
**MORGAN
SINDALL
GROUP**

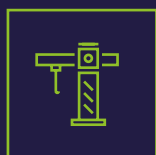
**THE CONSTRUCTION
& REGENERATION GROUP
ANNUAL REPORT
2015**



A LEADING UK CONSTRUCTION AND REGENERATION GROUP

The Group's strategy is focused on two distinct but complementary business activities: Construction and Regeneration. We differentiate ourselves by bringing together a diverse range of specialist skills from across our divisions to help clients solve their most challenging property and infrastructure needs.

The Group consists of five divisions operating in the public, regulated and private sectors across a wide range of markets.



Construction

The Group offers clients design, construction and infrastructure works, new build, refurbishment and maintenance services for property assets. Our construction teams work across the UK on projects, frameworks and strategic alliances of all sizes and complexity.

REVENUE

£1.9bn

2014: £1.7bn



Regeneration

The Group's regeneration activities focus on urban renewal, through multi-phased, mixed-use developments (providing both commercial and residential facilities) and housing-led regeneration. We work in long-term trusted partnerships to deliver vibrant new spaces that promote sustained economic growth and lasting social value.

REVENUE

£0.5bn

2014: £0.5bn

HIGHLIGHTS

Strategic

- > Order book increased with greater proportion of higher quality work.
- > Regeneration and development pipeline stable, with schemes spanning the country and in the Group's targeted markets such as commercial office and open market housing.
- > Significant investment of capital into regeneration schemes to deliver profits in 2016 and beyond.

ORDER BOOK

£2.8bn

REGENERATION AND DEVELOPMENT PIPELINE

£3.2bn

Financial

- > Increased profitability driven by strong results in Fit Out and Urban Regeneration.
- > Improved operating cash flow (before investment in regeneration) of £35.8m, with operating cash conversion of 92%.
- > Average daily net debt increased to £53m due to investment in regeneration activities.
- > Total dividend increased by 7% to 29.0p per share.

PROFIT BEFORE TAX – ADJUSTED*

£34.3m

PROFIT BEFORE TAX – REPORTED

(£14.8m)

Operational

- > Unfortunately the Group's Accident Incident Rate has increased by 27% in 2015.
- > Investment in developing talented people is demonstrated by a significant increase in the average number of training days per employee, up 55%.
- > Our focus on continuous improvement in operational delivery has resulted in increased margins across most areas of the business, reductions in carbon emissions and a greater proportion of waste diverted from landfill.

GROSS MARGIN – ADJUSTED*

8.9%

Responsible business

- > Supported our local communities by providing new communal facilities, apprenticeships, employment and training programmes for local people and work opportunities for local businesses.
- > 5% of the Group's employees made up of apprentices, graduates and sponsored students.
- > Maintained strong position with CDP (formerly the 'Carbon Disclosure Project') score of 94B.

See pages 50 to 56 for further information.

CONSIDERATE CONSTRUCTORS SCHEME AWARDS

49

Strategic report

At a glance	02
Chairman's statement	04
Market context	05
Business model	06
Strategic framework	08
Key performance indicators	10
Chief executive's statement	16
– Strategic progress	18
Financial review and operational review	28
Principal risks	40
Responsible business review	50

Governance

Board of directors	58
Group management team	60
Corporate governance report	62
Directors' remuneration report	74
Directors' report	90
Directors' responsibilities statement	94

Financial statements

Independent auditor's report	96
Consolidated financial statements	100
Company financial statements	129

Shareholder information	135
-------------------------	-----

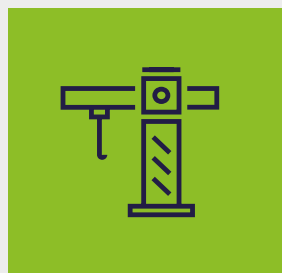
Find out more about the Group
www.corporate.morgansindall.com



* The term 'adjusted' excludes the impact of intangible amortisation of £2.2m and exceptional operating items of £46.9m. (2014: intangible amortisation of £2.4m). The following strategic report is given on an adjusted basis, unless otherwise stated.

AT A GLANCE

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



CONSTRUCTION



79% OF GROUP REVENUE
56% OF GROUP OPERATING PROFIT - ADJUSTED*

CONSTRUCTION & INFRASTRUCTURE

Offers design, construction and infrastructure services, working on projects, frameworks and strategic alliances of all sizes. The division's Professional Services business offers multidisciplinary engineering and design consultancy services.

End Markets

Include commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport and water. For Professional Services the end markets include defence, pharmaceuticals, nuclear and rail.

Operations

MORGAN SINDALL
CONSTRUCTION INFRASTRUCTURE

MORGAN SINDALL
PROFESSIONAL SERVICES

REVENUE

£1,232m

2014: £1,172M

OPERATING PROFIT - ADJUSTED*

£3.8m

2014: £3.5m

See pages 18-19 and 30-31

FIT OUT

Overbury specialises in fit out and refurbishment projects, operating through multiple procurement routes. Morgan Lovell's expertise is in office design and build, providing an end-to-end service which includes workplace consulting and furniture solutions.

End Markets

Include commercial offices, higher education and retail banking.

Operations

 overbury **Morgan Lovell**

REVENUE

£607m

2014: £507M

OPERATING PROFIT - ADJUSTED*

£24.0m

2014: £15.0m

See pages 20-21 and 32-33

AFFORDABLE HOUSING

Property Services includes the division's response maintenance activities offering facilities management and responsive repairs to social housing providers and public buildings.

End Markets

Include social housing, local authorities and insurance companies.

Operations

MORGAN SINDALL
PROPERTY SERVICES

REVENUE

£60m

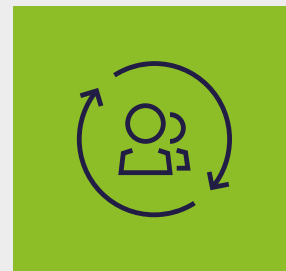
2014: £61m

OPERATING LOSS - ADJUSTED*

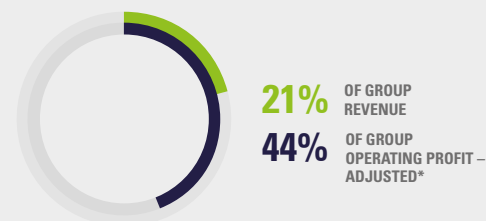
(£1.0m)

2014: (£3.5m)

See pages 22-23 and 34-35



REGENERATION



URBAN REGENERATION

The division's Partnership Housing business specialises in the delivery of mixed-tenure regeneration housing partnership schemes, design and build house contracting, and planned maintenance.

End Markets

Include social housing, housing associations, local authorities and open market housing.

Operations

LOVELL

REVENUE

£366m

2014: £362m

OPERATING PROFIT – ADJUSTED*

£9.6m

2014: £9.5m

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 new mixed-use developments.

End Markets

Include residential, commercial, retail and leisure.

Operations



REVENUE

£110m

2014: £113m

OPERATING PROFIT – ADJUSTED*

£12.9m

2014: £10.0m

See pages 24-25 and 36-37

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.

End Markets

Education, healthcare and social care, residential, student accommodation, leisure and infrastructure, including through asset-backed structures.

Operations



REVENUE

£13m

2014: £25m

OPERATING LOSS – ADJUSTED*

(£1.5m)

2014: £0.9m

See pages 26-27 and 38-39

CHAIRMAN'S STATEMENT

2015 has been a year of real progress across the Group.

Fit Out has outperformed our expectations, with significant margin growth, and Urban Regeneration has again delivered a strong performance. This gives evidence of our long-term strategic commitment and the depth of expertise in both divisions.

Although margins in Construction & Infrastructure have remained low as expected, it was encouraging to see the steady improvement in performance over the second half of the year having made progress in closing out its older lower margin construction contracts in London and the South. The division now stands on a much stronger footing going forward.

Affordable Housing has made good progress focusing on its regeneration mixed-tenure housing portfolio which will support future sales in 2016. The division's Property Services business was rebranded in early 2015 and we have since seen good progress in winning and delivering important work across the UK.

Cash management and capital allocation remains a key priority for the Group and the underlying cash generation of the Group has supported the continued investment in our strategic growth regeneration activities.

My thanks go to our people for their continuing hard work and commitment this year. After last year's launch of the People Promise, each division has made progress in adopting its principles and introduced initiatives to ensure we attract the right people and develop and retain our existing employees. This will strengthen succession planning across the Group.

Health, safety and the environment are always at the forefront of our minds and the Board established a health, safety and environment sub-committee in May 2015 to assist the Board in fulfilling its responsibilities in these areas. Further details can be found in the corporate governance report on page 69.

During the year we welcomed Malcolm Cooper to the Board as a non-executive director. Malcolm is currently managing director of National Grid Property, having previously been National Grid plc's global tax and treasury director, and his extensive financial and commercial capability will complement the existing experience of the Board. Malcolm will take over as chair of the audit committee at the annual general meeting in May 2016.

Encouraged by the year-end result and by these trends going forward, the Board is proposing a final dividend of 17.0p per share (2014: 15.0p), an increase of 13.3%. This brings the total dividend for 2015 to 29.0p per share (2014: 27.0p), which represents a year-on-year increase of 7.4%, reflecting the Board's confidence in our future prospects.

ADRIAN MARTIN / CHAIRMAN



MARKET CONTEXT

The overall construction market, consisting of three sectors (public, regulated and private) is estimated at £132bn in 2015, growing by 3.6% on the previous year. The Group operates across all three sectors and targets key markets where there are opportunities for growth. These targeted markets were estimated to have a total value in 2015 of £80bn, with growth of 5.2% outpacing the wider market. The greatest growth was in open market housing due to strong buyer demand, and in transport due to increased Government investment in roads. The social housing market experienced some contraction as a result of uncertainty around future funding.

The Construction Products Association forecasts growth in the overall construction market of 3.6% in 2016, followed by further rises of 3.7% in 2017 and 2018. The only targeted market which is forecast to contract is social housing, which continues to be impacted by reduced grant funding and cuts in social rents.

The table below provides more detail on the markets which individually account for 5% or more of the Group's revenue.

Targeted key markets (2005 prices)	2015 Construction and regeneration market		2016-2019 trend	2015 % of Group revenue	2015 % of Group revenue					Commentary
	2015 Construction and regeneration market	2016-2019 trend			Construction & Infrastructure	Fit Out	Affordable Housing	Urban Regeneration	Investments	
Social housing	£5.3bn	Decrease	12%	●	●	●	●	●	Revenue from social housing was down 10% on the previous year due to a reduction in planned maintenance activity. Many housing associations are currently reviewing their spending plans following recent changes to their funding with the extension of Right to Buy to housing associations and cuts to social rents. This is expected to lead to a small contraction in this market between 2016 and 2019.	
Education	£9.3bn	Increase	16%	●	●	●	●	●	Strong growth was seen in the education sector in 2015, which is expected to continue through to 2019. This growth will come from moderate increases in capital spending in the public sector boosted by privately funded investment through schemes such as PF2.	
Health	£2.5bn	Increase	2%	●	●	●	●	●		
Community, Defence, Other	£1.9bn	Increase	9%	●	●	●	●	●		
Public			39%							
Transport	£7.0bn	Increase	16%	●	●	●	●	●	The transport market includes roads, rail and aviation. Revenue for the Group was flat during 2015 but strong growth is expected between 2016 and 2019 as the Government invests in infrastructure. The 'National Infrastructure Pipeline', published by the Infrastructure and Projects Authority in July 2015, includes 302 transport projects and programmes with a combined value of £127bn (£79bn of which are rail projects).	
Energy	£7.1bn	Increase	4%	●	●	●	●	●		
Water	£1.1bn	Increase	4%	●	●	●	●	●		
Regulated			24%							
Commercial	£8.3bn	Increase	23%	●	●	●	●	●	There has been strong growth in commercial markets in 2015, principally in commercial office refit and refurbishment. Growth is expected to continue in the sector as a whole with increases in office construction in London and other large cities.	
Open market housing	£24.1bn	Increase	9%	●	●	●	●	●	The Group has seen significant growth in open market housing during 2015 with the number of open market units sold increasing to 590 from 475 in the previous year and investment in capital employed, which will support further growth in 2016 and beyond. The market is expected to grow strongly between 2016 and 2019 with strong buyer demand assisted by schemes such as Help to Buy.	
Retail	£4.6bn	Increase	2%	●	●	●	●	●		
Leisure	£4.8bn	Increase	1%	●	●	●	●	●		
Industrial, Pharmaceuticals, Other	£4.2bn	Increase	2%	●	●	●	●	●		
Private			37%							
Total	£80.2bn		100%							

Source: Construction Products Association (Autumn 2015 edition) – 2005 prices

BUSINESS MODEL

RESOURCES AND RELATIONSHIPS

Clients

The Group focuses on a range of growth sectors within construction and regeneration (see markets section on page 5).

People

The Group employs around 5,800 people across a diverse range of disciplines, including design, civil engineering, estimating, planning, workplace consulting, bricklaying, carpentry, and project, commercial and development management.

Capital

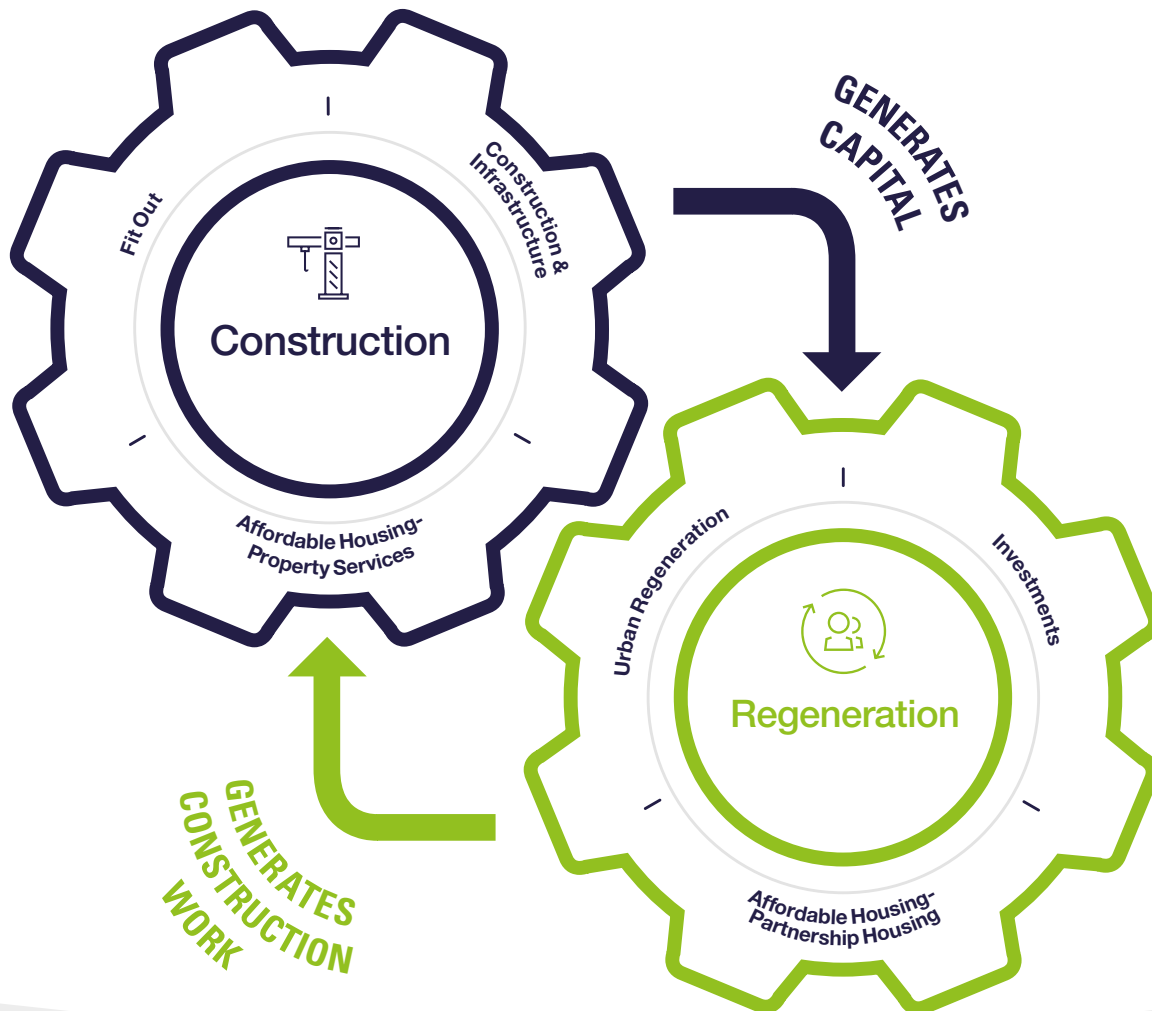
The Group has shareholders' equity of £249m and average net debt in 2015 of £53m.

Supply chain

The Group spends 89% of its cost of sales on goods and subcontract services. The strength and quality of our supply chain is fundamental to enable us to deliver for our clients.

Communities

The Group completed 1,658 mixed-tenure units in 2015.



STAKEHOLDER OUTCOMES

Clients

Clients receive an engaging and enjoyable experience and a high-quality product. Through building trusted long-term relationships the Group seeks to become their contractor of choice.

People

A safe environment where people do their best work and enrich their careers whilst creating exceptional experiences for our clients.

Shareholders

Efficient use of capital increases profitability and enables a progressive dividend policy.

Supply chain

Strong relationships with our supply chain based on trust, respect and fairness mean we deliver high-quality work for our clients.

Communities

Regenerated communities and enhanced infrastructure improve the quality of people's lives and leave behind a legacy long after the project has completed.

HOW VALUE IS CREATED

Related strategic priority

Clients

- > We work in close collaboration with clients to gain a real understanding of their business and use the expertise of our people to develop an offering bespoke to their needs.
- > We form strong strategic alliances with clients, landowners, funders and joint venture partners, enabling us to provide the greatest value.
- > We have a broad range of expertise and so can support our clients through all stages of the asset lifecycle from development to design, build, maintenance and refurbishment.
- > We always strive to enhance the client experience and to achieve Perfect Delivery which drives continuous improvement and higher standards of quality and service across all operations. Projects must meet four division-specified criteria such as delivering what we said we would and on time. 77% of our completed projects achieved Perfect Delivery in 2015. We proactively seek client feedback to identify strengths and recognise areas that require improvement.

