5.1
	<b>11.5</b>	11.5

The proposed final dividend for the year ended 31 December 2014 of 15.0p per share is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

## 8 Earnings per share

	Notes	2014 £m	2013 £m
Profit attributable to the owners of the Company		18.1	15.1
Adjustments:			
Exceptional operating items net of tax		–	11.3
Intangible amortisation net of tax		1.9	2.1
Deferred tax credit arising due to change in UK corporation tax rates	6	–	(2.5)
Adjusted earnings		20.0	26.0
Basic weighted average number of ordinary shares (m)		42.8	42.7
Dilutive effect of share options and conditional shares not vested (m)		0.7	0.6
Diluted weighted average number of ordinary shares (m)		43.5	43.3
Basic earnings per share		42.3p	35.4p
Diluted earnings per share		41.6p	34.9p
Adjusted earnings per share		46.7p	60.9p
Diluted adjusted earnings per share		46.0p	60.0p

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 £7.70 (2013: £6.46).

A total of 268,056 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 2014 (2013: 698,089).

## 9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
<b>Cost or valuation</b>			
1 January 2013	213.9	30.8	244.7
Disposals	–	(0.9)	(0.9)
<b>1 January 2014 and 31 December 2014</b>	213.9	29.9	243.8
<b>Accumulated amortisation</b>			
1 January 2013	–	(20.6)	(20.6)
Amortisation	–	(2.7)	(2.7)
<b>1 January 2014</b>	–	(23.3)	(23.3)
Amortisation	–	(2.4)	(2.4)
<b>31 December 2014</b>	–	<b>(25.7)</b>	<b>(25.7)</b>
<b>Net book value at 31 December 2014</b>	<b>213.9</b>	<b>4.2</b>	<b>218.1</b>
Net book value at 31 December 2013	213.9	6.6	220.5

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.

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. The allocation is as follows: Construction & Infrastructure £151.1m (2013: £151.1m), Affordable Housing excluding Response Maintenance £46.8m (2013: £46.8m) and Urban Regeneration £16.0m (2013: £16.0m).

## Notes to the consolidated financial statements continued

### 9 Goodwill and other intangible assets continued

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 2.2% (2013: 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 for the cash-generating units with goodwill balances are 11.5% (2013: 11.5%) for Construction & Infrastructure, 12.0% (2013: 12.0%) for Affordable Housing excluding Response Maintenance and 13.0% (2013: 13.0%) 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 2013	2.4	8.0	39.9	50.3
Additions	–	1.1	2.8	3.9
Disposals	–	(0.8)	(1.5)	(2.3)
<b>1 January 2014</b>	<b>2.4</b>	<b>8.3</b>	<b>41.2</b>	<b>51.9</b>
Additions	2.4	0.8	2.7	5.9
Disposals	–	(0.2)	(0.8)	(1.0)
<b>31 December 2014</b>	<b>4.8</b>	<b>8.9</b>	<b>43.1</b>	<b>56.8</b>
<b>Accumulated depreciation</b>				
1 January 2013	–	(5.0)	(25.2)	(30.2)
Depreciation charge	–	(0.7)	(4.5)	(5.2)
Disposals during the year	–	0.8	1.0	1.8
<b>1 January 2014</b>	<b>–</b>	<b>(4.9)</b>	<b>(28.7)</b>	<b>(33.6)</b>
Depreciation charge	–	(1.1)	(3.7)	(4.8)
Disposals	–	0.2	0.6	0.8
<b>31 December 2014</b>	<b>–</b>	<b>(5.8)</b>	<b>(31.8)</b>	<b>(37.6)</b>
<b>Net book value at 31 December 2014</b>	<b>4.8</b>	<b>3.1</b>	<b>11.3</b>	<b>19.2</b>
Net book value at 31 December 2013	2.4	3.4	12.5	18.3

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 £3.2m (2013: £4.3m). No other assets have been pledged to secure borrowings.

## Notes to the consolidated financial statements continued

### 11 Investment property

	2014 £m	2013 £m
<b>Valuation</b>		
1 January	10.0	11.3
Disposals	(0.5)	(1.3)
<b>31 December</b>	<b>9.5</b>	10.0

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 (2013: £0.5m). Direct operating expenses arising on properties generating rent and vacant properties in the year amounted to £0.2m (2013: £0.2m).

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

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 2014 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 (Holdings) Limited 50% share

Bromley Park (Holdings) 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 Limited Partnership 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% share

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 UK. Joint control is exercised through the board of directors which includes three members appointed by the holders of each class of ordinary shares.