Win in targeted markets



People

- > We create a safe working environment for all employees by rigorously applying the highest standards in health and safety processes and procedures.
- > The skill, expertise and commitment of our people enables us to deliver complex projects for our clients.
- > We focus on recruiting and retaining the best people to help us generate the most value for our clients. Our People Promise given to all employees explains what they can expect from the Group and their team members and, in turn, what is expected from them.
- > We provide opportunities for our people to continuously develop their careers through training and mentoring.
- > The Group operates a decentralised philosophy, empowering our people to think differently and be innovative.

Develop and retain talented people



Capital

- > The Group has chosen to specialise in construction and regeneration, which have complementary cash and capital characteristics.
- > Construction is cash generative as there is typically a short time lag between payments being received from clients and payments being made to the supply chain.
- > Conversely, regeneration is capital intensive as many schemes take a number of years to complete and require a significant investment in inventories. To mitigate this we minimise the use of our funds by working collaboratively with landowners to avoid the need to purchase land on the open market and use opportunities to forward sell schemes.
- > We have good relationships with banks and other financial institutions which help to ensure that sufficient competitively priced debt facilities are available.

Disciplined use of capital



Supply chain

- > The Group's scale enables us to procure goods and services as effectively as possible while being flexible enough to meet changing economic conditions and client needs.
- > The 'Morgan Sindall Family' affords 300 of our manufacturers and suppliers access to two information hubs that provide them with a pipeline of work. This also provides the Group with a high performing and trusted supply chain.
- > We manage payments effectively and actively and are subscribers to the Prompt Payment Code.
- > We have subcontract schemes to attract smaller businesses such as the 'contractor of choice' and build long-term relationships with suppliers who share our ethos of Perfect Delivery.
- > As co-founders of the Supply Chain Sustainability School we offer free training in sustainability and associated topics.
- > We create a safe working environment for all suppliers and subcontractors.
- > We offer subcontractors the opportunity to share our Group agreements giving them access to better pricing.

Maximise efficiency of resources



Communities

- > Innovative techniques are developed to create energy efficient homes and buildings.
 - > We seek to minimise the impact of our building works on local communities by adopting careful waste management procedures and complying with the requirements of the Considerate Constructors Scheme.
 - > Where possible we use local employment and supply chains.
 - > We operate safe and secure construction sites to minimise the possibility of a member of the community being hurt.
- See page 56 for more information.

STRATEGIC FRAMEWORK

STRATEGIC PRIORITIES

See pages 18-27 for case studies that show our Group strategy in action at divisional level



Win in targeted markets

We target markets that offer the best opportunity for growth and where we have a competitive advantage (see page 5). This enables our divisions to build long-term relationships with clients. We utilise our specialist skills across the Group to meet our clients' needs.

Our culture, driven by our Perfect Delivery philosophy and our aim to provide a positive customer experience, contributes to our client relationships and helps us to secure repeat business.

We select suppliers with a similar outlook and approach and develop strong working relationships with those we trust to deliver.

We are also rigorous in selecting contracts that can provide the best potential for superior returns.



Develop and retain talented people

Talented people enable us to provide industry-leading performances and successfully deliver our strategy. We operate in a highly competitive industry and want to be recognised as the employer of choice.

Protecting our employees from the risk of injuries at work is a key priority for the Group and we ensure that robust health and safety procedures are put in place.

We also invest continuously in our people, arranging detailed personal and professional development programmes to enable them to succeed.

Our goal is to develop and retain our talent and ensure robust succession planning.



Disciplined use of capital

The Group maintains financial discipline through robust management of overheads, cash and working capital. Our approach to working with local authorities and landowners minimises the use of our own funds and avoids the need to purchase land on the open market.

We use opportunities to forward sell schemes when favourable opportunities arise.



Maximise efficiency of resources

Maximising efficiency is a strategic priority to drive profitability and ensure that benefits are shared with our stakeholders. Resource efficiencies are achieved through initiatives that span the entire business.

These initiatives include working collaboratively with a limited number of trusted suppliers and subcontractors, negotiating Group-wide procurement agreements, optimising our business processes and support functions, and using advanced technology.

This approach enables us to minimise the risk of poor project delivery and manage change on projects.

In order to reduce the Group's impact on carbon emissions and waste production we use KPIs across the business to monitor and manage these resources. (See page 54 of the responsible business review for further details.)



Pursuing innovation

Innovation is fundamental to winning work, adding value for our stakeholders and breaking down barriers to success. Our divisions are empowered to make decisions in response to their respective markets and business needs and our culture encourages individuals to think creatively. We want to attract innovators and motivate our people to convert their ideas into valuable business benefits.

Objective

To be recognised as the leading UK construction and regeneration company and the supplier, partner and employer of choice.

The Group's overall strategy is to invest cash generated by construction activities into long-term regeneration schemes. To achieve this, the following strategic priorities are embedded across the Group, and each division's progress against them is outlined in the chief executive's statement on pages 18-27.

RISKS	KEY PERFORMANCE INDICATORS ('KPIs')		
<p>📖 See our principal risks on pages 40-48 for more information</p>	<p>📖 See full KPIs on pages 10-11 for more information</p>		
<ul style="list-style-type: none"> > Macroeconomic – new opportunities > Market capacity > Exposure to UK housing market > Poor contract selection 	<p>£2,826m COMMITTED ORDER BOOK</p>	<p>£3,159m REGENERATION AND DEVELOPMENT PIPELINE</p>	
<ul style="list-style-type: none"> > Safety or environmental incident > Failure to attract and retain talented people 	<p>389 ACCIDENT INCIDENT RATE</p>	<p>181 GRADUATES AND APPRENTICES RECRUITED</p>	<p>3.4 AVERAGE TRAINING DAYS PER EMPLOYEE</p>
<ul style="list-style-type: none"> > Insolvency of key clients, subcontractors or suppliers > Treasury and funding availability > Management of working capital 	<p>-12.1% WORKING CAPITAL AS PERCENTAGE OF REVENUE IN CONSTRUCTION ACTIVITIES</p>	<p>92% OPERATING CASH CONVERSION (ADJUSTED FOR INVESTMENT IN REGENERATION)</p>	<p>9% RETURN ON CAPITAL EMPLOYED IN REGENERATION ACTIVITIES</p>
<ul style="list-style-type: none"> > Mispricing contracts > Managing changes to projects and contract disputes > Poor project delivery 	<p>8.3% GROSS MARGIN IN CONSTRUCTION ACTIVITIES</p>	<p>6.8% OVERHEAD AS A PERCENTAGE OF REVENUE IN CONSTRUCTION ACTIVITIES</p>	<p>14.4 CARBON INTENSITY</p>

Innovation is also about streamlining our internal processes and support functions to drive efficiencies and sustain the growth of the business. We have not identified KPIs in respect of this strategic priority as it underpins the other four strategic priorities and is indirectly measured through the KPIs above.

KEY PERFORMANCE INDICATORS

KPIs

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

Committed order book



2015	£2,826m
2014	£2,658m

Description

Comprises the secured order book and the 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 our expected share of revenue from the frameworks on which we have been appointed. This excludes prospects where confirmation has been received as preferred bidder only, with no formal contract or letter of intent in place.

Performance in 2015 and focus for 2016

The order book increased by 6% on the previous year, with growth seen across all divisions. The Group has also achieved a significant improvement in the quality of the order book with a higher proportion of work secured through negotiated/framework/two-stage bidding procurement processes. This will continue to be a key focus for the Group in 2016.

Regeneration and development pipeline



2015	£3,159m
2014	£3,227m

Description

The Group's share of the gross development value of secured schemes including the development value of open market housing schemes.

Performance in 2015 and focus for 2016

The pipeline was down slightly by 2% on the previous year as schemes in Urban Regeneration and Investments have been developed and sold. The Group continues to pursue regeneration opportunities which will contribute to the pipeline in 2016.

Operating cash conversion (adjusted for investment in regeneration)



2015	92%
2014	104%

Description

Operating cash flow (excluding investment in regeneration activities) as a percentage of adjusted* operating profit.

Performance in 2015 and focus for 2016

The Group actively manages working capital and we have achieved another strong year of cash generation. This has enabled a significant further investment into regeneration capital employed to support profit growth in future years.

Return on capital employed in regeneration activities



2015	9.0%
2014	11.9%

Description

Adjusted* operating profit less interest on non-recourse debt less unwind of discount on deferred consideration, divided by average capital employed.

Performance in 2015 and focus for 2016

Profits from regeneration have increased in each of the past three years, however the significant investment in capital employed in 2015, which will support profits in 2016 and beyond, has resulted in a dip in the return on capital employed. This is expected to reverse in 2016.

Working capital¹ as a % of revenue in construction activities



2015	-12.1%
2014	-8.7%

Description

Working capital as a percentage of revenue.

Performance in 2015 and focus for 2016

Working capital as a percentage of revenue improved by 340bps in 2015 to -12.1%. Adjusting for the exceptional operating item, the underlying ratio is -9.6%, an improvement of 90bps. The improvement reflects greater discipline in respect of working capital management across the Group as well as the progress made in completing and closing out problematic contracts in London and the South. Modest improvements in this ratio are expected to continue in 2016.

¹ Defined as inventories plus trade and other receivables, less trade and other payables, adjusted to exclude deferred consideration payable, accrued interest and capitalised arrangement fees.

Related strategic priority:

-  Win in targeted markets
-  Develop and retain talented people
-  Disciplined use of capital
-  Maximise efficiency of resources

Accident Incident Rate ('AIR')



Description

The number of accidents per 100,000 employees.

Performance in 2015 and focus for 2016

Unfortunately, the Group's AIR has increased during the year. Although no obvious trends have been identified, we have focused on targeted safety training, leadership and employee engagement. We have seen an improvement in performance at the end of 2015 and beginning of 2016. We will continue in 2016 our drive to reduce the number of safety incidents and review any actions needed to protect the health and wellbeing of our employees.

Number of graduates and apprentices recruited



Description

The number of graduates and apprentices recruited across the Group.

Performance in 2015 and focus for 2016

The increase in the number of graduates and apprentices recruited during the year demonstrates the Group's commitment to developing a succession pool of talent. In addition, we have sponsored 108 undergraduates during the year. This investment in new talent is expected to continue in 2016.

Average number of training days per employee



Description

The total number of days of training provided to employees divided by the average number of employees.

Performance in 2015 and focus for 2016

The increase in training days across the Group is in line with our strategy to develop and retain talented people. During the year we supported 2,042 employees with a mixture of NVQ, management skills and professional schemes training. This trend is expected to continue in 2016. See page 53 for further information.

Gross margin in construction activities



Description

Gross profit (excluding exceptional items²) as a percentage of revenue.

Performance in 2015 and focus for 2016

Gross margin increased across all construction activities, with an overall increase of 110bps. This reflects greater contract selectivity, more favourable procurement conditions with clients and improved operational efficiency, including downstream procurement with the supply chain. This trend is expected to continue in 2016.

Overheads as a % of revenue in construction activities



Description

Overheads (excluding amortisation³) as a percentage of revenue.

Performance in 2015 and focus for 2016

Whilst the ratio increased by 50bps in 2015, this reflects the Group gearing up for future growth, with increased headcount and enhanced financial incentives for our people. We expect this trend to continue to rise in 2016, returning to a more typical level of 7.5% to 8.0%.

Carbon intensity



Description

Total carbon emissions as a percentage of revenue.

Performance in 2015 and focus for 2016

The Group's carbon intensity measure decreased by 15% which demonstrates our clear and continuing commitment to reducing energy consumption across our entire supply chain. In 2016, we will strive to continue this trend, recognising that it will become harder to continue to make significant year-on-year reductions in emissions.

2 Exceptional operating items of £46.9m (2014: £nil).

3 Amortisation of intangible assets of £2.2m (2014: £2.4m).

STRATEGIC REPORT

WE ARE CREATING SPACES





CONSTRUCTION CROSSRAIL



The C350 Pudding Mill Lane scheme is one of several projects Construction & Infrastructure is undertaking as part of the £14.8bn Crossrail project.

Originally awarded in 2011, the contract has increased in scope of works and value, underlining the division's delivery record of working in challenging live environments. Due to complete in 2016, C350 will link the new Crossrail tunnels to Network Rail's infrastructure in Newham, London. Work includes the construction of a tunnel portal and a new, elevated Docklands Light Railway ('DLR') station at Pudding Mill Lane, plus associated structures to bring the subterranean railway into the above-ground existing rail network. Other works include a reinforced earthwork embankment, a six-span viaduct and a number of other bridge structures, with full mechanical and electrical services for the station works, all track and rail systems, and highways and hard landscaping works.

This complex project is taking place in a heavily-congested site next to the former Olympic Park, while maintaining safe access to the new Pudding Mill Lane DLR Station. The division has maximised efficiencies for both Network Rail and the Group through close supply chain management and rigorous cost discipline.

STRATEGIC REPORT

WE ARE CHANGING SPACES





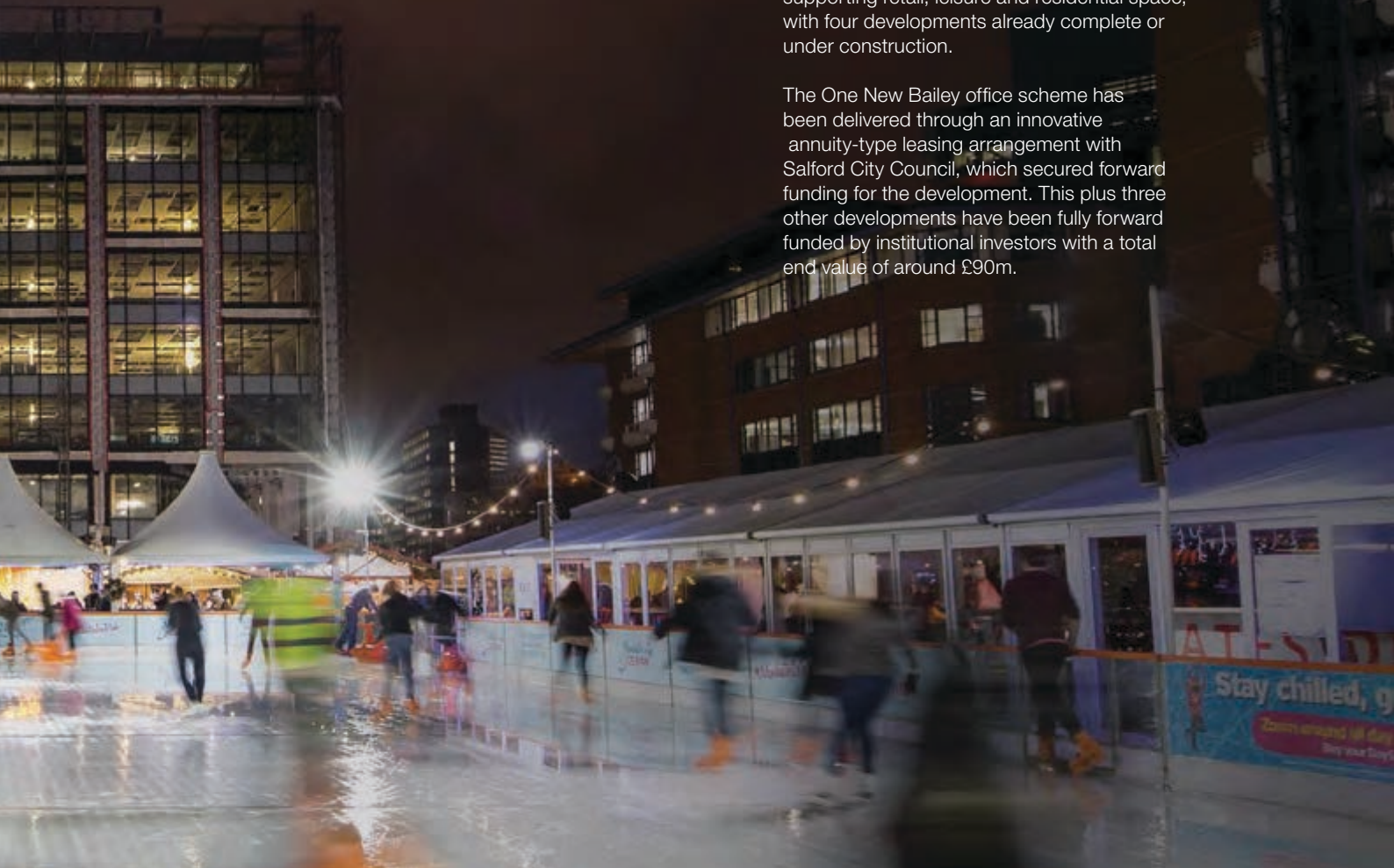
REGENERATION SALFORD CENTRAL, SALFORD

Urban Regeneration is leading a £650m regeneration project in Salford as part of English Cities fund, the division's joint venture with the Homes and Communities Agency and Legal & General Property.

The scheme will create a total of three million sq ft of mixed-use development and an estimated 11,000 new jobs.

The visionary scheme is breathing new life into 50 acres of Salford's historic centre. Key elements of the plan, developed with Salford City Council, include Chapel Street and New Bailey. Chapel Street is being transformed into a desirable location for living and working, with a vibrant collection of shops, cafés and leisure facilities. All 97 homes in the first residential development, Vimto Gardens, were sold during construction. New Bailey is extending Manchester's central business district, providing high-quality offices with supporting retail, leisure and residential space, with four developments already complete or under construction.

The One New Bailey office scheme has been delivered through an innovative annuity-type leasing arrangement with Salford City Council, which secured forward funding for the development. This plus three other developments have been fully forward funded by institutional investors with a total end value of around £90m.



CHIEF EXECUTIVE'S STATEMENT

Overview

This year has been a period of honing the business in preparation for profitable and sustained growth. We have seen great momentum across the Group and the business is now leaner and more efficient, and ready to respond to the forecast improvement in national construction output.

Performance

Revenue for the year was up 7% on the prior year at £2,385m, driven by strong revenue growth in Fit Out of 20%. This was supported by growth in Construction & Infrastructure, up 5% and in the strategically important mixed-tenure regeneration activities in Affordable Housing, with revenue up 29%. Adjusted operating profit of £38.8m was up 34% on the prior year, with adjusted operating margin up 30bps to 1.6% (2014: 1.3%).

Fit Out delivered a very strong profit and margin performance, benefiting from the high level of general fit out activity and the more attractive tendering opportunities and terms available in its market. Its operating margin of 4.0% on record revenue of £607m enabled Fit Out to report an increase in operating profit, up 60% to £24.0m (2014: £15.0m). Urban Regeneration made significant progress with many of its regeneration developments and delivered an operating profit of £12.9m (2014: £10.0m) and a return on average capital employed¹ of 15%. Affordable Housing also made good progress focusing on its regeneration mixed-tenure housing portfolio which will support future sales going into 2016. The Affordable Housing division grew its operating profit by 43% up to £8.6m (2014: £6.0m) due to the continued improvement in the performance of its Property Services activities, which reduced its operating loss to £1.0m from a £3.5m loss in the prior year.