#### hub West Scotland Limited 54% share

hub West Scotland Limited is a joint venture with 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.

#### ISIS Waterside Regeneration Limited Partnership 50% equity participation

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

#### Leyton Mount Development LLP 50% share

Leyton Mount Development LLP is a special purpose vehicle of The Bournemouth Development Company LLP which is developing a residential block of flats and commercial space within Bournemouth.

#### 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.

## Notes to the consolidated financial statements continued

## 12 Investments in joint ventures continued

**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:

	2014 £m	2013 £m
1 January	54.0	62.2
Equity accounted share of net profits	6.3	0.9
Increase in investment	13.2	4.0
Investment repayment	(12.3)	(0.4)
Non-cash impairment	(1.0)	–
Disposals (see below)	(4.2)	(12.5)
Dividends received	(0.8)	(0.4)
Movement on cash flow hedges	(0.2)	0.2
<b>31 December</b>	<b>55.0</b>	<b>54.0</b>

All of the dividends received in the current and prior year were paid in cash.

**Disposals**

On 26 June 2014 the Group sold its 33.3% interest in Hull Esteem Consortium PSP Limited, a private sector investor in the Hull Building Schools for the Future programme, for cash consideration of £5.9m. The gain on disposal was £1.7m. The disposal was 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 the joint venture up to the date of disposal is included within the Investments operating segment as the criteria to be included as discontinued operations were not met.

Summarised financial information related to equity accounted joint ventures is set out below. Other includes joint ventures that are not individually material.

	ISIS Waterside Regeneration LP		Other	
	2014 £m	2013 £m	2014 £m	2013 £m
Non-current assets (100%)	–	–	125.8	381.4
Current assets (100%)	67.3	70.6	196.0	154.9
Current liabilities (100%)	(19.1)	(18.3)	(64.5)	(77.0)
Non-current liabilities (100%)	–	–	(191.9)	(397.9)
<b>Net assets reported by equity accounting joint ventures (100%)</b>	<b>48.2</b>	<b>52.3</b>	<b>65.4</b>	<b>61.4</b>
Proportion of the Group's ownership interest (50%)	24.1	26.2		
Other adjustments	(0.1)	(0.5)		
<b>Carrying amount of the Group's interest in the joint venture</b>	<b>24.0</b>	<b>25.7</b>		
Revenue (100%)	31.2	10.0	118.0	92.8
Expenses (100%)	(24.4)	(9.2)	(110.9)	(93.5)
Net profit/(loss) (100%)	6.8	0.8	7.1	(0.7)

At 31 December 2014, ISIS Waterside Regeneration LP had current loans of £14.9m (2013: £15.4m) and incurred £0.4m of finance expense for the year (2013: £0.3m).

## Notes to the consolidated financial statements continued

## 12 Investments in joint ventures continued

Results of equity accounted joint ventures:

	2014 £m	2013 £m
Group share of profit before tax	6.3	1.2
Group share of tax	–	(0.3)
<b>Group share of profit after tax</b>	<b>6.3</b>	<b>0.9</b>

## 13 Shared equity loan receivables

	2014 £m	2013 £m
<b>1 January</b>	<b>19.7</b>	19.2
Additions arising from the sale of properties	–	0.8
Net change in fair value recognised in the income statement	1.8	0.2
Repayments	(1.1)	(0.5)
<b>31 December</b>	<b>20.4</b>	19.7

During the year, there were repayments of shared equity loan receivables of £1.1m (2013: £0.5m). 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 £nil (2013: £0.2m). There was one default during the year (2013: no defaults).

## 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:

	2014	2013
<b>Assumption</b>		
Period over which shared equity loan receivables are discounted:		
– First Buy and Home Buy schemes	20 years	20 years
– Other schemes	9 years	8 years
Nominal discount rate	6.7%	7.0%
Weighted average nominal annual property price increase	3.2%	2.2%
Forecast default rate	2.0%	2.0%
Number of properties sold under the shared equity scheme for which a loan was outstanding at the year end	709	749
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'.

## Sensitivity analysis

At 31 December 2014, if the nominal discount rate had been 100bps higher at 7.7% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.9m with a corresponding reduction in both the result for the year and equity (excluding the effects of tax).

At 31 December 2014, 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 £0.7m with a corresponding reduction in both the result for the year and equity (excluding the effects of tax).