Construction & Infrastructure showed improvement in the second half of the year, delivering a full year operating profit of £3.8m (2014: £3.5m) compared to profit of £0.3m at the half year. Overall performance was impacted by lower returns from its construction activities in London and the South and its lower margin older construction contracts, however significant progress has been made in completing these contracts in the second half of the year. These are being replaced in the construction order book with generally higher quality work.

¹ As defined in the business review for Urban Regeneration.

CONFIDENCE IN OUR STRATEGY REMAINS STRONG

JOHN MORGAN / CHIEF EXECUTIVE



Exceptional operating items of £46.9m have been charged in the year relating to the impairment of trade and other receivables on two old construction contracts identified in 2013, both of which were transferred as part of the acquisition of the design and project services division of Amec in 2007. At the half year an impairment of £39.4m was made against these items (see page 28 for further information).

Order book and regeneration and development pipeline

The Group's committed order book² at 31 December 2015 was £2,826m, an increase of 6% compared to the prior year end.

Importantly, the general quality of the current order book reflects the more favourable procurement conditions across most markets served. The divisional split is shown below.

	2015 £m	2014 £m	% change
Construction & Infrastructure	1,595	1,537	+4%
Fit Out	341	241	+41%
Affordable Housing	703	673	+4%
Urban Regeneration	218	197	+11%
Investments	17	19	-11%
Inter-divisional orders	(48)	(9)	
Total	2,826	2,658	+6%

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

The regeneration and development pipeline³ was £3,159m, a small decrease of 2% on the previous year end as schemes have been developed and sold. The Group continues to pursue regeneration opportunities which will contribute to the pipeline in 2016 and beyond. The divisional split is shown below:

	2015 £m	2014 £m	% change
Affordable Housing	782	770	+2%
Urban Regeneration	2,181	2,215	-2%
Investments	196	242	-19%
Total	3,159	3,227	-2%

3 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.

Operating environment

The operating environment for construction has improved with a marked shift away from fixed-price contracts to more attractive procurement routes. This is reflected in the Group's order book with 89% by value derived through negotiated/framework/two-stage bidding procurement processes. Robust contract selectivity and rigorous risk management have also contributed to higher levels of quality work and margin improvement. Challenges persist with margins remaining under pressure due to cost inflation, and supply chain and skill shortages. These conditions are most acute in London and the South. We have therefore reduced our exposure to commercial construction in these areas, limiting activity to work secured through framework agreements and opportunities to collaborate with sister divisions.

Health, safety and wellbeing

Keeping our staff, subcontractors and visitors safe is paramount and we were saddened by the death of one of our employees on site this year. The incident was thoroughly investigated both internally and by enforcing authorities, and it was concluded that the activity had been carried out in accordance with current legislation and industry practice. As part of our continuous improvement regime, we conducted a thorough review of our processes and procedures and made some improvements. Our core safety policies remain under constant review.

Unfortunately we have seen an increase in the Group's Accident Incident Rate and the number of RIDDOR incidents during the year which is disappointing for the Group. These incidents haven't shown any particular trend in cause or type other than challenges faced by the industry as a whole, as a consequence of the upturn in labour demand. That said, we continue to focus on site safety with ongoing targeted safety training and awareness. We have seen an improvement in our health and safety performance at the end of 2015 and beginning of 2016 as new employees and supply chain partners respond to the increased volumes of work and become fully embedded in our health and safety practices and procedures.

In 2016 as well as continuing our drive to reduce the number of safety incidents across the Group, we will review any actions that we need to take to further protect the health and wellbeing of our employees.

See the responsible business review on pages 50 to 56 and the health, safety and environment committee's report on page 69 for further information.

Confidence in long-term strategy

Our confidence in the Group's UK-focused strategy remains strong. We have celebrated significant contract wins in our chosen markets together with new framework positions and high levels of work from existing frameworks. We have grown our investment in regeneration opportunities that provide superior margins. With the housing market set to remain high on the political agenda for a significant number of years ahead, we have focused our investment primarily in residential-led opportunities which will lead to significant returns in the medium term.

The Group has made good progress against each of its five strategic priorities as outlined in the following strategic progress section.

Looking to the future

Looking ahead to 2016, the positive momentum across the Group is expected to continue. A strong level of performance from Fit Out is anticipated, together with further strategic progress in Urban Regeneration and profit growth in Affordable Housing, driven by its mixed-tenure regeneration activities. With a further steady recovery in the performance of Construction & Infrastructure also expected, the Group is in a strong position to deliver on its expectations.

STRATEGIC PROGRESS

Construction & Infrastructure

Whilst the Infrastructure business has performed reasonably consistently across the year, delivery pressures and cost escalations in a number of older contracts in the Construction activities in London and the South impacted overall profitability and margins. The division has seen a progressively improved financial performance over the second half of 2015.



2015 Progress

Win in targeted markets

Significant strategic wins include the delivery of the £300m-£500m West section of the Thames Tideway Tunnel in joint venture and a position on the four-year £4bn Southern Construction Framework which offers the division the opportunity to bid with several other contractors for projects ranging in value from £1m upwards. The framework governs the procurement of a full spectrum of new build and refurbishment schemes in education, health and community, including libraries, civic office development programmes for police and fire authorities, and leisure and sports facilities.

Develop and retain talented people

The division has launched its 'Academy', created to offer training and development opportunities to all employees. A career mentoring programme has also been introduced to provide guidance and support to employees in the early stages of their career. Professional development is actively encouraged with over 400 employees pursuing registration with professional institutions and 115 full-time degree students receiving sponsorship, providing a pipeline of graduate recruits through to 2019.

Disciplined use of capital

Following a review of lessons learnt regarding a number of older construction projects, the division has adopted a more stringent approach to bidding

which has helped improve the quality of earnings. Additionally, tight management of overheads, cash and working capital, as well as working in joint venture on complex long-term infrastructure projects, minimises capital risk and ensures funds are available for investment.

Maximise efficiency of resources

The division has developed a more streamlined approach to supply chain management through developing stronger relationships with a smaller number of preferred suppliers and subcontractors who are aligned with the division's Perfect Delivery approach. Working in closer collaboration will help drive efficiencies and mitigate the impact of upward pressure on supply chain costs and availability.

Pursuing innovation

The division has played a leading role in developing a pioneering 3D site-induction system for major highways projects, and together with its joint venture partner is the first Highways England contractor to use this type of advanced technology. The system provides realistic, virtual access to complex sites, enabling a comprehensive understanding of the safety risks in advance. In addition, the division has invested in developing various new systems that will significantly improve business processes and efficiency such as tools for monitoring future work pipeline and project management.

Priorities for 2016

- > Maintain focus on enhancing position in chosen growth markets.
- > Secure long-term projects that offer higher margins through frameworks, joint ventures and strategic alliances.
- > Increase opportunities to work with other Group divisions.
- > Build enduring relationships with clients, partners and the supply chain to create innovative and cost-effective solutions and deliver quality projects with the highest levels of safety.
- > Maintain quality of order book.

THE ENTERPRISE CENTRE, UNIVERSITY OF EAST ANGLIA

In 2015, Construction & Infrastructure delivered Britain's greenest, and one of Europe's most sustainable, buildings. The Enterprise Centre features a number of 'world-firsts', such as the use of prefabricated straw thatch panel cassettes, and is set to achieve the rigorous Passivhaus and BREEAM Outstanding accreditations.

Local skills and indigenous materials were used and the division embraced pioneering technologies and techniques. The result is a revolutionary building with an embodied carbon calculation equating to a quarter of the lifetime emissions of a conventionally constructed building.



MAXIMISE EFFICIENCY OF
RESOURCES

STRATEGIC PROGRESS CONTINUED

Fit Out

The division has performed well, resulting in increased revenue and a significant uplift in operating profit. This performance has contributed to the Group's ability to implement its strategy of investing cash generated from construction activity in long-term regeneration opportunities.



2015 Progress

Win in targeted markets

The division has gained market share this year by focusing on its target markets including commercial offices, higher education, retail banking and working through a number of strategic framework agreements. Contract wins include a 130,000 sq ft fit out for ING Bank, Broadgate Estates' new 28,000 sq ft headquarters, a new workspace for disability charity, Livability, and a project for environmental services company SUEZ.

Develop and retain talented people

During 2015 Fit Out has continued to focus on developing talent within the business and planning for the future.

The division's two-day 'Exceptional Performance' course provided classroom-style training aimed at 350 staff, whilst e-learning has been embraced through the development of 16 online training modules and the launch of an interactive learning management system.

The division has rolled out a performance and development planning process, launched its Foundation Programme for school-leavers, graduates and entry-level employees, and significantly strengthened its succession planning.

Disciplined use of capital

The division tightly controls its cash balance through stringent management of overheads and cash management.

Maximise efficiency of resources

The division has invested in people and technology so that it can operate and deliver projects as efficiently as possible. The Overbury and Morgan Lovell Southern teams have moved to one shared location, enabling them to share resources, cross-sell and strengthen their service delivery.

Pursuing innovation

The division has developed a mobile application based on its in-house project management and information sharing tool ProjectPLUS™, aimed at clients and project delivery teams. The ProjectPLUS™ application allows instant access to real-time information, resulting in higher levels of collaboration, cost savings and safer, shorter delivery programmes. Fit Out also created, tested and launched a bespoke snagging tool SnagPLUS™ – a fit out sector first. Project delivery aside, innovation of this kind significantly contributes to the overall client and end user experience.

Priorities for 2016

- > Win work in all chosen markets.
- > Drive customer experience as a means of differentiation.
- > Further improve quality of earnings.
- > Continue investment in enabling technology to improve efficiency.
- > Invest in training and development to support succession planning.

LAND ROVER BAR PORTSMOUTH

Fit Out's appointment to undertake the high-specification fit out for the racing headquarters of Land Rover BAR (Ben Ainsley Racing), the British challenger for the 35th America's Cup, further reinforced its reputation as the UK's fit out contractor of choice.

The division demonstrated its leading expertise and reliability, successfully delivering the project within a very public and tight deadline whilst setting new benchmarks for sustainability and construction innovation. The works included a bespoke athletes' training gym and medical centre, a kitchen, an open-plan office, and a boardroom and meeting suites, as well as a 50,000 sq ft workshop for the construction and storage of racing yachts.



WIN IN

TARGETED MARKETS

STRATEGIC PROGRESS CONTINUED

Affordable Housing

Affordable Housing has made good progress, including an improved performance from its Property Services business. New opportunities have been secured for higher margin mixed-tenure work and the level of activity across large-scale regeneration programmes has been maintained.



2015 Progress

Win in targeted markets

Affordable Housing's successes include being appointed to the second phase of the £28m Loftus Garden Village scheme in Newport, Cardiff, a £6.5m project to deliver a further 72 homes. The first phase of 58 homes was successfully delivered in 2015. The division's Property Services business also secured £67m of work that included projects for Metropolitan Housing Trust and an innovative asset management service to King Street Housing Society (see page 35).

Develop and retain talented people

Affordable Housing provides a mix of formal and on-site training. On average, each member of staff has received three days of training. 64 employees have been sponsored to undergo leadership training through the Institute of Leadership and Management and 16 have secured places on the division's graduate training programme. Following the success of the new-build Site Manager Development Programme, a similar programme is now under development for assistant site managers working on refurbishment projects. The self-delivery model within the Property Services business long-term maintenance contracts remains committed to ensuring 5% of employees are in apprenticeship schemes.

Disciplined use of capital

The division targets regeneration opportunities through framework positions on the London Development Panel and the Homes and Communities Agency's Delivery Partner Panel 2. Both panels release public sector land with deferred land payment, award contracts using more efficient procurement processes and create opportunities to improve returns on capital employed.

Maximise efficiency of resources

Affordable Housing has invested in a focused suite of house types made up of standardised components. As well as improving the quality and efficiency of the build, this standardised approach enables economies to be made and the cost savings shared with the house purchaser.

Pursuing innovation

The division has developed a ground-breaking asset management model and underpinning IT system that allow clients to make long-term financial plans for their response maintenance programmes with greater confidence and insight. The combined services offering focuses on holistic services and contracts.

Priorities for 2016

- > Grow regeneration pipeline through long-term partnerships with local authorities and housing associations and through collaboration with sister divisions.
- > Progress schemes within existing regeneration programmes.
- > Accelerate completion of residential schemes.
- > Develop a property maintenance offer with Investments and Urban Regeneration for Group-developed buildings.

KING'S LYNN MIXED-TENURE REGENERATION, NORFOLK

Through its five-year development management agreement with the Borough Council of King's Lynn and West Norfolk, Affordable Housing is committed to providing a range of job and training opportunities as part of its Employment & Skills Plan, including creating 16 new apprenticeships, as well as safeguarding 26 existing apprenticeship places.

The division will also deliver a range of short training opportunities for 75 people and a programme of visits for local school, college and university students. 90% of the workforce employed on the project will be from the local Norfolk community.



DEVELOP AND RETAIN

TALENTED PEOPLE

STRATEGIC PROGRESS CONTINUED

Urban Regeneration

Urban Regeneration has continued to deliver good growth and strong profits through its focused long-term investment in its regeneration and development pipeline.



2015 Progress

Win in targeted markets

During the year the division secured 'preferred developer' status on six new projects, further strengthening its £2,181m development pipeline.

Develop and retain talented people

Following staff consultation, a more effective streamlined appraisal process has been adopted with an updated reward strategy for any of the division's 70 employees who exceed business objectives. Key individuals are receiving one-to-one coaching to support the business's succession plan and the division is funding and providing paid study and exam leave for several employees to secure work-related professional qualifications.

Disciplined use of capital

The division has secured a number of development agreements with landowners. Typically such agreements secure land for development in return for the division funding initial planning and infrastructure costs with land drawn down for development on a phased basis, optimising the use of Group capital.

Maximise efficiency of resources

Urban Regeneration's trusted reputation enables it to secure funding for a significant number of projects. In 2016 four major investments deals, totalling over £72m, with high-profile national property funds enabled construction of a customer delivery hub on the division's flagship Logic Leeds warehouse and industrial park and a total of 245 new homes in three buildings for the private rented sector within its New Bailey, Canning Town and Lewisham Gateway regeneration schemes.

Pursuing innovation

Financial innovation is a crucial element of the division's expertise. The business stands at the forefront of innovative funding models and has invested in state-of-the-art financial modelling software to enhance decision-making across its complex development programmes. A typically complex scheme is Lewisham Gateway, where the £85m residential-led first phase has attracted funding from three different sources.

Priorities for 2016

- > Identify opportunities to enhance forward development pipeline.
- > Maintain the momentum of project delivery in line with critical path programmes.
- > Increase residential sales.
- > Secure high-quality occupiers for commercial schemes.

LEWISHAM GATEWAY, LONDON

Urban Regeneration's unique approach has overcome significant challenges on the £230m Lewisham Gateway scheme. The site was originally dominated by a large and unpopular roundabout which cut off the town centre from the local DLR and railway stations. Through intensive collaboration with numerous stakeholders, the division has enabled major changes to the highway and public transport networks as well as opening up two rivers from below ground to become a town centre feature.

As a result, around 3.3 hectares of previously undevelopable land have been released, creating space for a vibrant residential-led mixed development with a riverside park, shop-lined pedestrian walkways and improved access to public transport. 2015 has seen construction progress on three new residential buildings.



PURSUING

INNOVATION

STRATEGIC PROGRESS CONTINUED

Investments

Investments has successfully delivered on its mandate to create quality construction opportunities for other Group divisions. It has handed over schemes within its long-term regeneration partnerships and created a new joint venture to help NHS Trusts address ongoing financial challenges.



2015 Progress

Win in targeted markets

Highlights include starting work on the North West PF2 Priority Schools Building Programme which is being delivered by the Construction & Infrastructure division, creating a new strategic healthcare partnership resulting in a 10-year agreement with Burton Hospitals NHS Foundation Trust and the development of a new Extra Care healthcare offer. The division has also successfully extended programmes of work within its long-term regeneration joint ventures.

Develop and retain talented people

The division has implemented enhanced training and development programmes to ensure its people can succeed and deliver a market-leading service. In addition, it has relocated to new premises, providing a fresh and attractive environment that encourages communication, creativity and team working.

Disciplined use of capital

The division uses Group capital to progress certain projects to a point when it can leverage its relationships with leading financial institutions and forward sell schemes when conditions are favourable to do so.

Maximise efficiency of resources

Investments creates opportunities for other Group divisions to secure work on their frameworks. The division's reputation as a partner has led to more opportunities this year for sister divisions to negotiate terms on projects rather than securing work on a more competitive basis.

Pursuing innovation

Innovation lies at the heart of Investments. The division identifies pioneering routes to market as demonstrated this year by creating a new joint venture to successfully enter the strategic estate partnership market in healthcare (see page 39 for further information). Investments applies its creative approach across every market and sector it operates in, engaging with all stakeholders across the asset life cycle to identify solutions that deliver real and lasting benefits.

Priorities for 2016

- > Focus on creating prime long-term construction opportunities for sister divisions.
- > Progress projects within development pipeline.
- > Develop new offers for existing markets.
- > Take offer to new regions across the country.

MOAT LANE REGENERATION, TOWCESTER

Working in partnership with South Northampton Council, Investments is sensitively reinvigorating and regenerating the historic Moat Lane area of Towcester town centre in six phases through a strategic development agreement. In accordance with the agreement, after the successful delivery of a new civic centre, an interest in five council-owned sites was transferred to the division to enable the remaining five phases to be completed.

These include the construction of residential properties and further commercial buildings by Affordable Housing and Construction & Infrastructure and will provide a significant return on Group investment.



DISCIPLINED USE OF

CAPITAL

FINANCIAL REVIEW AND OPERATIONAL REVIEW

FINANCIAL REVIEW

	2015	2014
Revenue	£2,385m	£2,220m
Operating profit – adjusted*	£38.8m	£28.9m
Profit before tax – adjusted*	£34.3m	£25.2m
Earnings per share – adjusted*	63.0p	46.7p
Year end net cash balance	£57.9m	£55.7m
Average net debt	(£53.4m)	(£8.8m)
Total dividend per share	29.0p	27.0p
Operating (loss)/profit – reported	(£10.3m)	£26.5m
(Loss)/profit before tax – reported	(£14.8m)	£22.8m
Basic earnings per share – reported	(22.6p)	42.3p

* Adjusted is defined as before an exceptional item of £46.9m and intangible amortisation of £2.2m, and (in the case of earnings per share) deferred tax credit due to changes in the statutory tax rate of £1.7m (2014: exceptional operating items of £nil, intangible amortisation of £2.4m and deferred tax credit due to changes in the statutory tax rate of £nil).