## 14 Inventories

	2014 £m	2013 £m
Work in progress	202.2	161.0

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

## Notes to the consolidated financial statements continued

**15 Trade and other receivables**

	2014 £m	2013 £m
Amounts due from construction contract customers (note 16)	241.5	209.7
Trade receivables (note 27)	176.7	149.2
Amounts owed by joint ventures (note 26)	3.3	8.2
Prepayments	11.9	5.8
Other receivables	9.0	12.6
	<b>442.4</b>	385.5

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 £8.3m (2013: £8.6m). None of the losses have been charged as exceptional operating items (2013: £6.1m).

**16 Construction contracts**

	2014 £m	2013 £m
Amounts due from construction contract customers	241.5	209.7
Amounts due to construction contract customers	(48.9)	(54.4)
<b>Carrying amount at the end of the year</b>	<b>192.6</b>	155.3
Contract costs incurred plus recognised profits less recognised losses to date	6,732.1	6,738.5
Less: progress billings	(6,539.5)	(6,583.2)
	<b>192.6</b>	155.3

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 Trade and other payables**

	2014 £m	2013 £m
Trade payables	167.7	168.7
Amounts due to construction contract customers (note 16)	48.9	54.4
Amounts owed to joint ventures (note 26)	0.2	0.7
Other tax and social security	17.0	25.2
Accrued expenses	429.2	339.2
Deferred income	8.6	5.1
Other payables	18.5	20.2
	<b>690.1</b>	613.5

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 £nil and £13.6m respectively (2013: £4.7m and £13.1m) related to the discounted deferred consideration due on the acquisition of an additional interest in ISIS Waterside Regeneration Partnership.

## Notes to the consolidated financial statements continued

## 18 Finance lease liabilities

	Minimum lease payments		Capital element of lease payments	
	2014 £m	2013 £m	2014 £m	2013 £m
Amounts payable under finance leases:				
Within one year	1.8	1.8	1.6	1.5
In the second to fifth years inclusive	2.6	4.2	2.5	3.9
	4.4	6.0	4.1	5.4
Less: future finance charges	(0.3)	(0.6)	N/A	N/A
Present value of lease obligations	4.1	5.4	4.1	5.4
Current lease liability			1.6	1.5
Non-current lease liability			2.5	3.9
			4.1	5.4

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is seven years (2013: six years). For the year ended 31 December 2014, the average effective borrowing rate was 5% (2013: 6%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximates to their carrying amount.

## 19 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 £8.9m (2013: £8.3m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2014, contributions of £1.1m (2013: £1.2m) 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 accrued up to 1 August 1997). No further defined benefit membership rights can accrue after those dates. The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is around 15 years.

The last triennial valuation of the Retirement Plan was undertaken on 5 April 2013. 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 £9.2m represented 77% of the value of these liabilities on an ongoing funding basis. The next triennial valuation is due to be undertaken as at 5 April 2016.

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

	2014 %	2013 %
<b>Key assumptions used:</b>		
Discount rate	3.4	4.4
Expected return on Retirement Plan assets	2.9	4.0
Expected rate of salary increases	4.1	4.5
Rate of inflation	2.1	2.5
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	87.4
Average life expectancy for pensioner retiring in 20 years at age 65 (years)	89.4	89.2

<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.

## Notes to the consolidated financial statements continued

## 19 Retirement benefit schemes continued

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

	2014			2013		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	9.3	(9.3)	–	8.9	(10.4)	(1.5)
Finance income/(expense)	0.4	(0.4)	–	0.3	(0.4)	(0.1)
Actuarial gains/(losses)	1.3	(1.2)	0.1	(0.4)	1.3	0.9
Contributions from sponsoring company	0.7	–	0.7	0.7	–	0.7
Benefits paid	(0.4)	0.4	–	(0.2)	0.2	–
<b>31 December</b>	<b>11.3</b>	<b>(10.5)</b>	<b>0.8</b>	9.3	(9.3)	–

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	1.6
Increase in inflation rate of 100bps	0.5
Increase in average life expectancy of one year	0.4

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

	2014 £m	2013 £m
Actuarial gain recognised during the year	0.1	0.9
Cumulative actuarial loss recognised	(2.8)	(2.9)

The Retirement Plan assets comprise 56% corporate bonds (2013: 55%), 43% gilts (2013: 44%) and 1% cash (2013: 1%).

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:

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Present value of the Retirement Plan liabilities	(10.5)	(9.3)	(10.4)	(9.4)	(8.5)
Fair value of the Retirement Plan assets	11.3	9.3	8.9	8.1	6.6
Surplus/(deficit) in the Retirement Plan	0.8	–	(1.5)	(1.3)	(1.9)

The amount of contributions expected to be paid to the Retirement Plan during 2015 is £0.7m (2014: £0.7m).



## Notes to the consolidated financial statements continued

## 20 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 2013	(19.1)	(0.5)	0.3	0.3	(19.0)
Reclassification	–	0.4	–	–	0.4
Credit/(charge) 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>1 January 2014</b>	<b>(16.5)</b>	<b>(0.1)</b>	<b>–</b>	<b>0.6</b>	<b>(16.0)</b>
Credit/(charge) to income statement	–	(0.3)	–	(0.2)	(0.5)
Credit/(charge) to equity	–	–	(0.2)	0.2	–
<b>31 December 2014</b>	<b>(16.5)</b>	<b>(0.4)</b>	<b>(0.2)</b>	<b>0.6</b>	<b>(16.5)</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 2014, the Group had unused tax losses of £3.5m (2013: £3.0m) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams against which the losses may be utilised. Losses may be carried forward indefinitely. In 2013 a deferred tax asset of £0.2m was recognised in respect of £0.8m of losses, which were significantly all utilised during 2014.

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.

## 21 Provisions

## Current liabilities

	Employee provisions £m	Total £m
1 January 2013	3.0	3.0
Utilised	(0.3)	(0.3)
Released	(0.5)	(0.5)
<b>1 January 2014</b>	<b>2.2</b>	<b>2.2</b>
Utilised	(1.0)	(1.0)
<b>31 December 2014</b>	<b>1.2</b>	<b>1.2</b>

Employee provisions relate to redundancy and other costs associated with contracts that did not novate to the Group on the acquisition of certain trade and assets.

## Non-current liabilities

	Employee provisions £m	Insurance provisions £m	Other £m	Total £m
1 January 2013	0.4	12.1	12.0	24.5
Utilised	–	(1.9)	(1.3)	(3.2)
Additions	–	4.0	0.7	4.7
Released	–	(1.0)	(2.8)	(3.8)
<b>1 January 2014</b>	<b>0.4</b>	<b>13.2</b>	<b>8.6</b>	<b>22.2</b>
Utilised	–	(2.5)	(1.0)	(3.5)
Additions	–	3.2	0.2	3.4
Released	–	–	(5.5)	(5.5)
<b>31 December 2014</b>	<b>0.4</b>	<b>13.9</b>	<b>2.3</b>	<b>16.6</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 £2.4m (2013: £2.3m) 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 and onerous lease provisions within Construction & Infrastructure, which were no longer required.

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

## Notes to the consolidated financial statements continued

### 22 Operating lease commitments

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

	2014			2013		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	6.4	5.1	11.5	7.7	5.7	13.4
Within two to five years	11.4	5.5	16.9	15.1	6.9	22.0
After more than five years	4.7	–	4.7	1.4	–	1.4
<b>31 December</b>	<b>22.5</b>	<b>10.6</b>	<b>33.1</b>	24.2	12.6	36.8

The operating lease expense in the year was £11.3m (2013: £14.8m).

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 (2013: three years) and rentals are fixed for an average of three years (2013: three years).

### 23 Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business.

As at 31 December 2014, contract bonds in issue under uncommitted facilities covered £208.1m (2013: £185.3m) of contract commitments of the Group.

### 24 Share capital

	2014		2013	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	43,259,364	2.2	43,225,488	2.2
Exercise of share options	820,201	–	33,876	–
<b>31 December</b>	<b>44,079,565</b>	<b>2.2</b>	43,259,364	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

820,201 shares were issued during 2014 in respect of options exercised under The Morgan Sindall Savings Related Share Option Scheme ('the SAYE Scheme') for a total consideration of £4.0m (2013: 33,876 shares were issued for a total consideration of £0.2m). No other shares were issued during the year.

#### Own shares

Own shares at cost represent 545,767 (2013: 575,397) shares in the Company held in the Trust in connection with The Morgan Sindall Employee Share Option Plan 2007 ('ESOP 2007'), The Morgan Sindall Executive Remuneration Plan 2005 ('ERP 2005'), The Morgan Sindall 2014 Long Term Incentive Plan ('2014 LTIP') and The Morgan Sindall 2014 Share Option Plan ('2014 SOP'). 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 2014 of £6.20 (2013: £7.55), the market value of the shares was £3.4m (2013: £4.3m).