Trading performance

Revenue increased by 7% to £2,385m (2014: £2,220m) with the committed order book increasing 6% to £2.8bn. The regeneration and development pipeline decreased 2% to £3.2bn.

Adjusted* gross margin strengthened by 70bps to 8.9% (2014: 8.2%), with margin improvements across all divisions.

Adjusted* operating profit of £38.8m was up 34%, with adjusted* operating margin of 1.6% (2014: 1.3%).

Exceptional operating item

An exceptional charge of £46.9m was recognised in the year relating to the impairment of trade and other receivables on two old construction contracts, both of which were transferred as part of the acquisition of the design and project services division of Amec in 2007. Both contracts have the Secretary of State for Defence as the overall employing party. One contract relates to the design and construction of a floating jetty, the other to the design and

construction of living accommodation and infrastructure, both around the Faslane Naval Base in West Scotland. Commercial resolution has been achieved on one of these contracts, whilst on the other the Board has assessed its options to recover amounts, looking at a range of potential likely outcomes from pursuing both legal and/or commercial settlement routes. Based upon this assessment and taking into account the risks and costs associated with pursuing legal remedies, the exceptional item for the year has been increased by £7.5m from £39.4m (as recognised in the half year results) to £46.9m and is non-cash in nature.

After charging this exceptional operating item, the statutory loss before tax was £14.8m, compared to a statutory profit before tax in the prior year of £22.8m. As a result, there is a tax credit for the year of £4.8m, which is broadly in line with the UK statutory rate after adjusting for the impact of tax on joint ventures and for the deferred tax effect of the future reduction in the UK statutory rate.

Net finance expense

Net finance expense increased to £4.5m (2014: £3.7m), primarily due to the increase in average net debt as the Group has invested capital in its regeneration activities.

Tax

As the Group recognised a net loss for the year after exceptional items, this will result in a tax loss carried forward into 2016. The Group expects to make profits in future which can be offset against these carried-forward tax losses and therefore a deferred tax asset and a deferred tax credit for the year have been recognised in respect of these tax losses. Overall the Group's net tax credit for the year is £4.8m. This is broadly in line with the UK statutory tax rate (after adjusting for the impact of tax on joint ventures and a tax credit arising as a result of revaluing net deferred tax liabilities to reflect the expected reduction in the UK statutory tax rate from 20% to 18%). Almost all of the Group's operations and profits are in the UK, and the Group maintains an open and constructive working relationship with HMRC.

Earnings per share

Adjusted earnings per share increased by 35% from 46.7p to 63.0p. Basic earnings per share decreased by 153% to -22.6p from 42.3p due to the exceptional operating item of £46.9m in the current year (2014: £nil).

ENCOURAGED BY STRONG ORDER BOOK

STEVE CRUMMETT / FINANCE DIRECTOR

Dividends

The Board recommends a final dividend of 17.0p payable on 23 May 2016 to shareholders on the register at the close of business on 29 April 2016. The ex-dividend date is 28 April 2016. This takes the total dividend to 29.0p (2014: 27.0p), an increase of 7% on the previous year.

Net working capital¹

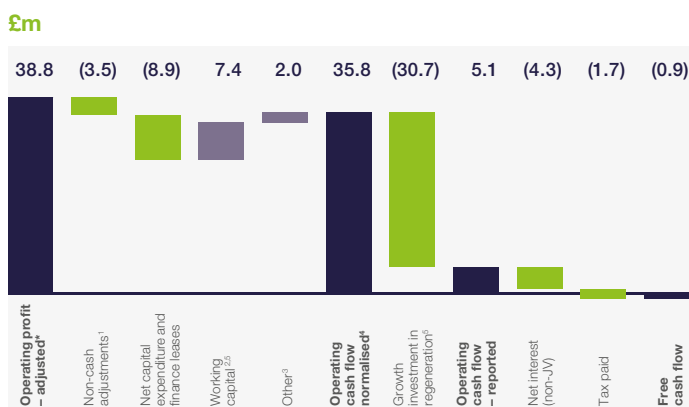
Net working capital – adjusted* of (£31.9m) has increased due to the £44.5m invested in inventories. Of this increase, £44.2m relates to the regeneration activities in Affordable Housing and Urban Regeneration. The average annual increase in inventories in regeneration for the preceding five years was £13.5m and therefore the excess £30.7m is considered to be ‘growth investment in inventory’, which will support profits in 2016 and beyond. This is shown separately in the cash flow graph below.

	2015 £m	2014 £m	Change £m
Inventories	246.7	202.2	+44.5
Trade and other receivables	399.4	440.9	-41.5
Trade and other payables	(678.0)	(698.3)	+20.3
Net working capital – adjusted*	(31.9)	(55.2)	+23.3
Exceptional operating items	(46.9)	–	-46.9
Net working capital – reported	(78.8)	(55.2)	-23.6

1 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’.

Cash flow

Prior to any growth investment in the regeneration activities of Urban Regeneration and Affordable Housing, there was an operating cash inflow of £35.8m in the year. After deducting such growth investment of £30.7m, there was an operating cash inflow of £5.1m (2014: £2.4m) and a free cash outflow of £0.9m (2014: outflow of £6.7m).



1 Non-cash adjustments include depreciation, share option charge, shared equity valuation movements and share of JV profits.

2 Working capital movement excludes ‘growth investment in Regeneration’ inventory of £30.7m.

3 ‘Other’ includes JV dividends and interest income, provision movements, shared equity redemptions, additional pension contributions and gains on disposals.

4 Normalised = operating cash flow excluding growth investment in Regeneration.

5 Growth investment in Regeneration = total inventory investment in Regeneration in the year of £44.2m, less ‘normal’ level of investment of £13.5m (average for last five years).

Net cash

Net cash increased by £2.2m to £57.9m at 31 December 2015. This reflected a free cash outflow of £0.9m, dividends paid of £11.8m, offset by loans repaid by joint ventures of £13.6m and proceeds from the issue of new shares and exercise of share options of £1.3m. The average daily net debt for the year increased to £53.4m due to investment in regeneration schemes (2014: net debt £8.8m).

Banking facilities committed until 2018

The Group has £175m of committed loan facilities maturing as follows: £15m in May 2017, £20m in September 2017 and £140m in September 2018. 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 security against the financial instability of the contractor prejudicing completion of the works. The Group pays a fee and provides a counter-indemnity to the financial institutions for issuing the bonds. As at 31 December 2015, contract bonds in issue under uncommitted facilities covered £221.6m (2014: £208.1m) 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 2015, the Group had net cash of £57.9m and committed banking facilities of £175m which are in place for more 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. See page 49 for further information on the Group’s longer-term viability.

OPERATIONAL REVIEW

Construction & Infrastructure

Divisional revenue of £1,232m was up 5% on the prior year (2014: £1,172m). Split by type of activity, Construction (including Design) accounted for 55% of divisional revenue at £682m, which was up 7% compared to the prior year, whilst Infrastructure was 45% of divisional revenue at £550m, up 3% on the prior year.



Revenue £m

2015	1,232
2014	1,172

+5%
CHANGE

Operating profit – adjusted* £m

2015	3.8
2014	3.5

+9%
CHANGE

Operating margin – adjusted* %

2015	0.3
2014	0.3

NO CHANGE

Operating margin for the year was 0.3% (2014: 0.3%), giving an operating profit of £3.8m (2014: £3.5m). Whilst the Infrastructure business has performed reasonably consistently across the year, delivery pressures and cost escalations in a number of older contracts in the Construction activities in London and the South impacted overall profitability and margins, particularly in the first half as previously announced. A significant proportion of these have subsequently been completed and closed out during the second half, resulting in the progressively improved financial performance through the period.

The committed order book for the division at the period end was £1,595m, up 4% since the start of the year. Within this, the Construction order book of £746m was up 25%, whilst Infrastructure at £849m was down 10%. Of the Construction order book, 89% by value has been derived through negotiated/framework/two-stage bidding procurement processes, with 11% from competitive tender processes. By comparison, as at the year end of 2012, only 33% of the Construction order book by value at that time was work derived through negotiated/framework/two-stage bidding procurement processes, thereby reflecting the significant positive shift in the quality of the order book since that time.

The key markets served by the division were Transport (Highways, Aviation and Rail) accounting for 32% of divisional revenue, with Education contributing a significant 28% and Water providing 9%.

Within Infrastructure in the Highways sector, the division holds a position on the Collaborative Delivery Framework with Highways England for schemes valued between £100m and £450m and new project starts include the £290m A6 Manchester Airport Relief Road in joint venture, providing around 10km of dual carriageway and improving connectivity across the region. In the Aviation business, the division is one of four partners delivering a £1.5bn programme of upgrades and improvements at Heathrow Airport over the next five years and is currently working on the £16m Sierra Taxiway rehabilitation project. In Rail, as part of its £113m position on the £250m Edinburgh-Glasgow Improvement Programme ('EGIP') alliance for Network Rail, the division lowered and laid a new slab track at the £17m Winchburgh Tunnel project, thereby enabling electrification of the line.

In other markets, specialist teams in Energy are working at Sellafield to provide a range of essential infrastructure asset services through a joint venture strategic alliance, whilst in Water, the division continues to support Welsh Water and Yorkshire Water within the AMP6 five-year frameworks to improve efficiency and develop long-term solutions to meet future challenges. Tunnelling also remains a key activity, with the division working on a number of the UK's most complex infrastructure projects with a highlight being the award, in joint venture, of the £300m-£500m West section of Thames Water's Thames Tideway Tunnel, the largest infrastructure project ever undertaken by the UK water industry.

Within Construction and split by region, the construction activities in Scotland and the North have continued to perform well compared to the prior year, with the East and South West delivering good progress. As a result of the ongoing poor performance

in London and the South, construction activities have been down-scaled in the year, with new business activity being limited to mainly frameworks or bidding opportunities involving either Investments or Urban Regeneration.

Education within construction continues to be a significant market, where the division received national acclaim for the delivery of The Enterprise Centre, a pioneering building at the University of East Anglia that boasts record-breaking sustainability credentials (see page 19). In the Commercial market, as part of the new £100m Longbridge town centre scheme, the division completed a significant tranche of commercial buildings ahead of programme as part of a £30m contract, whilst in Defence, the division is working alongside two other contractors on BAE Systems' £300m eight-year development programme which includes a mix of new build projects and refurbishment of existing facilities that will transform the company's submarine building capabilities.

Exceptional operating items of £46.9m have been charged in the year relating to the impairment of trade and other receivables on two old construction contracts (see page 28 for further details).

Looking ahead to 2016, the division's focus will remain on improving its quality of earnings through selective bidding, disciplined management of overheads and a rigorous approach to working capital. Whilst Infrastructure is expected to broadly maintain its steady performance, Construction is expected to continue with a gradual reversion back to more normalised construction margins progressively throughout the year and benefit from its higher-quality forward order book.

45%

INFRASTRUCTURE REVENUE

55%

CONSTRUCTION REVENUE



Heathrow Airport

Delivery of work at Heathrow Airport is through a three-year framework awarded in 2014, supplying design and construction services for the delivery and rehabilitation of landside and airside infrastructure. The framework position has further strengthened the division's track record in delivering projects in airside operational environments without disrupting existing operations. Working within a long-term framework provides opportunities to pursue innovation, and the division is currently trialling enhancements of the existing asphalt to improve the durability of the runways.

OPERATIONAL REVIEW CONTINUED

Fit Out

Fit Out delivered a very strong performance in the year, with revenue of £607m (2014: £507m), up 20%, and operating margin increasing to 4.0% resulting in operating profit of £24.0m (2014: £15.0m), up 60%.



Revenue £m



+20%
CHANGE

Operating profit – adjusted* £m



+60%
CHANGE

Operating margin – adjusted* %



+100bps
CHANGE

Whilst bidding across the market has remained competitive, the division has benefited from the high level of general fit out activity and the more attractive tendering opportunities and terms available. Focused on improving the quality of earnings, the 100bps margin increase in the year from 3.0% to 4.0% reflects the benefit of operational efficiencies in contract delivery and overhead management. Further investment in technology solutions available to on-site teams, enabling improved contract delivery and quality, has also supported the drive for enhanced operational efficiency across the division.

Split by type of work, 82% of revenue was traditional fit out work (2014: 79%), compared to 18% design and build (2014: 21%). 73% of revenue related to fitting out existing space (32% refurbishment of occupied premises) and 27% to new office fit out.

Split by region, London continues to be the most significant geographical market, accounting for 67% of revenue (2014: 67%) at £407m. Key activity drivers include increased occupier confidence and the competition for talent amongst corporates. Significant appointments include the fit out of ING's new UK commercial banking premises and Aon's new offices in the iconic Leadenhall building in the City, whilst the division also delivered major fit out contracts across many sectors including work for Microsoft and The All England Tennis Club.

There has also been increased activity across all regions outside of London, with revenue up to £200m (2014: £167m) maintaining its proportion at 33% of overall divisional revenue in the year. Of note, the division delivered the high-specification fit out for the new Portsmouth-based racing headquarters of Land Rover BAR, the British challenger for the 35th America's Cup (see page 21). In Scotland, demonstrating the division's national reach, work undertaken to transform PwC's office in Edinburgh has been recognised by the British Council for Offices with the award of its national 'Fit Out of Workplace' accolade.

The commercial office sector remains Fit Out's core market, providing 83% of revenue (£504m), an increase in proportion from 74% in 2014. Higher education contributes 7% of revenue with retail banking at 4% and government and local authority work also targeted.

Amongst its projects in higher education, the division completed an 11-month refurbishment and fit out programme for the University of Liverpool, and good progress is being made with a highly complex year-long refurbishment for Coventry University, transforming a 100,000 sq ft building into highly-specialised teaching and research facilities.

The committed order book as at 31 December 2015 was £341m, up 41% from the prior year position. Of this, £257m relates to revenue secured for 2016 and £84m to revenue secured for 2017 and beyond. The 12-month forward

order book of £257m is 9% up on the prior year's 12-month forward order book and is the usual measure for the division which ordinarily has a shorter-term visibility of its order book. It is highly encouraging, therefore, to have secured orders beyond 12 months at the level of £84m for 2017 and beyond.

Looking ahead, it is anticipated that the division will continue to trade strongly. A number of major pre-let commercial office schemes are progressing through London's development pipeline with anticipated completions in 2017 and the division will focus on targeting these opportunities. With its current order book, strong client relationships, national reach and operational delivery capability, the division is well positioned to capitalise on opportunities across all its end markets throughout the country.

£607m
REVENUE

4%
OPERATING MARGIN

Hachette UK

The new central London headquarters of leading UK publishing group, Hachette UK, have been transformed into 100,000 sq ft of contemporary workspace.

The building was built by sister division Construction & Infrastructure, with Fit Out delivering a work environment that allows each Hachette company to maintain its own identity within the overall brand. Shared activity spaces, a pavilion café and a rooftop terrace encourage cross-company collaboration and promote a sense of community.



OPERATIONAL REVIEW CONTINUED

Affordable Housing

Affordable Housing's activities are divided into two main categories: Partnership Housing (86% of revenue) which refers to the division's mixed-tenure regeneration housing partnership schemes, design and build house contracting and planned maintenance; and Property Services (14% of revenue) which includes the response maintenance activities.



Revenue £m

2015	426
2014	423

+1%
CHANGE

Operating profit – adjusted* £m

2015	8.6
2014	6.0

+43%
CHANGE

Operating margin – adjusted* %

2015	2.0
2014	1.4

+60bps
CHANGE

Although divisional revenue was broadly level with prior year at £426m (2014: £423m), operating profit improved substantially, up 43% to £8.6m (2014: £6.0m). The improved profitability was primarily due to a significantly better performance in Property Services, with a loss of £1.0m compared to a prior year loss of £3.5m.

In Partnership Housing, overall revenue was £366m, up 1% from the prior year (2014: £362m) with an operating profit of £9.6m, a margin of 2.6% (2014: profit of £9.5m). Capital employed at the year end was £113m, up by £31m over the year driven by investment in new mixed-tenure schemes. Of the total capital employed, £29m relates to historical shared equity loans and investment properties.

The mixed-tenure activities in Partnership Housing are the key strategic focus for the division and the driver of future growth and

profits, with revenue up 29% to £148m (2014: £115m). Across the open market sales and the social housing element of mixed-tenure, 913 units were completed at an average sales price of £162k.

The division made good progress on its existing portfolio of mixed-tenure development schemes. During the year, 15 new show homes were opened across a number of locations, and with an additional 15 anticipated in 2016, the division is expected to be operating across a record number of active site locations by the end of 2016.

Of particular note during the year was the securing of an 800-unit opportunity at the Mill at Canton, Cardiff, to provide 358 open market and 442 private rented sector, discounted rent and social rent homes, whilst additionally working on Investments' project to regenerate the

Affordable Housing performance by activity

	Revenue £m	% change	Operating profit £m	Capital employed £m	Number of units sold
Mixed-tenure	148	+29%			913
Design and build contracting	128	-8%			1,014
Planned maintenance	90	-17%			
Partnership Housing	366	+1%	9.6	113	1,927
Property Services	60	-2%	(1.0)	5	-
Total Affordable Housing	426	+1%	8.6	118	1,927

Moat Lane area of Towcester. Successful progress was made with the development of 78 open market homes and nine homes for social rent, also complementing Construction & Infrastructure's civil building scheme in Towcester.

Design and build housing contracting revenue decreased 8% to £128m (2014: £139m). With the market remaining highly competitive, margins have been under pressure and so the division maintained its selective and disciplined bidding approach whilst focusing on delivery of existing contracts. An example of the opportunities secured was the award of a series of contracts, totalling £67m, to create over 750 new council homes as part of West Lothian Council's new-build social housing programme.

Planned maintenance revenue reduced to £90m (2014: £108m), however at slightly improved margins. Particular success has been achieved through long-term frameworks, with 29 new positions and work valued at £82m secured, including the appointment by Chevin Housing Association to deliver its £20m two-year whole house improvement programme.

Within Partnership Housing, the current level of active sites and anticipated future outlets, together with a 2% increase in its regeneration and development pipeline at the year end to £782m (2014: £770m) and the 7% increase in its committed order book to £341m (2014: £318m) provide support to the growth opportunity ahead.