## Notes to the consolidated financial statements continued

## 25 Share-based payments

The Group recognised a share option expense of £0.7m (2013: £1.2m) related to equity-settled share-based payment transactions. The Group has five share option schemes: 2014 LTIP, 2014 SOP, ESOP 2007, ERP 2005 and SAYE. Details of the vesting conditions and other information of these schemes are set out in the directors' remuneration report on pages 58 to 71.

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

	Share awards under 2014 LTIP		
	Awards with TSR condition	Awards with EPS condition	Share options under ESOP 2007
Number of shares/options granted	173,323	173,323	40,000
Weighted average fair value at date of grant (per share)	£1.59	£7.96	£1.28
Weighted average share price at date of grant	£7.96	£7.96	£6.54
Weighted average exercise price	N/A	N/A	£6.40
Valuation model	Stochastic	Black-Scholes	Black-Scholes
Expected term (from date of grant)	3 years	3 years	3 years
Expected volatility <sup>1</sup>	28.5%	N/A	N/A
Expected dividend yield <sup>2</sup>	0.0%	0.0%	0.0%
Risk free rate	0.4%	0.4%	0.4%

1 For the share awards with a TSR condition 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 2014 LTIP, 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.

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

	2014		2013	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	<b>3,217,776</b>	<b>6.04</b>	3,763,414	6.49
Granted during the year	<b>40,000</b>	<b>6.40</b>	609,109	4.37
Lapsed during the year	<b>(704,962)</b>	<b>6.23</b>	(885,624)	6.91
Exercised during the year	<b>(919,201)</b>	<b>5.13</b>	(269,123)	5.73
Outstanding at 31 December	<b>1,633,613</b>	<b>6.48</b>	3,217,776	6.04
Exercisable at 31 December	<b>1,066,016</b>	<b>9.93</b>	710,782	8.36
Weighted average remaining contractual life	<b>2.9 years</b>		3.7 years	

The weighted average share price at the date of exercise for share options exercised during the year was £6.86 (2013: £6.47).

The options outstanding at 31 December 2014 had exercise prices ranging from £4.37 to £15.81.

## Notes to the consolidated financial statements continued

### 26 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. All were on an arm's length basis.

#### 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	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Joint venture</b>				
Ashton Moss Developments Limited	–	–	(0.1)	(0.1)
Bromley Park (Holdings) Limited	–	–	–	(0.6)
Claymore Roads (Holdings) Limited	0.1	–	0.1	–
ECf (General Partner) Limited	2.4	1.3	–	–
HB Community Solutions Holdings Limited	–	–	–	0.5
HB Community Solutions Limited	1.9	0.1	–	–
HB Community Solutions Living Limited	–	–	–	0.8
HB Villages Development Limited	0.2	–	0.2	–
HB Villages Limited	0.3	–	0.3	–
HB Villages Tranche 2 Limited	0.2	–	0.2	–
hub West Scotland Project Co 1 Limited	0.1	–	–	–
Hull Esteem Consortium PSP Limited <sup>1</sup>	4.1	22.3	–	0.1
Leyton Mount Development LLP	12.5	0.2	1.9	–
Slough Regeneration Partnership Community Projects LLP	6.6	0.2	0.1	0.3
St Andrews Brae Developments Limited	–	–	0.1	0.4
Taycare Health (Holdings) Limited <sup>2</sup>	–	0.1	–	–
The Bournemouth Development Company LLP	0.4	13.7	0.1	2.5
The Compendium Group Limited	7.0	3.5	–	2.9
Wapping Wharf (Alpha) LLP	0.2	–	0.1	0.1
WellSpring Partnership Limited	0.9	0.1	0.1	0.6
	<b>36.9</b>	<b>41.5</b>	<b>3.1</b>	<b>7.5</b>

1 During 2014 the Group disposed of its interests in Hull Esteem Consortium PSP Limited (note 12).

2 During 2013 the Group disposed of its interests in Taycare Health (Holdings) Limited.

	Amounts owed by/(to) related parties	
	2014 £m	2013 £m
Amounts owed by related parties (note 15)	3.3	8.2
Amounts owed to related parties (note 17)	(0.2)	(0.7)
	<b>3.1</b>	<b>7.5</b>

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

#### 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'.

	2014 £m	2013 £m
Short-term employee benefits	4.6	4.2
Post-employment benefits	0.4	0.3
Termination benefits	0.5	0.7
Share option expense	0.4	0.6
	<b>5.9</b>	<b>5.8</b>

#### Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 19 February 2015.

#### Directors' material interests in contracts with the Company

No director held any material interest in any contract with the Company or any Group company in the year or in the subsequent period to 19 February 2015.

## Notes to the consolidated financial statements continued

### 27 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:

	2014 £m	2013 £m
Cash and cash equivalents	87.6	92.8
Borrowings due between two and five years	(15.0)	(15.0)
Non-recourse project financing due after more than one year	(16.9)	(8.1)
<b>Net cash</b>	<b>55.7</b>	69.7

Included within cash and cash equivalents is £33.8m (2013: £24.7m) which is the Group's share of cash held within jointly controlled operations.

During July 2014, the Group signed a new four-year £140m committed revolving loan facility with four banks, which will mature in September 2018. Additionally the Group still retains £30m of committed facilities maturing in 2016. £15.0m of these facilities were drawn at 31 December 2014 (2013: £15.0m). Additional project finance borrowings of £16.9m (2013: £8.1m) 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 2014 was £8.8m (2013: net debt £19.0m).

#### 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 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 2014 were £60.4m (2013: £58.7m).

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.

## Notes to the consolidated financial statements continued

## 27 Financial instruments continued

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

	2014		2013	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	122.2	–	105.2	–
Past due 1 to 30 days	24.8	–	16.5	–
Past due 31 to 120 days	7.1	–	6.2	0.1
Past due 121 to 365 days	8.3	0.7	9.1	–
Past due greater than one year	22.6	7.6	20.8	8.5
	<b>185.0</b>	<b>8.3</b>	157.8	8.6

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

	2014 £m	2013 £m
1 January	8.6	3.5
Amounts recovered during the year	(0.3)	(1.0)
Other impairment losses recognised	–	6.1
<b>31 December</b>	<b>8.3</b>	8.6

The average credit period on revenue is 29 days (2013: 26 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 £54.5m (2013: £44.0m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group considers that the amounts are still recoverable. The average age of these receivables is 161 days (2013: 179 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.

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 key performance indicators 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.

## Notes to the consolidated financial statements continued

### 27 Financial instruments continued

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 18.

#### (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 (2013: interest rate swap contracts £14.9m) have fixed interest payments at an average rate of 5.1% (2013: 5.1%) for periods up until 2033.

The Group's share of the fair value of swaps entered into at 31 December 2014 by joint ventures is estimated at a £0.8m liability (2013: £0.6m 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 29 and 30.

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 £170m of committed bank facilities expiring in 2016 and beyond.

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.

### 28 Subsequent events

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

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# Financial statements

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## Company financial statements

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# Company balance sheet

at 31 December 2014

	Notes	2014 £m	2013 £m
<b>Assets</b>			
Tangible assets		0.9	1.5
Investments	1	374.6	374.6
Retirement benefit asset		0.8	–
<b>Fixed assets</b>			
<b>376.3</b>			
Amounts owed by subsidiary undertakings			376.1
– due within one year		52.6	45.3
– due after one year		59.0	59.0
Corporation tax receivable		–	1.1
Deferred tax asset		0.7	0.9
Other debtors		0.5	5.3
Prepayments and accrued income		2.2	0.9
Cash at bank and in hand		37.2	50.2
<b>Current assets</b>			
<b>152.2</b>			
Bank overdraft		(110.3)	(158.7)
Finance lease obligations		(0.2)	(0.1)
Trade payables		(0.6)	(3.8)
Amounts owed to subsidiary undertakings		(308.7)	(269.1)
Corporation tax payable		(0.9)	–
Other tax and social security		(0.2)	(0.8)
Other payables		(0.6)	(0.6)
Accrued expenses		(2.4)	(2.0)
<b>Creditors: amounts falling due within one year</b>			
<b>(423.9)</b>			
<b>Net current liabilities</b>			
<b>(271.7)</b>			
<b>Total assets less current liabilities</b>			
<b>104.6</b>			
Bank loans		(15.0)	(15.0)
Finance lease obligations		(0.1)	(0.2)
Provision for liabilities	2	(11.9)	(11.4)
<b>Creditors: amounts falling due after more than one year</b>			
<b>(27.0)</b>			
<b>Net assets</b>			
<b>77.6</b>			
<b>Shareholders' funds</b>			
Share capital		2.2	2.2
Share premium account		30.9	26.9
Capital redemption reserve		0.6	0.6
Special reserve		13.7	13.7
Profit and loss account		30.2	33.7
<b>Shareholders' funds</b>			
<b>77.6</b>			