86%
REVENUE FROM
PARTNERSHIP
HOUSING

14%
REVENUE FROM
PROPERTY
SERVICES

Property Services incorporates the response maintenance activities and delivered revenue of £60m (2014: £61m) and an operating loss of £1.0m, much improved on the prior year loss of £3.5m, and remains on track to deliver a minimum of break-even in 2016.

The improved performance has been delivered through increased efficiencies from contract and overhead management together with new work won on better terms. The newly developed works and asset management system became operational in the year and on the back of this capability, the business secured the appointment to provide a combined asset management service to King Street Housing Society across its 800-home portfolio in Cambridge. In addition, Metropolitan Housing Trust awarded the division a £3m contract to provide combined maintenance services across mid-east England, whilst also on the business development front, the division has started working with Urban Regeneration and Investments to develop a property maintenance service for buildings developed by the divisions, further extending the Group's integrated capability.

The committed order book for Property Services was up 2% to £361m (2014: £355m).

Looking forward to 2016, overall divisional performance of Affordable Housing is expected to benefit from the ongoing investment programme in Partnership Housing, which will drive growth, and from continued improvement in the financial performance of Property Services.



King Street Housing Society

Affordable Housing's response maintenance business has developed a brand new IT system enabling a step change in asset management. King Street Housing Society appointed the business to help identify a more cost-effective response maintenance solution. The new system enables operatives to log up-to-date information on the condition of properties so that repairs and maintenance can be anticipated and planned rather than carried out in a responsive manner. The system underpins Propertycare, a new asset management model developed by the business in close collaboration with the Housing Society. The Propertycare approach enables the Housing Society to combine all its work streams to make long-term financial plans with greater confidence and insight.

OPERATIONAL REVIEW CONTINUED

Urban Regeneration

Urban Regeneration increased its operating profit to £12.9m (2014: £10.0m), generated from its development portfolio as schemes matured, and supported by significant investment in the year in current schemes and future development opportunities.



Capital employed¹ at year end £m

2015	76.6
2014	49.4

Average capital employed¹ (last 12 months) £m

2015	76.2
2014	49.9

Revenue £m

2015	110
2014	113

-3%
CHANGE

Operating profit – adjusted* £m

2015	12.9
2014	10.0

+29%
CHANGE

Capital employed¹ at the year end was £76.6m, up £27.2m from the prior year end. This is calculated after deducting non-recourse debt of £12.8m and deferred consideration on the purchase of interests in its joint venture with the Canal & River Trust of £14.0m. Average capital employed¹ for the last 12-month period ('LTM') was £76.2m, with the overall LTM return on average capital employed² of 15%.

Indicative of the diversity and scale of the developments in its regeneration portfolio, there were a number of contributors to the overall performance of the division, which included a total of 745 (2014: 347) residential sales completions.

Specifically during the year, residential completions were achieved on 14 projects including: two phases of Brentford Lock West (a joint venture with the Canal & River Trust); further residential sales from the

Vimto Gardens development (part of English Cities fund's ('ECf') Salford Central regeneration scheme – a joint venture with Legal & General and the Homes and Communities Agency); the completion and sale of all 184 residential units in the North and South tower apartment blocks in the Chatham Place, Reading development; the sale of remaining units in phase two of ECf's Rathbone Market scheme in Canning Town; the completion and sale of residential units on the Wapping Wharf, Bristol development (a joint venture with a local developer); and the development and sale of land in Hucknall, Nottinghamshire.

Additionally, ECf secured funding from Legal & General for its 90-unit 'bespoke' private rented development at Salford and the division let and forward funded (with AXA) a 50,000 sq ft John Lewis distribution facility in Leeds.

¹ 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 the period end, non-recourse debt was £12.8m (2014: £16.9m) and deferred consideration was £14.0m (2014: £13.6m). LTM average non-recourse debt was £18.6m (2014: £16.9m) and LTM average deferred consideration was £13.8m (2014: £15.7m).

² 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 and fees on non-recourse debt was £1.4m (2014: £1.2m) and the unwind of discount on deferred consideration was £0.4m (2014: £0.5m).

There are a number of key highlights in the division's forward development programme:

- > Through ECf, discussions with the London Borough of Newham are progressing to further extend the £300m residential-led Rathbone Market, Canning Town scheme. Over the past six years, the division has transformed the area into a desirable residential location with the new phase providing an additional 280 apartments by 2020.
- > Within one of the Mayor of London's new Housing Zones, the division is seeking planning permission to deliver up to 500 new waterside homes at Hale Wharf, Tottenham, through its partnership with the Canal & River Trust.
- > In addition, a mixed-tenure residential-led scheme will help revitalise the Bow Bridge Estate in east London through an agreement with registered social landlord, Poplar Housing and Regeneration Community Association.

During the year the division also secured 'preferred developer' status on six new projects, which will further strengthen its forward development pipeline.

Major development milestones include securing 10 planning consents on schemes with a total development value of £320m. A significant achievement is receiving consent for London Borough of Lambeth's 'Your New Town Hall' project in Brixton, delivering a modern civic office, 194 new homes and regenerating the listed town hall and civic spaces.

Approximately £400m of construction activity is under way on sites across the country with the division procuring work from external contractors and also, where appropriate, from Group divisions. Construction & Infrastructure has commenced on site on the fully-funded £107m Marischal Square development in Aberdeen which will create a vibrant new mixed-use quarter for the city and Affordable Housing has started construction of the first phase of 48 homes in Larkhall,

South Lanarkshire. Other major starts include the second phase of Stockport town centre's new gateway development and the first stage in the redevelopment of South Shields town centre as part of the division's £100m 365 Master Plan.

The regeneration and development pipeline as at the year end was £2,181m and from this pipeline, the division is expected to continue delivering strong returns as schemes develop and as further working capital is invested through 2016.

15%
ROCE

£12.9m
OPERATING PROFIT
- ADJUSTED *



Brentford Lock West, London

Situated along the banks of the Grand Union Canal, the 520-home Brentford Lock West is part of a five-year project, under development through a strategic partnership between Urban Regeneration and the Canal & River Trust. As well as providing much needed housing, the project includes new community features and green initiatives such as roof top allotments, an enhanced canal-side environment, communal courtyards and a planned water sports hub. The Halyards, the first phase of homes to be delivered, has received prestigious RIBA National and London awards.

OPERATIONAL REVIEW CONTINUED

Investments

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. During the year, approximately £160m of construction work was secured primarily for Construction & Infrastructure but also for Affordable Housing.



Capital employed¹ at year end £m

2015	16.6
2014	20.2

Average capital employed¹ (last 12 months) £m

2015	17.8
2014	17.3

Operating (loss)/profit – adjusted* £m

2015	(1.5)
2014	0.9

The division delivered an operating loss for the year of £1.5m. Capital employed¹ at the period end was £16.6m, down £3.6m on the prior year-end position. The reduction in the year was primarily due to achieving practical completion on the Towcester mixed-use Regeneration and Civic Accommodation project. LTM average capital employed was £17.8m.

In regeneration, the division has focused on creating new opportunities and delivering projects within its two local asset-backed vehicles ('LABV's). Within the £350m+ 20-year Bournemouth Town Centre LABV, a 50/50 joint venture public-private partnership with Bournemouth Borough Council, the division has handed over the new £12m Citrus Building, built by Construction & Infrastructure, and with three projects delivered within the programme, planning applications are being prepared for a further three residential developments.

The first project within the £1bn 15-year Slough Borough Council LABV, the £16m community development 'The Curve', is scheduled for completion by Construction & Infrastructure in early 2016 and Affordable Housing has started work on a 73-home residential development. In Towcester, Investments, Construction & Infrastructure and Affordable Housing are working in collaboration to deliver South Northamptonshire Council's £36m Moat Lane regeneration and civic accommodation scheme. A new civic centre has been handed over and commercial and residential elements are on site.

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

Note: Total capital at the year end of £16.6m is invested in a number of schemes including £4.9m in HB Villages (a joint venture focused on care and supported living), £5.0m in regeneration projects (including £3.6m in LABVs), £3.0m in PFI-type investments and £1.5m in the Wellspring Partnership, which is delivering public sector healthcare and education projects in Scotland and £2.2m in sundry other schemes.

£160m

SECURED CONSTRUCTION WORK

Within other sectors, the division has combined its healthcare planning and development expertise in a new joint venture, Health Innovation Partners, to help providers generate income and identify innovative efficiency solutions. The joint venture has been appointed by Burton Hospitals NHS Foundation Trust to deliver efficiency savings and infrastructure projects over the next decade. Within the division's HB Villages joint venture, in partnership with supported living provider HB Villages, 14 new schemes are under construction, with four handed over during the year, whilst in Scotland, through the hub West Scotland joint venture, financial close has been reached on 11 projects of which seven are healthcare and education facilities.



North West PF2 Priority Schools Programme

Appointed in a consortium as preferred bidder in 2014, Investments is currently delivering 12 schools in the North West PF2 Priority School Building Programme, having secured funding and gained planning permission. Construction & Infrastructure is responsible for the design and build of all the schools, demonstrating the Group's integrated capability. Planned completions are scheduled for summer 2017.

PRINCIPAL RISKS

The Board recognises the importance of risk in the running of its business, that circumstances are continuously changing and that therefore the risks need to remain under regular review. This review should be read in conjunction with the viability statement on page 49.

Overview

Operating in the construction industry, risk is at the heart of everything we do. We therefore have well-embedded risk and control processes in place 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. Each division identifies controls and mitigates threats within their operations. The reporting structure ensures that once the risk appetite is determined by the Board, risks are managed within acceptable tolerance levels.

Senior managers within the divisions take ownership of specific business risks. The likely causes and consequences of each risk are recorded and each risk is evaluated (both before and after the effect of mitigation) on its likelihood of occurrence and severity of impact on strategy. This approach allows the identification and consistent evaluation of principal risks, as well as consideration of the effect of the current lines of defence in mitigation.

Process

Risk is managed across the Group in the following ways:

- > The Group and its divisions undertake a comprehensive annual business planning process to identify objectives and set strategies to achieve their goals taking account of the risk appetite set by the Board.



- > The executive directors meet with the divisions regularly throughout the year and with an established agenda and reporting format covering a range of matters. This allows the executive directors to ensure that they maintain 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 (DELAPS) that define processes and procedures for approving material decisions, particularly with regard to project selectivity, tender pricing, risk, bid submissions and capital requirements. This ensures that projects are approved at the appropriate level of management, with the largest and most complex projects being approved at Board level.
- > Twice yearly each division carries out a detailed risk review which identifies mitigations or proposed actions for each significant risk. Risk registers document these together with any timescale by which actions are targeted for completion. In conjunction with the divisional risk reviews the Group's executive directors 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 considered at the monthly divisional board meetings, to ensure that they remain under continuous review.
- > The Group risk committee meets three times a year. Its purpose is to assist the Board in assessing and monitoring risk management across the Group.

The committee's role is to ensure that inherent and emerging risks in the business are identified and managed in a timely manner and at an appropriate level. The committee reviews the response of the Group to specific areas of risk, and approves standards and processes where weaknesses are considered to exist.

- > The Group's audit committee is responsible for monitoring and approving the work undertaken by the internal audit function and for ensuring that the internal audit process remains efficient and effective. The committee annually approves the internal audit plan which covers both project and corporate level risks. The plan is developed by focusing upon the principal risks identified from the risk review process and feedback from current divisional performance. The internal audit team reports regularly to the Board and the audit committee on its findings. This 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.

Principal risks

The Board has carried out a robust assessment of the principal risks that may threaten the Group's strategic priorities. The risks represent a snapshot of the Company's current risk profile. This is not an exhaustive list of all the risks the Company faces. As the global economic environment changes and industry circumstances evolve, new risks may arise or existing risks may recede or the ranking of these risks may change.

Our principal risks are set out below.

In general terms there is a continuing decrease in the overall risk perceived by the Group, due partly to the completion of a small number of contracts in London and the South which had experienced timetable slippages and increased costs. Other factors reducing risk are the more favourable project procurement routes that prevail and the sustained UK economy and housing market. However global economic effects could impact UK investor confidence and there remains some uncertainty ahead of the EU referendum and the effect this may have on the market.

The Group's overall view on risk can be summarised as follows:

Construction: Contract terms, procurement routes and entry margins are all more favourable, which, added to improvements in project controls, means that the Group will operate in a more favourable risk and opportunity environment than in recent years.

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

Capital and cash: The Group has committed banking facilities until 2018, which together with our robust cash and capital controls allow us to confidently manage our investment portfolio into the foreseeable future.

Resource: The People Promise initiated to address the Group's future talent requirement is gathering momentum. This investment has already begun to secure and develop the talent required to enable our longer-term growth plans.

Strategic priority	Principal risks
 Win in targeted markets	<ul style="list-style-type: none"> > Macroeconomics – new opportunities > Market capacity > Exposure to UK housing market > Poor contract selection
 Develop and retain talented people	<ul style="list-style-type: none"> > Safety or environmental incident > Failing to attract and retain talented people
 Disciplined use of capital	<ul style="list-style-type: none"> > Insolvency of key client, subcontractor or supplier > Treasury and funding > Management of working capital
 Maximise efficiency of resources	<ul style="list-style-type: none"> > Mispricing contracts > Poor project delivery > Managing changes to contracts and disputes
 Pursuing innovation	<ul style="list-style-type: none"> > Innovation > Information technology

Win in targeted markets

The markets in which we operate are affected to varying degrees by general global economic conditions.

We welcome the sustained improvements in the UK economy and in turn the quality of our related pipeline in Construction and Regeneration markets. Unsettled worldwide conditions, such as the impact of the EU referendum, interest rates and crude oil prices, remain a concern in their ability to influence investor confidence that could impact on the Group's longer-term strategy.

Principal risk	Mitigation	Key monitor/ metric/instrument Frequency	Risk change in reporting period ¹
<p>Macroeconomic – new opportunities Failure to anticipate and respond to global economic changes could result in the inappropriate allocation of resources and capital. This could affect the Group's profitability and cash generation.</p> <p>We have identified the markets and sectors in which we anticipate future growth (see page 5). Within those areas we remain focused on selecting opportunities that will provide sustainable margins and repeat business. We seek to anticipate and appropriately respond to changes in the global economic environment that may negatively impact on these chosen markets and sectors.</p>	<ul style="list-style-type: none"> > Strategic focus on market spread, geographical capability and diversification offer measured protection against the cyclical effect of individual markets. > Business planning processes focus on future markets and those opportunities that are consistent with our risk appetite. > Scale adds resilience by enabling the Group to compete and work in areas with higher barriers to entry. > Added value can be offered to clients when our divisions work together. > Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities. > Market intelligence helps detect potential shifts in spending and allows us to adapt our strategy if necessary. 	<ul style="list-style-type: none"> > Business planning process Annually > Board reporting Monthly > Pipeline and order book reporting Weekly > Sales and marketing report Weekly > Controls over delegated authorities (DELAPS) Ongoing 	<p>▼ Decrease</p> <ul style="list-style-type: none"> > We continue to enjoy sustained levels of opportunity in our Construction and Regeneration markets and high levels of demand for its development schemes. > This is partially tempered by levels of competition in the Construction market, albeit procurement routes, margins and terms continue to be favourable. > Development schemes are sensitive to market and consumer confidence. Our strategy continues to be geared to commit only if schemes prove economically viable. This means we can maximise our residential portfolio whilst being able to respond quickly to any future negative market fluctuations. > Construction & Infrastructure has been reshaped in order to take advantage of the current UK economy, be more selective to minimise risk and maximise opportunities for sustainable growth. > Group strategic reviews have been refocused by the appointment of a Group strategy director who is validating strategy and business planning in line with UK economic indicators and our growth aspirations.
<p>Market capacity Failure to rigorously review internal and third-party resource levels against anticipated workloads as a result of sustained levels of activity. Current positive market conditions continue to create a risk of potential overtrading and, we, together with our supply chain, are facing increasing pressure on cost and skills availability.</p>	<ul style="list-style-type: none"> > Rigorous DELAPS process requires teams at bid stage to verify that appropriate levels of qualified resource are available. > Our operational resource levels are regularly reviewed against anticipated workload. > We monitor and report on supply chain utilisation with a continued focus on initiatives within each division. > We seek to differentiate ourselves by being the customer of choice to our partners through the development and management of effective supply chain relationships. > The business planning process identifies future resource requirements and supply chain strategies. 	<ul style="list-style-type: none"> > Resource planning reviews Weekly > Supply chain feedback reporting Ongoing/quarterly > DELAPS Ongoing > Tender review boards Ongoing 	<p>▶ No change</p> <ul style="list-style-type: none"> > The industry continues to experience skills and cost inflation pressures that we are managing through disciplined bid and project selection processes. > Construction & Infrastructure's supply chain leadership team continues to drive initiatives, which include the promotion of supply chain partners and increasing engagement to align the business with the 'Customer of Choice' strategy. Moving forward our reporting will include monitoring of progress and improvements in performance throughout the year. This will help us secure the best supply chain partners to meet our future needs whilst in return offering attractive terms. > The People Promise initiative to help secure and develop talent has now been deployed into each of our divisions.

¹ Risk change in reporting period signifies the Board's opinion of pre-mitigation risk movement.



Win in targeted markets continued

Principal risk	Mitigation	Key monitor/ metric/instrument Frequency	Risk change in reporting period ¹
<p>Exposure to UK housing market The UK housing sector is strongly influenced by Government stimulus and consumer confidence. If mortgage availability and affordability become less favourable this could make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital.</p>	<ul style="list-style-type: none"> > Key UK statistics are monitored, including unemployment, lending and affordability. > Commitments to development schemes are carefully controlled via a rigorous three-stage development approval process. > Development structures limit speculative development to minimise the impact of negative market fluctuations. > Where possible, the forward purchase of land is subject to economic viability prior to commitment. > When feasible, sections of large scale residential schemes are forward sold to institutional investors. 	<ul style="list-style-type: none"> > Business planning process Annually > Board reporting Monthly > Sales and marketing report Weekly > Development forecasting Monthly/ quarterly 	<p>> No change</p> <ul style="list-style-type: none"> > Sales volumes, pace and inflation have held up strongly in both the investor and private markets. However, worldwide economic influences remain difficult to predict and could affect confidence.
<p>Poor contract selection There is a risk that a division would accept a contract outside 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. Failure to understand project risks may lead to poor project delivery and ultimately result in contract losses and reputational damage.</p>	<ul style="list-style-type: none"> > Business planning identifies the markets, sectors and clients that we will target. > Plans for specific types of work, contract size and risk profile are agreed by individual divisions. > A system of DELAPS governs bid selectivity and the acceptance of work. > Staff planning ensures appropriate levels of qualified resource. > Initiatives are in place to select supply chain partners that match our expectations in terms of quality, sustainability and availability. 	<ul style="list-style-type: none"> > Pipeline and order book reporting Weekly > Tender review boards Ongoing > Board reporting Monthly > DELAPS Ongoing > Sales and marketing report Weekly > Supply chain feedback reporting Ongoing/ quarterly 	<p>v Decrease</p> <ul style="list-style-type: none"> > The majority of our material projects continue to be secured with repeat clients. > The current market allows the divisions to be more selective in respect of which contracts to bid for. > The development within Construction & Infrastructure of enhanced pipeline and opportunity selectivity tools means we can identify work that has a higher probability of success. > Greater visibility of medium-term pipeline quality and the ability to give an early indication of longer-term trends mean we are better able to reshape the business in response. > As market conditions continue to be favourable we have experienced a greater use of more attractive procurement routes (negotiated and two-stage) and in addition have been able to negotiate more favourable terms.