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 19 February 2015 and signed on its behalf by:

**John Morgan**  
Chief Executive

**Steve Crummett**  
Finance Director

# Company statement of changes in equity

for the year ended 31 December 2014

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
Balance at 1 January 2013	2.2	26.7	0.6	13.7	57.9	101.1
Loss for the year	-	-	-	-	(15.4)	(15.4)
Other comprehensive income:						
Actuarial gain arising on defined benefit asset	-	-	-	-	0.9	0.9
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(14.5)</b>	<b>(14.5)</b>
Share option expense	-	-	-	-	1.2	1.2
Issue of shares at a premium	-	0.2	-	-	-	0.2
Exercise of share options and vesting of share awards	-	-	-	-	0.4	0.4
Tax relating to share option expense	-	-	-	-	0.2	0.2
Dividends paid	-	-	-	-	(11.5)	(11.5)
<b>Balance at 1 January 2014</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>
Profit for the year	-	-	-	-	7.2	7.2
Other comprehensive income:						
Actuarial gain arising on defined benefit asset	-	-	-	-	0.1	0.1
Tax arising on actuarial gain on retirement benefit asset	-	-	-	-	(0.2)	(0.2)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7.1</b>	<b>7.1</b>
Share option expense	-	-	-	-	0.7	0.7
Issue of shares at a premium	-	4.0	-	-	-	4.0
Exercise of share options and vesting of share awards	-	-	-	-	0.2	0.2
Dividends paid	-	-	-	-	(11.5)	(11.5)
<b>Balance at 31 December 2014</b>	<b>2.2</b>	<b>30.9</b>	<b>0.6</b>	<b>13.7</b>	<b>30.2</b>	<b>77.6</b>

# Significant accounting policies

for the year ended 31 December 2014

## Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 ('the Act'). The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2014 the Company has undergone transition from reporting under UK GAAP to FRS 101 as issued by the Financial Reporting Council.

On adoption of FRS 101, no significant changes in accounting policies have been noted, and no transition adjustments were required on the prior year financial statements therefore the opening balance sheet on transition has not been presented.

The Company's accounting policies are consistent with those described in the consolidated accounts of Morgan Sindall Group plc, except that, as permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and related party transactions. Where required, equivalent disclosures are given in the consolidated accounts. In addition, disclosures in relation to retirement benefit schemes (note 19), share capital (note 24) and dividends (note 7) have not been repeated here as there are no differences to those provided in the consolidated accounts.

Consolidated accounts have not been prepared for the Company and its subsidiaries under the exemption granted by Section 400 of the Act. Accordingly, these financial statements present information about the Company and not about its Group.

These financial statements have been prepared on the going concern basis as discussed in the finance review on page 30, and under the historical cost convention. 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.

## Profit of the parent company

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these accounts. The profit of the parent company for the financial year amounted to £7.2m (2013: loss of £15.4m).

# Notes to the Company financial statements

## 1 Investments

	Subsidiary undertakings £m	Other investments £m	Total £m
<b>Cost</b>			
<b>1 January 2014</b>	377.8	0.3	378.1
<b>31 December 2014</b>	<b>377.8</b>	<b>0.3</b>	<b>378.1</b>
<b>Provisions</b>			
<b>1 January 2014 and 31 December 2014</b>	<b>(3.5)</b>	<b>–</b>	<b>(3.5)</b>
<b>Net book value at 31 December 2014</b>	<b>374.3</b>	<b>0.3</b>	<b>374.6</b>
Net book value at 31 December 2013	374.3	0.3	374.6

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

Lovell Partnerships Limited  
Magnor Plant Hire Limited  
Morgan Lovell plc  
Morgan Sindall plc  
Morgan Sindall Investments Limited  
Morgan Sindall Professional Services AG  
Morgan Sindall Professional Services Ltd  
Morgan Sindall Underground Professional Services Ltd  
Muse Developments Limited  
Newman Insurance Company Limited  
Overbury plc

### Activity

Affordable housing  
Construction plant hire  
Specialist in office design and build  
Construction and infrastructure  
Project investments  
Design services  
Design services  
Infrastructure design services  
Urban regeneration  
Insurance  
Fitting out and refurbishment specialists

### Joint Ventures

Ashton Moss Developments Limited (50%)\*  
Bromley Park (Holdings) Limited (50%)\*  
Claymore Roads (Holdings) Limited (50%)\*  
English Cities Fund Limited Partnership (12.5%)\*  
HB Community Solutions Living Limited (50%)\*  
hub West Scotland Limited (33.3%)\*  
ISIS Waterside Regeneration Limited (50%)\*  
Lingley Mere Business Park Development Company Limited (50%)\*  
Morgan-Vinci Limited (50%)\*  
Slough Regeneration Partnership LLP (50%)\*  
St Andrews Brae Developments Limited (50%)\*  
The Bournemouth Development Company LLP (50%)\*  
The Compendium Group Limited (50%)\*

Urban regeneration  
Residential development  
Infrastructure services  
Urban regeneration  
Development of supported living facilities  
Delivering public sector health and education projects in the Glasgow area  
Urban waterside regeneration  
Commercial office development  
Infrastructure services  
Mixed-tenure development  
Residential development  
Mixed-tenure development  
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 and Morgan Sindall Professional Services AG, registered and operating in Switzerland, 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.

## 2 Provisions

	Employee provisions £m	Insurance provisions £m	Total £m
<b>1 January 2014</b>	<b>0.4</b>	<b>11.0</b>	<b>11.4</b>
Additions	–	2.2	2.2
Utilised	–	(1.7)	(1.7)
<b>31 December 2014</b>	<b>0.4</b>	<b>11.5</b>	<b>11.9</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.

# Shareholder information

## Financial calendar 2014

Financial year end	31 December 2014
Preliminary results announcement	19 February 2015
Annual general meeting	7 May 2015
Trading update	7 May 2015
Final dividend:	
Ex-dividend date	30 April 2015
Record date	1 May 2015
Payment date	29 May 2015
Half year results announcement	August 2015
Interim dividend payable	October 2015
Trading update	November 2015

## 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 2014 annual report and other information about the Company are available on its website, [www.morgansindall.com](http://www.morgansindall.com). The Company operates a service whereby you can register to receive notice by email of all announcements released by the Company.

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

Shareholder documents are now, following changes in Company law and shareholder approval, primarily made available via the Company's website at [www.morgansindall.com/investors](http://www.morgansindall.com/investors) unless a shareholder has requested to continue to receive hard copies of such documents. If a shareholder has registered their up-to-date email address, an email will be sent to that address when such documents are available on the website. If shareholders have not provided an up-to-date email address and have not elected to receive documents in hard copy, a letter will be posted to their address that is recorded on the register of members 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.

The Group has a wide range of information that is available on its website [www.morgansindall.com](http://www.morgansindall.com) including:

- Finance information – annual and interim reports, financial news and events
- Share price information
- Shareholder services information
- Press releases both current and historical.

## 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 6768 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)
- 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.co.uk](http://www.mpsonline.co.uk).

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

## Shareholder information continued

### 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 of 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.

### Annual General Meeting ('AGM')

The AGM of the Company will be held at 12:00pm on Thursday 7 May 2015 at the offices of Jefferies Hoare Govett, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ, UK. The Notice of Meeting and Form of Proxy are enclosed with this annual report. The Notice of Annual General Meeting can be found in the investors section on the Morgan Sindall Group plc website ([www.morgansindall.com](http://www.morgansindall.com)).

### Electronic voting

Shareholders can submit proxies for the 2015 AGM electronically by logging on to [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy). Electronic proxy appointments must be received by the Company's registrar no later than 12:00pm on Tuesday 5 May 2015 (or not less than 48 hours before the time fixed for any adjourned meeting).

### Analysis of shareholdings at 31 December 2014

	Number of accounts	% of total accounts	Number of shares	% of total shares
<b>Holding of shares</b>				
Up to 1,000	892	51.38	434,450	0.98
1,001 to 5,000	591	34.04	1,237,151	2.81
5,001 to 100,000	190	10.95	4,350,053	9.87
100,001 to 1,000,000	54	3.11	16,757,873	38.02
Over 1,000,000	9	0.52	21,299,540	48.32
	1,736	100.00	44,079,067	100.00

### Shareholder communication

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

Telephone: 020 7307 9200

### Registered office

Kent House, 14–17 Market Place, London W1W 8AJ  
Registered in England and Wales, No. 00521970

### Advisers

#### Brokers

Jefferies Hoare Govett  
Numis Securities Limited

#### Solicitors

Slaughter and May

#### Registrar

Computershare Investor Services plc

#### Independent auditor

Deloitte LLP

### Forward looking statements

This document may include certain forward looking statements, beliefs or opinions that are based on current expectations or beliefs, as well as assumptions about future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in forward looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or 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.