Develop and retain talented people

Our performance and business conduct affects employees, subcontractors and the public and, in turn, can affect our reputation and commercial performance. We pride ourselves on our industry-leading practices and our work in some high-profile and technically challenging markets.

Increased market activity has resulted in higher levels of employee turnover across the sector. If we do not succeed in attracting and retaining the right talent for our future needs we will not be able to develop the business as anticipated.

Principal risk	Mitigation	Key monitor/metric/instrument Frequency	Risk change in reporting period ¹
<p>Safety or environmental incident With increased pressure on employees and the supply chain there is an increasing risk that an accident or incident occurs causing harm to an individual or community. This could result in legal proceedings, financial penalties, insurance claims, reputational damage and project delays.</p> <p>Consequently we would fail to prequalify in our markets due to a poor health, safety and environmental ('HSE') track record and ultimately fail to deliver our targets.</p>	<ul style="list-style-type: none"> > Key executives with specific responsibility for HSE are identified in each division and on the Board. > HSE policy frameworks are widely communicated and senior managers appointed to manage them in each division and at project level. > A Group-wide health and safety forum operates to share learning, best practice and emerging risks. > Established safety systems, site visits, monitoring and reporting procedures including near-miss and potential hazard reporting, are in place across the Group. > Investigation and root cause analysis of accidents or incidents and near misses are undertaken. > Regular HSE training includes behavioural training and update courses are provided. > Major incident management plans and business continuity plans are in place and periodically reviewed and tested. 	<ul style="list-style-type: none"> > HSE Board report Monthly > Group HSE forum Quarterly > HSE project audit and HSE training schedules and ratios Ongoing/monthly > HSE incident investigation report Ongoing/monthly 	<p>> No change</p> <ul style="list-style-type: none"> > We monitor comparable industry-leading statistics. A significant proportion of work is carried out in highly complex and public environments which requires strict observation of the highest levels of Health and Safety Executive standards. > Safety innovations in Construction & Infrastructure this year have included: i) a 'human performance' approach to leadership, supporting focus on influential and current HSE trends and themes; ii) a cultural development programme and the development of a behavioural model for supervisors; iii) improvements in our engagement with the supply chain; iv) the introduction of High Potential Incident measures to improve intelligence; v) safety improvement plans in place for each business unit. > A Board HSE committee was established in 2015 to oversee health and safety performance.
<p>Failing to attract and retain talented people In the current economic environment, it has become increasingly difficult to attract and retain the best people. Without talent, it becomes very difficult to maintain the highest levels of customer service and technical excellence that we strive for.</p>	<ul style="list-style-type: none"> > The People Promise has been deployed in all divisions aiming to build the Group's talent pool, identify people with high potential for future leadership, offer exciting career opportunities and recognise achievement. > Future skills and capability requirements are monitored. > An annual employee appraisal process is in place, providing a two-way feedback on performance. > Training and development plans seek to maximise relevant skills and experience. > Succession plans are in place across the Group. > Staff leaver and joining feedback is obtained to understand reasons for change. > Remuneration packages are benchmarked where possible. 	<ul style="list-style-type: none"> > Divisional 'people boards' to review talent Twice a year > HR Board reporting Monthly > Employee joiners and leavers report Weekly/monthly > Recruitment monitoring Weekly/monthly > Annual appraisal process Annual 	<p>> No change</p> <ul style="list-style-type: none"> > Although the industry continues to suffer from a lack of skilled talent which will remain an issue for the foreseeable future, our investment in the People Promise and associated initiatives is helping us to retain our talented teams. > Continued investment is made in graduate, trainee and apprenticeship schemes to secure an annual inflow of new talent. > A new leadership development programme was launched in 2015 with the aim of training 400 leaders over the next two years.

¹ Risk change in reporting period signifies the Board's opinion of pre-mitigation risk movement.



Disciplined use of capital

Without sufficient liquidity, our ability to meet our liabilities as they fall due would be compromised, which could ultimately lead to our failure to continue as a going concern.

In a rising market there is an increased risk that the Group’s counterparties overtrade, which could affect their liquidity. The heightened market that prevails could mean that a client or supply chain partner inadvertently over stresses their finances, so we need to remain vigilant.

Principal risk	Mitigation	Key monitor/ metric/instrument Frequency	Risk change in reporting period ¹
<p>Insolvency of key client, subcontractor or supplier Insolvency of a client may result in significant financial loss due to a bad debt, whilst 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. There is also a risk that, given the wider global economic climate, historical credit checks are relied upon that have subsequently been overtaken by events.</p>	<ul style="list-style-type: none"> > Work is only carried out for financially sound clients, established through rigorous due diligence and credit checks. > Financial security is sought and obtained where required including specific commercial terms and payment terms, with escrow accounts used as appropriate. > Contracts with clients, subcontractors or suppliers are only entered into after review at the appropriate level of delegated authority. > Work with approved suppliers wherever possible. > Regular meetings are held with key supply chain members to give and receive feedback and maintain the quality of the relationship. > Business strategy is largely focused on public and commercial clients based in sound market sectors, reducing the risk of failure. 	<ul style="list-style-type: none"> > Pipeline and order book reporting Weekly > Tender review boards Ongoing > WIP/debt/retention monitoring Daily/weekly > Supply chain feedback reporting Ongoing/quarterly > Supply chain prequalification Ongoing > DELAPS Ongoing 	<p>> No change</p> <ul style="list-style-type: none"> > Increasing emphasis on project selectivity ensures that we optimise our focus on sectors and clients that have secure covenants. > Construction & Infrastructure has a greater focus on securing long-term supply chain relationships with financially sound subcontractors.
<p>Treasury and funding A lack of liquidity could impact our ability to continue to trade or restrict our ability to invest in regeneration schemes or growth markets.</p>	<ul style="list-style-type: none"> > We have committed banking facilities of £140m maturing in 2018 (of total facilities £175m). These will enable us to fund our planned investment portfolio. > A three-stage process for approving development and investment-related schemes gives an early indication of potential long-term balance sheet commitments. > We have a disciplined allocation process for significant project related capital which considers all future requirements and return on investment. > Daily monitoring of cash levels and regular forecasting of future cash balances and facility headroom are conducted. > Long-term cash forecasts are regularly stress tested. > Group DELAPS ensure prior approval is sought for significant project-related capital. 	<ul style="list-style-type: none"> > Management accounts Monthly > Monitoring of cash levels Daily > DELAPS Ongoing > Cash forecast report Weekly/monthly 	<p>v Decrease</p> <ul style="list-style-type: none"> > Debt availability and terms continue to improve for the Group, our clients and our supply chain.
<p>Management of working capital Poor management of working capital leads to inadequate liquidity and funding problems.</p>	<ul style="list-style-type: none"> > Working capital is monitored and managed as appropriate, with acute focus on any overdue work in progress, debtors or retentions. > Ongoing cash management focus continues to improve. > Cash profiling of key opportunities is undertaken at an early stage to ensure they meet the Group’s expectations. 	<ul style="list-style-type: none"> > Monitoring of cash levels Daily > Cash forecast report Weekly 	<p>v Decrease</p> <ul style="list-style-type: none"> > Working capital continues to improve as aged projects unwind and general market terms improve. > Continued cash optimisation focus and controls are realising benefits.

Maximise efficiency of resources

The Group undertakes several hundred contracts each year. 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.

Having identified the markets in which we will operate, we must ensure that we select opportunities which we can successfully deliver by employing capable and available resources. We must actively manage these resources to ensure our clients receive exceptional levels of service.

Principal risk	Mitigation	Key monitor/ metric/instrument Frequency	Risk change in reporting period ¹
<p>Mispricing a contract If contracts are not costed correctly this could lead to loss of profitability on a contract that reduces overall gross margin. It may also result in damaged client and project team relationships.</p>	<ul style="list-style-type: none"> > Robust DELAPS govern the selection of all bids and the acceptance of work at key stages. > We have a well-established bidding process and experienced bidding teams. > Robust pre-selection, due diligence and risk assessment of individual bids take place. > Contract tender reviews are conducted at three key stages: pre-qualification, pre-tender and final tender submission. Each stage is approved by an appropriate level of senior management via tender review boards. 	<ul style="list-style-type: none"> > Tender review boards Ongoing > Board reporting Monthly > DELAPS Ongoing 	<p>> No change</p> <ul style="list-style-type: none"> > We continue to secure improved contract procurement routes and terms. > The development within Construction & Infrastructure of enhanced pipeline and opportunity selectivity tools means we can identify work that has a higher probability of success. Greater visibility of medium-term pipeline quality and the ability to give an early indication of longer-term trends better enable us to reshape the business in response.
<p>Managing changes to contracts and contract disputes Changes to contracts and contract disputes could lead to costs being incurred that are not recovered and loss of profitability on a contract and delayed cash. Ultimately we may need to resort to legal action to resolve disputes which can prove costly with uncertain outcomes, and can adversely affect our client relationships.</p>	<ul style="list-style-type: none"> > Work is carried out under standard terms wherever possible. > Contract terms are reviewed at tender stage and any variations approved by the appropriate level of management. > We have well-established systems of measuring and reporting project progress and estimated outturns, including contract variations. > Enhanced project management systems have lead indicators that assist in the early identification of potential issues. > Increasing building information management ('BIM') adoption is helping us overcome potential design and constructability issues before they become too costly or time consuming. > Regularised project review process including peer reviews ensures rigour is applied in core processes to facilitate early warning and subsequent mitigation strategies. > A decision to take legal action is based on appropriate legal advice and suitable provision made for legal costs. 	<ul style="list-style-type: none"> > Project financial performance Monthly > Project operational performance Monthly > Electronic project management tool dashboard Ongoing 	<p>v Decrease</p> <ul style="list-style-type: none"> > Contract procurement routes and terms are improved with an increasing two-stage and negotiated approach. > Further enhancements have been made to contract early warning techniques. > The BIM strategy has been fully developed to provide more efficient asset management across the whole lifecycle.

¹ Risk change in reporting period signifies the Boards opinion of pre-mitigation risk movement.



Maximise efficiency of resources continued

Principal risk	Mitigation	Key monitor/ metric/instrument Frequency	Risk change in reporting period ¹
<p>Poor project delivery The quality of workmanship or commercial or operational delivery, whether by the Group or a joint venture partner or subcontractor, does not meet the expectations of clients. Project failures could incur additional costs that erode profit margins and lead to the withholding of interim cash payments impacting on working capital. It is also possible 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.</p>	<ul style="list-style-type: none"> > A project review process facilitates early warning and subsequent mitigation strategies. > Electronic project management workbooks enhance functionality, client experience and efficiency with the ability for 'live' reporting of key project aspects such as programme and change control. > An escalation process ensures senior management intervention at an early stage. > Formal internal peer reviews highlight areas of improvement, risk and/or best practice. > Client feedback is collated and reviewed using customer satisfaction questionnaires ('CSQs') and the Perfect Delivery process. > Lessons learned exercises are carried out on projects. > Teams are incentivised on Perfect Delivery outcomes to achieve high levels of client satisfaction. > Strategic supply chain trading arrangements are in place to help ensure consistent quality. 	<ul style="list-style-type: none"> > Electronic project management tool Ongoing > CSQ and Perfect Delivery performance monitoring Ongoing/ monthly > Project financial performance Monthly > Project operational performance Monthly 	<p>▼ Decrease</p> <ul style="list-style-type: none"> > New enhanced project related electronic early warning 'Lead Indicator' tool monitors programme, margin, change of project scope and cash, allowing early identification of issues. > The improving market and terms under which we contract reduce the probability of disputes. However the upward pressure on skills and commodities needs careful management to avoid surprises. > The development within Construction & Infrastructure of an enhanced opportunity selectivity process affords greater visibility of both project and portfolio risk. This means we select projects that have a higher probability of success. > A significant BIM capability means we are ready to meet the Government's 2016 mandate and overcome potential design and constructability issues before they become too costly or time consuming. > The Perfect Delivery philosophy and culture is embedded in each division and differentiates the Group's offering. > Advanced client experience developments are under way in the Fit Out division.



Pursuing innovation

We are committed to offering clients innovative and cost-effective solutions. If we fail to encourage an innovative approach across the Group we will lose our competitive edge and suffer reputational damage.

This is coupled with the risk that our systems will not provide appropriate security levels or resilience needed to ensure reliable levels of business continuity. The ever-evolving technology environment and persistent cyber security threat will remain a challenge for the foreseeable future.

Principal risk	Mitigation	Key monitor/ metric/instrument Frequency	Risk change in reporting period ¹
<p>Innovation A failure to adopt appropriate innovations in new products or techniques could result in the Group being less effective than our competitors and unable to secure best value for, or offer the best solutions to, our clients. If new technologies and innovation are not promoted into the business environment we may become a less attractive proposition to new and existing talent.</p>	<ul style="list-style-type: none"> > A culture of innovation is encouraged and relevant ideas, sourced via employees, supply chain, clients and external sources, are promoted into the business environment. > Reviews are undertaken to promote elimination of waste of both resources and processes, adopting lean methodology where appropriate. > Business improvement and IT forum structures are in place to review, sponsor and promote new innovations into the business. 	<ul style="list-style-type: none"> > IT budget forecasting Annual/monthly > Annual business planning Annual > Work winning Ongoing > Project operational performance monitoring Ongoing 	<p>▼ Decrease</p> <ul style="list-style-type: none"> > We are progressively adopting new technologies in order to work more efficiently and sustainably, attract and retain talent, and ultimately attain greater returns. > Recent innovation examples include Lync, BIM, a careers website, upgraded electronic site management tools, smart device facilitation, online recruitment and applicant tracking system, management information systems, enhanced enterprise finance tools and a web-enabled housing stock system. > In the near future our largest division, Construction & Infrastructure, plans to introduce a new electronic work winning tool designed to provide workflow management of our tender pipeline and enhanced live business information tools.
<p>Information technology If we fail to manage and invest in our IT environment we will not meet the future needs of the business in terms of expected growth, security and innovation, ultimately meaning that we will fail to maintain a sustainable business.</p>	<ul style="list-style-type: none"> > Our Group-wide IT strategy has been remodelled to encompass an optimised shared services approach, direction and investment. > A coordinated services approach drives optimisation, efficiency and performance across the whole technology environment. > A Group-wide IT forum structure is in place ensuring focused strategic development and day-to-day running of our technology environment. > Progressive IT investment continues to yield infrastructure, application and service delivery improvements. > Group-wide risk and security strategies are enacted, creating awareness, threat alert, risk and vulnerability prioritisation and response. 	<ul style="list-style-type: none"> > Group and divisional IT forums Monthly > IT monitoring and performance reporting Ongoing/monthly 	<p>▶ No change</p> <ul style="list-style-type: none"> > Our progressive investment in our IT strategy and programme is maturing, but at the same time needs to remain focused. > We continue to make significant headway in the centralisation of our IT capability and as a result have enhanced levels of resilience across the network that include our data and security environments.

¹ Risk change in reporting period signifies the Boards opinion of pre-mitigation risk movement.

VIABILITY STATEMENT

As required by provision C.2.2 of the Code, the directors have assessed the prospects of the Group and have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment. This assessment took account of the Group's current position and principal risks and has been made using a period of three years commencing on 1 January 2016, which is consistent with the Group's budgeting cycle.

The directors have considered the Group's solvency and liquidity using cash flow projections. These are compiled on a bottom up basis incorporating each division's detailed business plans. At Group level, the base case financial projections assume modest revenue growth and an improvement in gross margin back to more normal levels for the Group, as the problem contracts that impacted 2015 do not recur and procurement routes become more favourable with less single stage, competitive tendering. Overheads are expected to increase ahead of inflation to support the expected growth in volumes and activity. Operating cash flows are assumed to broadly follow forecast profitability in the Group's construction activities, but are much more independently variable in regeneration, driven by the timing of construction spend and programmed completions on schemes.

The Group's main committed bank facility matures in September 2018. The directors draw attention to the key assumption that there is a reasonable expectation that this will be renewed at the appropriate time or the term extended and that there will not be a material reduction in the level of facilities available to the Group or a material change in the pricing.

The impact of a number of downside scenarios on the Group's headroom against its committed facilities and the financial covenants thereon has been modelled based on the Group's principal risks. The scenarios are focused on the risks that are scored as most likely to occur or that would have the greatest potential severity should they occur and include lower revenue growth, failure to improve gross margin from current levels, a decline in gross margin and deterioration in working capital, specifically client receivables.

The Board has also considered a range of potential mitigating actions that may be available if one or more of the scenarios arose.

RESPONSIBLE BUSINESS REVIEW

OUR APPROACH

The Group is committed to being a responsible business, which means being economically, environmentally and socially sustainable as well as acting at all times with the highest standards in integrity, governance and transparency. This committed approach helps us to maximise efficiencies, reduces our exposure to risk and boosts our ability to win work. Importantly, it strengthens our reputation as an employer of choice, contributing to our ability to attract, motivate and retain talented people.

Five years ago we launched our Total Commitments. These Commitments gave us a cohesive strategy and provided each division with a standard approach whilst allowing it a degree of flexibility to meet the challenges and business needs of its own markets. As a Group, we have made significant strides in implementing best practice against these Commitments. We now measure and manage our impacts more accurately and know where we need to improve.

As a result of feedback from our stakeholders, changing market demands and the development of our strategic business priorities, the Group's Commitments have been simplified for 2015-2016. We have aligned the Commitments to our business strategy and have analysed in our business model the impact of our business on our stakeholders. The table below sets out our Total Commitments and how they link to our strategic priorities.

Our business, like all others, faces risks that threaten progress against our Commitments. See pages 40 to 48 and our website for further information on what these risks are and how we monitor and mitigate them.

In 2015, we made significant progress against some aspects of our responsible business agenda, although we need to continue to drive down the number of health and safety incidents across the Group. We have again made significant progress in our environmental performance, reducing our carbon emissions by 9% and increasing the percentage of waste diverted from landfill by four percentage points. Our ongoing investment in the development of our employees is demonstrated by a 55% increase in the average number of training days.

Our Group director of sustainability and procurement is responsible for driving progress on our Commitments throughout the Group, ensuring that a consistent approach is adopted and best practice shared. Each division has its own sustainability forum that translates the Group's strategy into deliverable actions and integrates them into their way of working. Much of our work is delivered through joint ventures and partnerships and we aim to select long-term partners and supply chain members who share our standards.

We have changed the way we report on our actions for 2015. Instead of providing a separate sustainability report in future, reporting will be undertaken primarily online, using the Global Reporting Initiative's ('GRI') G4 framework as a reporting structure. The G4 reporting principles provide transparency. They impose a greater emphasis on materiality and the process of identifying and prioritising the most important challenges and opportunities that impact us as a Group and our stakeholders. This responsible business review incorporates a summary of our sustainability achievements over the past 12 months.

Total Commitments	Group strategic priorities				
	Win in targeted markets	Develop and retain talented people	Disciplined use of capital	Maximise efficiency of resources	Pursuing innovation
Operating safely	✓	✓		✓	✓
Developing our people	✓	✓		✓	✓
Protecting the environment	✓			✓	✓
Managing our supply chain			✓	✓	✓
Working with communities	✓	✓			✓

Regular communication with our stakeholders is essential. It helps us ensure that we keep re-examining our beliefs and values so that our responsible business strategy and targets remain relevant and meaningful. Our new responsible business website enables us to report progress on a more frequent basis and provide internal and external audiences with a look ahead to future areas of focus for the Group.

What matters to us and our key stakeholders

We identify our key stakeholders as our current and future employees, investors, clients, supply chain partners, joint venture partners, local communities, industry associations, and government bodies and regulators. We communicate regularly with each of these groups to keep them informed of our activities and to ensure that we are up to date with what is important to them. The nature and frequency of our interaction with each stakeholder group is set out in detail on our responsible business website pages.

Stakeholder panels

We continue to invest in our independently-chaired Supply Chain and Next Generation discussion panels.

The Next Generation Panel comprises 12 younger employees from across the Group. This panel met quarterly in 2015 to provide feedback on the way in which responsible business is delivered and communicated across the Group. Panel members presented their proposals on what future working practices might look like at our senior managers' conference in October.

The 10 members of our Supply Chain Panel met four times in the year to provide a representative view of the challenges and opportunities of a broad supply chain, which ranges from vehicle leasing to building supplies, office equipment and hire services. As well as acting as our critical friends, this panel provides the ideal forum for discussing emerging trends and future sustainability challenges, particularly those involving raw materials and life cycle analysis.

Establishing a client panel, which is currently the missing piece of our stakeholder engagement process, has taken longer than originally planned. We have taken the approach of establishing the first two panels and once they are fully operational, we will replicate the model with clients. With the Next Generation and Supply Chain Panels now meeting regularly and providing valuable feedback, we will be focusing on the client stakeholder group in early 2016.

Materiality

In order to ensure that our responsible business strategy is focused around matters that are material to our stakeholders, we undertook our second materiality study in late 2015.

Using an online platform specifically developed for the purpose, we were able to gather and analyse data on a range of issues, thereby building a quantitative picture of stakeholders' views.

A detailed materiality matrix was then constructed, based on G4 reporting principles. Over 1,500 employees and more than 370 external stakeholders including clients, suppliers, investors and non-governmental organisations, completed the engagement. The matrix below shows those issues that stakeholders believe to be material and possibly material. Full details of the engagement process are available on our website.

Material issues

Importance to stakeholders ²	Material	<ul style="list-style-type: none"> › Responsible sourcing › Waste › Engaging with clients › Economic and business performance › Legal compliance › Developing and training employees › Engaging with our employees › Health and safety
	Possibly material	<ul style="list-style-type: none"> › Bribery and corruption › Business ethics › Corporate governance › Engaging with our suppliers › Equality and diversity › Creating opportunities for young people › Energy use › Carbon emissions › Advocacy and leadership
		<div style="display: flex; justify-content: space-around;"> Possibly material Material </div> <p>Importance to business¹</p>

1 Based on responses from management-level employees.

2 Based on all other responses (non-management employees and external stakeholders).

The issues identified all relate to issues covered by our strategy, Total Commitments and performance, which are addressed in this strategic report, or to business governance and ethics, which are addressed in the corporate governance section of this report.

During the first quarter of 2016, we will analyse the results of the materiality study and the implications for our responsible business strategy. Early indications are that there has been a shift towards a greater number of social topics, such as engagement with employees and clients. Many stakeholders consider that aspects of environmental sustainability, significantly energy and carbon, are now embedded in the way we operate. Full details of the Group's ongoing approach to stakeholder engagement and the recent survey results are available on our website,

www.corporate.morgansindall.com

OUR PERFORMANCE

Our short and medium-term targets for each Total Commitment are being reviewed, to ensure that they remain relevant and challenging, based upon the materiality study undertaken. Going forward, targets and performance data for 2016 will be reported online. Our performance against each Total Commitment is presented below:

Operating safety

Our approach

The safety of everyone involved in a Group project remains our highest priority. We invest significantly in health and safety training to improve understanding across all our divisions. Our stand-down days, safety workshops, toolbox talks and behavioural change initiatives are all well established.

Key performance indicator

Total number of RIDDOR¹ incidents

2015	81
2014	68

¹ The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

What we did in 2015

Unfortunately, our RIDDOR incidents increased significantly in 2015. Data is captured and reported monthly, so we were able to identify this deterioration early and take steps to understand whether there was any underlying cause. Careful analysis of the profile, type and location of incidents did not provide clear indication of any recurring trends or themes. We believe that, at least in part, the increase in the number of RIDDORs highlights the skills shortage currently facing the construction sector. As the upturn in demand continues, managing the growth in labour requirement involves larger numbers of young or inexperienced workers as well as an increase in subcontractor and labour agency personnel of which we need to be aware and address.

In 2015 the Board established a health, safety and environment committee, chaired by a non-executive director, to support the Board in monitoring health and safety priorities and processes. The committee strengthens the existing Group health and safety forum and the divisional health and safety teams.

Improvements have been made in safety communication and training, particularly at senior management level. 'What leadership looks like, in terms of safety' was a key focus for the Group management team and was one of the topics addressed at our senior managers' conference in October. We have introduced more targeted training, particularly around behavioural safety.

In 2015 we developed a continuing programme of occupational health and wellbeing. The Group is actively participating in the Institution of Occupational Safety and Health's ('IOSH') 'No Time to Lose' campaign which promotes awareness and action to prevent exposure to carcinogenic substances and materials. Recognising the risks to construction workers of lung disease, we are also supporting the Chartered Society for Worker Health Protection's 'Breathe Easy' initiative.

Going forward

- > We will continue to monitor and improve health and safety training and awareness of employees and subcontractor personnel.
- > Occupational health and employee wellbeing will be an increasingly important focus for the Group in 2016.

Developing our people

Our approach

Continued investment in training is fundamental to achieving our strategic priority of developing and retaining talented people as well as delivering high-quality work for our clients. By developing the skills and knowledge of our employees, we are also investing in a more sustainable, productive and stable workforce for the future.

Key performance indicator

Average number of training days per employee

2015	3.4
2014	2.2

What we did in 2015

The number of training days per employee was increased significantly during the year. As well as offering opportunities to 12% more apprentices and graduates, the Group supported 2,042 employees on NVQ and professional development courses.

The Group became a member of the 5% Club, a national campaign focused on creating momentum behind the recruitment of apprentices and graduates into the UK workforce. In 2015, 4.92% of the Group's employees were made up of apprentices, graduates or sponsored students on structured year-out programmes.

See page 68 of the corporate governance report for information on the Group's approach to diversity, our gender statistics and commitment to human rights.

Going forward

- > We are committed to achieving the 5% Club target. As part of our investment in developing our people we will roll out the Group's leadership programme and continue to support NVQ and professional development training.

New apprentices for Affordable Housing as industry faces skills shortage

With recent reports noting that the current UK construction industry skills shortage is the worst since 1998, Affordable Housing has taken on a host of new apprentices.

Over half of all construction companies are finding it hard to recruit the staff they need, with bricklayers and quantity surveyors in particularly short supply (according to a 2015 report from the Royal Institution of Chartered Surveyors).

The division has recently taken on two new apprentice bricklayers and three work-placement bricklayers, along with apprentice carpenters, maintenance operatives, business administrators and a quantity surveyor, with a total of nine new apprentices and five work placements in the Midlands since September.



OUR PERFORMANCE CONTINUED

Protecting the environment

Our approach

The Group is committed to reducing its environmental impact. We were an early adopter of carbon reduction targets and achieved major reductions in carbon emissions prior to 2015. We continue to focus on reducing operational energy costs for the Group and reducing energy consumption across our entire supply chain.

Key performance indicator

Total carbon emissions (tonnes of CO₂e)

2015	34,218
2014	37,627

	2015 (tonnes)	2014 (tonnes)
Total waste produced	937,271	1,326,247
Total waste diverted from landfill	837,854	1,140,306
% waste diverted from landfill	90%	86%

What we did in 2015

We are pleased to report a significant further reduction in carbon emissions in 2015 of 3,409 (CO₂e), an increase in the percentage of waste diverted from landfill and a reduction of 29% in the amount of actual waste produced.

The Group contributed once again to CDP (formerly known as the Carbon Disclosure Project), our score reducing slightly to 94B (2014: 97B). During the year we also made a commitment to the CDP's 'Commit to Action' initiative. We currently comply with the requirements to report climate change information in mainstream reports and to undertake responsible corporate engagement in climate policy.

In 2015, we complied with the requirements of the EU Energy Efficiency Directive and ESOS (E Regulations 2014). ESOS considers a company's entire energy usage including energy use per employee, buildings, transport, industrial and commercial processes, and is intended to help reduce energy consumption and therefore save costs. The Group's energy audits were undertaken by global supply chain risk management company Achilles.

Going forward

- > We will review changes needed to adopt a science-based carbon emissions reduction target and to remove commodity-driven deforestation from our supply chain by 2020.
- > We will continue to try and reduce our carbon emissions and the amount of waste sent to landfill.

Greenhouse gas emissions

Our greenhouse gas emissions have been calculated based on the ISO 14064-1:2006 Standard. 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 recertification audit of its energy data by Achilles under its Certified Emissions Measurement and Reduction Scheme ('CEMARS'). Emission factors are from the Department for Environment, Food & Rural Affairs ('Defra') conversion factor guidance, current for the year reported. Prior year's data has been rebased using Defra's 2013 factors. All data has been verified by Achilles.

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

	Tonnes of CO ₂ equivalent 2015	Tonnes of CO ₂ equivalent 2014	2010 baseline
Scope 1 – Operation of facilities	23,506	25,244	33,357
Scope 2 – Indirect emissions (purchased energy)	8,081	9,168	25,288
Scope 3 – Indirect emissions (related activities)	2,631	3,214	5,097
Total emissions	34,218	37,626	63,742

	2015	2014	2010 baseline
Greenhouse gas emissions intensity ratio	14.4	17.0	30.3
Turnover	£2,385m	£2,220m	£2,102m

Edible garden for East London school

Fit Out took part in a project to create an edible garden for St Saviour's School in Poplar, in support of the school's ongoing 'Trees for Cities' initiative. An outdoor patch of unused land within the school grounds was levelled and paved, and a new greenhouse and shed installed. Trees were planted and raised garden beds built for fruit shrubs, herbs and vegetables to be used in school meals. The team that worked on the garden was made up of employees from Fit Out, a number of subcontractors and the law firm Clifford Chance LLP, for whom the division had recently completed a project in nearby Canary Wharf. The project was part of a continuous effort by Fit Out project teams to contribute a lasting benefit to the communities in which they work.



Managing our supply chain

Our approach

Engaging with and educating our supply chain is a key objective for the Group. We helped establish the Supply Chain Sustainability School, launched in 2012 and part-funded by the Construction Industry Training Board. The School has since grown, with 5,345 individual companies having signed up, and it now has sector-specific leadership groups including construction, infrastructure and homes.

Key performance indicator

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

2015	71
2014	72

What we did in 2015

A total of 1,533 companies in our supply chain undertook training at the Supply Chain Sustainability School, improving their own sustainability credentials and strengthening their ability to support the Group's responsible business strategy.

Going forward

- > The Group will continue to be closely involved with the Supply Chain Sustainability School, which gives us the opportunity to influence and educate large and small suppliers by promoting and sharing best practice.
- > We are reviewing the requirements of the Modern Slavery Act 2015 and assessing the different elements of our supply chain to highlight any areas of risk and the appropriate controls that need to be implemented to manage these risks. During 2015 a policy was agreed which will be implemented early in 2016. Activities will include training as appropriate for all employees and key suppliers on our policy and approach.

OUR PERFORMANCE CONTINUED

Working with communities

Whether it is the construction of a new college, an affordable housing scheme or the regeneration of an entire inner city area, our projects deliver positive gains to local communities and the wider society. But we also need to minimise any potential adverse impacts of our construction works. Our project teams engage with local people, businesses and voluntary organisations during construction to learn of any specific needs and help them understand what the project is going to deliver.

The KPI chosen to represent our commitment to working with local communities is the local multiplier effect. This is a measure of the extra economic benefit delivered to a local area, as a result of money being spent – and re-spent – in the local economy. We use a tool called LM3, developed by the New Economics Foundation, to determine how our investment in each community adds economic value.

Key performance indicator

Number of projects using the LM3 tool

2015	38
2014	14

What we did in 2015

The number of projects to which the LM3 tool was applied increased significantly in 2015.

Much of what we achieve in terms of community support and involvement is difficult to measure objectively. Some indicators, such as the Group's outstanding scores in the Considerate Constructors Scheme and recognition by the many awards won at Group and divisional level, give an indication of our level of community involvement. In 2015 the Group secured 49 Considerate Constructors Scheme Awards (2014: 47 awards).

Going forward

> We will use data from the LM3 tool to forecast economic impacts on local communities as well as analyse them retrospectively. This will allow us to adapt our strategy on projects as they progress, to maximise the economic benefits for the local community.

Approval of the strategic report

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

John Morgan
Chief Executive

23 February 2016

GOVERNANCE REPORT

Board of directors	58
Group management team	60
Corporate governance report	62
Directors' remuneration report	74
Directors' report	90
Directors' responsibilities statement	94

BOARD OF DIRECTORS



Adrian Martin
Chairman
 Appointed: December 2008



John Morgan
Chief Executive
 Appointed: October 1994



Steve Crummett
Finance Director
 Appointed: February 2013

Skills, competencies and experience

In November 2012, Adrian was appointed non-executive chairman of the Board having previously held the role of senior independent director. 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.

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

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

Other roles

Adrian is 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. Adrian has previously held non-executive positions with Safestore Holdings plc, RSM Tenon Group plc and H.R. Owen plc.

John co-founded Morgan Lovell in 1977 which then reversed into William Sindall plc in 1994 to form Morgan Sindall Group plc. He was formerly chief executive from 1994 to 2000 and executive chairman from 2000 to 2012.

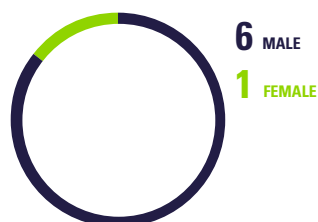
Steve was previously finance director of Filtrona plc (now Essentra plc). Prior to that he held senior finance roles with a number of listed companies, including Exel plc, McKechnie plc and Logica plc. Steve qualified as a chartered accountant with Arthur Andersen and has been chair of the audit committee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

Committees

Adrian is chair of the nomination committee.

John is a member of the nomination committee.

Steve attends the meetings of the audit and nomination committees at the invitation of the committee chairs.





Patrick De Smedt
Senior Independent Director
 Appointed: December 2009

Patrick assumed the role of senior independent director in November 2012. Patrick, having held board positions including chair of the remuneration committee and senior independent director at other public companies, brings considerable experience to the Board.

Patrick's career includes 23 years with Microsoft, culminating in the role of chairman for Europe, Middle East and Africa from 2003. Since leaving Microsoft in 2006, he has served on the boards of a number of European public and private companies. He is currently a non-executive director of Victrex plc, where he also chairs the remuneration committee, Michael Page International plc, KCOM Group plc, Nexinto Holding Limited and Kodak Alaris Holdings Limited. He is an investor in several European technology companies.

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



Malcolm Cooper
Non-executive Director
 Appointed: November 2015

Malcolm is a qualified accountant and experienced FTSE 250 audit committee chair. He has an extensive background in corporate finance and experience of the property industry.

Malcolm is managing director of National Grid Property as well as managing the sale of National Grid's gas distribution business. He has previously been global tax and treasury director of National Grid. Malcolm is currently senior independent director and audit committee chair at CLS Holdings plc, a non-executive director of St William Homes LLP and a member of the Financial Conduct Authority's Listing Authority Advisory Panel. Prior to National Grid he was director of corporate finance at Lattice Group Plc and BG Group Plc and has previously acted as president of the Association of Corporate Treasurers.

Malcolm is a member of the audit, nomination and remuneration committees. Malcolm will take over as chair of the audit committee with effect from the annual general meeting in May 2016.



Simon Gulliford
Non-executive Director
 Appointed: March 2010

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

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, Hortons' Estate Limited and a number of other 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.

Simon is chair of the health, safety and environmental committee and a member of the audit, nomination and remuneration committees.



Liz Peace, CBE
Non-executive Director
 Appointed: November 2012

Liz has considerable experience of the real estate sector and of Government policy making. She has fulfilled a number of roles over her career in both the public and private sectors which have developed her knowledge and skills in strategy development, communications, and project and financial management.

Liz became a non-executive director at Redrow plc in September 2014 and at The Howard de Walden Estates in January 2015. More recently she has taken on shadow roles in Birmingham City Council's Curzon Urban Regeneration Company and the Government Property Unit's New Property Model Delivery Body. She is a member of the board of Peabody, chair of the property industry's charity, LandAid, a trustee of the Churches Conservation Trust and chair of the Architectural Heritage Fund. 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).

Liz is chair of the audit committee and is a member of the remuneration, nomination and health, safety and environment committees. Liz will step down as chair of the audit committee at the annual general meeting in May 2016.

GROUP MANAGEMENT TEAM



GROUP MANAGEMENT TEAM COMPOSITION



85% MALE (11)

15% FEMALE (2)

See page 63 for information on the responsibilities of the Group management team.

1 John Morgan Chief Executive

See page 58 for biography.

2 Steve Crummett Finance Director

See page 58 for biography.

3 Andy Saul Group Commercial Director

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

4 Clare Sheridan Company Secretary

Clare has been with the Company for 18 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. Clare is a qualified chartered secretary.

5 Pat Boyle Managing Director, Construction

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.

6 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 the infrastructure business, which is part of the Construction & Infrastructure division and includes transport, tunnelling and utility services, in addition to board responsibilities for aviation and the Group's in-house plant hire operation. 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.

7 Chris Booth Managing Director, Fit Out

Chris 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.

8 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 progressing to commercial director.

9 Matt Crompton Joint Managing Director, Urban Regeneration

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

10 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.

11 Gary Lester Managing Director, 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 at Mears Group PLC and assuming that role here at Morgan Sindall Property Services Ltd.

12 Simon Grubb Group Strategy and Planning Director

Simon joined the Group in May 2015. He was previously group strategy director at Interserve PLC following a similar nine years at Ernst & Young advising a range of infrastructure and property companies and their investors. Simon is a chartered engineer and Fellow of the Institution of Civil Engineers with over 25 years' UK and international experience, including earlier career roles at Mowlem and Mouchel.

13 Martin Lubieniecki, Managing Director, Professional Services

Martin joined the Group in October 2015 from Colliers International where he was the UK chief operating officer. Prior to this he had been the EMEA chief operating officer for CB Richard Ellis bringing over 15 years' property professional services experience to the Group. Martin's early career started at PricewaterhouseCoopers and McKinsey before taking senior roles at Sears Group and Hilton International. Martin is a qualified chartered accountant.

CORPORATE GOVERNANCE REPORT

Chairman's statement

As a Board of directors we are accountable to all stakeholders for the Company's activities and responsible for the effectiveness of corporate governance. The Board is committed to maintaining the highest standards of corporate governance as we believe this helps to facilitate the success of the Company in compliance with the requirements of the UK Corporate Governance Code 2014 ('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.

Each year, the Board undertakes a formal evaluation of its effectiveness. This year we undertook this process internally (see page 65 for further details of the outcome of the review). In addition, the senior independent director led a review of my performance with input from the other non-executive directors. Following this review, I am satisfied that the Board and its committees are performing effectively and that there is the appropriate balance of skills, experience, independence and knowledge of the Group to enable the directors to discharge their respective duties and responsibilities effectively.

During the year we welcomed Malcolm Cooper to the Board as a new non-executive director. In addition to his executive role at National Grid, Malcolm is also a non-executive director, audit committee chair and senior independent director at CLS Holdings plc. Malcolm's appointment has strengthened the skill set and experience of the Board and has positively added to the Board dynamic.

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 provisions of the Code throughout the year.

The remainder of this report explains the governance structures and processes the Board has implemented and what we did during the year. The corporate governance report includes reports from each of the committee chairs to provide details on key matters addressed by the committees during the year. 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.

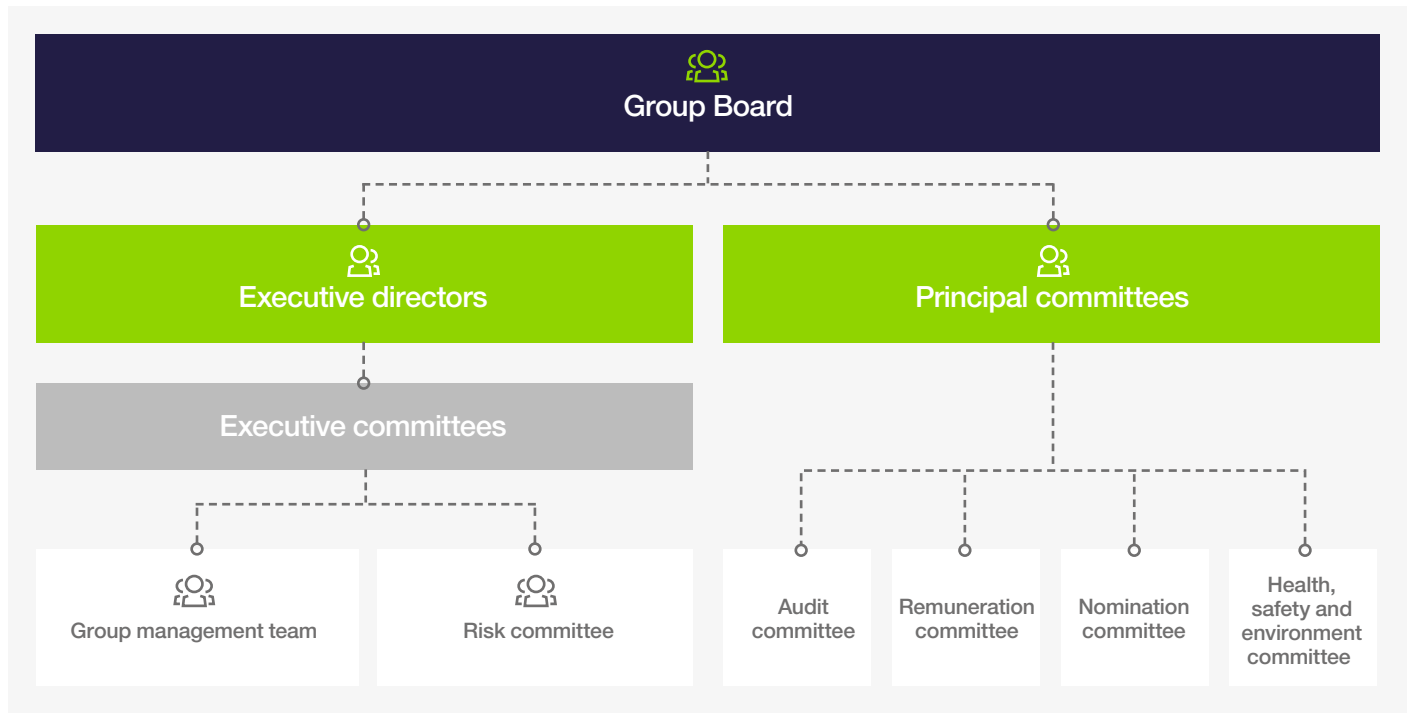
Adrian Martin
Chairman

23 February 2016

Compliance with the UK Corporate Governance Code

The Board considers that it and the Company have, throughout the year, complied without exception with the provisions of the UK Corporate Governance Code (September 2014), which is the version of the Code which applies to the Company for its 2015 financial year. The Code is issued by the Financial Reporting Council ('FRC') and is available for review on the FRC's website: <https://frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>

Governance structure



Role of the Board

The Board is responsible for creating and delivering long-term sustainable shareholder value. Supported by its committees, this includes setting the strategic direction and governance framework of the Group, reviewing all significant aspects of the Group's activities, overseeing the executive management, reviewing the overall internal control and risk management systems and succession planning. The Board has a scheduled formal programme of meetings to ensure that it can allocate sufficient time to each of these key areas which enables the Board to plan meetings appropriately and to use Board members' time together more effectively. The programme contains sufficient flexibility to allow specific items to be added as necessary, allowing the Board to focus on key matters relating to the business at the appropriate time.

There are a number of informal meetings of the Board which enable all the directors to spend more time together and to discuss specific areas of the business with the Group management team and other senior executives. The Board reviews its schedule of formally reserved matters regularly and receives a number of in-depth presentations during the year.

Other specific responsibilities are delegated to the Board's principal committees, which are governed by clear terms of reference and under the Group's delegated authorities. During the year the Board established a health, safety and environment ('HSE') committee, chaired by Simon Gulliford, to consider the Group's strategic HSE priorities and assist management to ensure that HSE risks are appropriately managed across the Group.

Day-to-day management of the Group is delegated to the executive directors. The executive directors are supported by the Group management team, which meets regularly to consider operational matters affecting the Group as a whole including health and safety, the leadership development programme, strategy, Group budget and sustainability. The Group management team members are listed on page 61.

Strategic leadership

Each year the Board holds a strategy day in October to review the Group's five-year strategic plan and the divisional strategic plans. As part of the 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 meeting in October. Each non-executive director provided a summary to the Board of their findings during the strategy review. In addition, the managing directors of the Investments division and the design business attended the strategy day to present their strategy to the whole Board to allow the Board a more in depth review.

The Board receives regular updates on progress against the agreed strategy including presentations from the divisional managing directors on progress against their divisional plans. Specific projects are considered at Board meetings during the year as necessary.

Performance management

Performance against delivery of the agreed key targets is reviewed at every meeting with particular reference to the detailed Group management accounts. The chief executive and finance director comment on the market and current trading at each Board meeting and present comparative data and customer insight.

Risk management

The Board reviews the Company’s principal risks twice a year in addition to receiving regular updates on risk management and internal controls from the chair of the audit committee after each committee meeting (see page 73 for further details). During the year the executive directors set up a risk committee chaired by the finance director and consisting of each of the heads of function from the head office team. The committee is responsible for reviewing the Group and divisional risk registers and the effectiveness of the Group’s risk management tools. The Board receives updates at each Board meeting on the Group’s safety performance. Any specific issues in respect of safety and other matters which may affect the Company’s reputation are reported to the Board as they occur.

Division of responsibilities

The Board has agreed a clear division of responsibility between the chairman and chief executive.

Chairman

The 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.

Chief executive

The 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.

Senior independent director

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 judgement and no cross directorships exist between any of the directors. 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.

The Board has agreed that notwithstanding the requirements of the Company’s Articles of Association (‘the Articles’) all directors will retire at each annual general meeting (‘AGM’) and may offer themselves for re-election by shareholders. Malcolm Cooper will be standing for election at the 2016 AGM as this is the first AGM following his appointment. All of the other directors will also stand for re-election at the AGM and their biographies are set out on pages 58 and 59. 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.

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 Articles give the Board a general power to authorise potential conflicts of interest. In addition to the directors’ duty to seek Board approval for any new potentially conflicting situations or changes to existing interests, the register of potential conflicts is circulated for review by the Board on an annual basis. This process was carried out satisfactorily during the year. The Board will continue to monitor and review potential conflicts on a regular basis.

Training, development and advice

Newly appointed directors participate in a comprehensive and tailored induction programme including a detailed information pack (containing information about sustainability, the Company’s values and culture 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. Following his appointment to the Board in November 2015, Malcolm Cooper’s induction programme included each of these aspects.

The Board programme includes regular presentations from management and informal meetings which increase the non-executive directors’ understanding of the Group and the construction industry. In addition, during the year, the non-executive directors have met members of the management team on an individual basis and undertaken visits to individual projects, to continue to build their knowledge of the Company.

During the year, the company secretary has provided updates to the Board on relevant governance matters and new legislation and its impact on the Company. The audit committee regularly considers new accounting developments through presentations from management and the external auditors. This year this included updates on changes to the Code applicable to the Group for the 2015-2016 financial year including the requirement for a viability statement and changes to risk management disclosures. The remuneration committee annually considers developments in executive remuneration with presentations from the Company's remuneration advisers. The review this year covered a market update of executive remuneration.

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.

Board evaluation

The 2014 evaluation had identified a number of recommendations where 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. The Board has sought to act on these recommendations during the year.

In 2015 the Board agreed that the review should be carried out by the company secretary. The Board is satisfied that this internal review followed a process which enabled thorough review and open participation from all directors. The key objective was to determine whether progress had continued on the key points raised in the 2014 review and to consider whether the Board and its committees were working effectively.

A questionnaire was circulated to all directors seeking their evaluation of a number of matters including strategy, Board performance, succession, knowledge of the non-executive directors, training and development and governance. The company secretary then presented the principal conclusions to the Board and the senior independent director chaired a discussion by the Board of the key points and agreed certain actions.

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 2014 evaluation including clarifying strategic direction and improving the level of board discussions. Recommendations made focused on strengthening the Board's progress in areas of strategy to clarify what sets the Group apart from its competitors and long-term succession planning.

As part of the Board evaluation exercise, the senior independent director reviewed the chairman's performance with the other directors and subsequently met with him to provide feedback. The chairman provided feedback to each director on their individual contributions to the Board and, with each of them, considered their development priorities. No material actions flowed from any of these review sessions.

The company secretary in conjunction with the chairman will be reviewing the Board evaluation process for the next three years in early 2016.

Board attendance

Attendance of individual directors during 2015 at scheduled Board and committee meetings 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 prior to the strategy review day.

	Board	Percentage attendances at Board meetings	Remuneration committee	Audit committee	Nomination committee	Health, safety and environment committee
Total number of meetings	10	%	3	3	3	3
Adrian Martin	10	100%			3	
John Morgan	10	100%			3	
Steve Crummett	10	100%				
Patrick De Smedt ¹	9	90%	3	3	3	
Simon Gulliford ²	10	100%	3	2	3	3
Liz Peace	10	100%	3	3	3	3
Malcolm Cooper ³	1	100%	1	1		

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

2 Simon Gulliford was unable to attend one of the audit committee meetings due to a conflicting commitment.

3 Malcolm Cooper was appointed as a non-executive director on 9 November 2015 and attended all Board and committee meetings following his appointment.

The Board regularly receives and considers reports on the following matters:

- > strategic matters
- > business performance
- > results, management accounts and financial commentary
- > treasury and funding matters
- > matters arising from divisional boards
- > divisional operational reports
- > legal and governance matters
- > the work of the board's committees
- > investor relations and shareholder feedback
- > delegated authorities ('DELAPS')

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. 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 set out above. The health, safety and environment committee visited one of Fit Out's sites to review its safety procedures in practice (see page 69). The committee is intending to undertake further site visits of the Group's projects in 2016. The nomination committee also received a number of updates outside of its scheduled meetings, relating to the search process for a new non-executive director.

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 2015 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.

The Company encourages all shareholders to use the AGM as an opportunity for effective communication with the Company. All of the directors except Malcolm Cooper attended the AGM held in 2015. Details of proxy votes submitted for each resolution at the 2015 AGM, including proxy directions to withhold votes, are published on the Company's website, www.corporate.morgansindall.com.

NOMINATION COMMITTEE



Members

Adrian Martin (Chair)
 John Morgan
 Patrick De Smedt
 Simon Gulliford
 Liz Peace
 Malcolm Cooper (from 9 November 2015)

Responsibilities

- > to review the structure, size and composition of the Board;
- > to make recommendations to the Board for any changes considered necessary;
- > to approve the description of the role and capabilities required for a particular appointment; and
- > to ensure suitable candidates are identified, 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, setting out the duties of the committee, are available on our website, www.corporate.morgansindall.com.

Activities during the year

In 2015, the committee met three times to review the structure, size and composition of the Board. 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;
- > appointed headhunters to assist in the recruitment of a new non-executive director; and
- > considered succession planning generally for the Board.

Steve Crummett is not a member of the committee although he is invited to attend meetings.

Succession planning

The Board takes succession planning for Board members seriously. We believe we have good balance and diversity amongst our non-executive directors with each of them having highly relevant skills derived from serving in a range of executive and non-executive positions throughout their careers. During the year the committee instructed Norman Broadbent in connection with the recruitment of a new non-executive director who would chair the audit committee from May 2016. The committee considered the balance of skills, experience and diversity on the Board and the specific skills required of an audit committee chair in determining the types of candidate who may best fit the specification of this role. Following a thorough search which involved meetings with the chairman and other directors, the Board was delighted to be able to appoint Malcolm Cooper as a non-executive director on 9 November 2015. Malcolm's considerable financial experience and knowledge of the property sector will be of great benefit to Board discussions.

Our non-executive directors' tenure on the Board as at the year-end is as follows:

Board tenure non-executive	Number	Percentage
1-2 years	1	20%
3-4 years	1	20%
4-5 years	0	0%
6-7 years	3	60%

During the year, the Board reviewed the short-term succession arrangements for the Group management team and each division has been working on developing pools of talent for longer-term succession for the divisional board and senior management teams.

NOMINATION COMMITTEE CONTINUED

As stated above, our Board evaluation considers the balance, skills and diversity of the Board. They also consider succession planning, reviewing whether it is working effectively. As stated above the 2015 evaluation review recognised that further work was needed in terms of long-term succession planning for the Board and senior management. This aspect will receive greater attention during the coming months.

Diversity

The Board recognises the importance of diversity in general at Board level and this was an area explored as part of the 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 female representation on the Board during 2015 was 17% until 9 November when Malcolm Cooper was appointed and it reduced to 14%. 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.

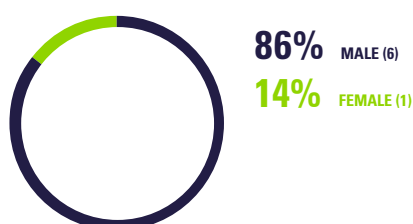
The Group is fully committed to treating all of its employees fairly and equally. Its policies and practices emphasise the importance of treating individuals in a non-discriminatory manner across the full employment life cycle including recruitment of all new employees and the management of existing 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. 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.

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.

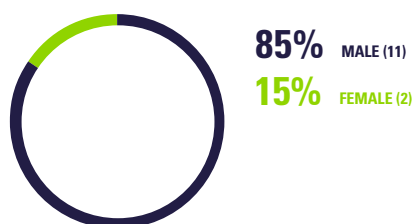
The Group places considerable value on the involvement of its employees and ensures that all significant events, economic factors and financial updates and the impact of these on the performance of the Group are communicated to employees through email alerts and regular newsletters. In addition, the 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.

A breakdown by gender of the number of persons who were directors of the Company, senior managers and other employees as at 31 December 2015 is set out below.

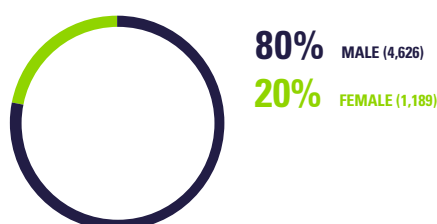
Diversity – Board



Diversity – Senior managers: Group management team



Diversity - Total workforce



HEALTH, SAFETY AND ENVIRONMENT COMMITTEE



Members

Simon Gulliford (Chair)

Liz Peace

Andy Saul (Group Commercial Director)

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. This committee was established in 2015 to assist the Board in fulfilling its oversight responsibilities in relation to HSE matters, arising out of the activities of the Group and to make recommendations to the Board for any changes considered necessary.

Responsibilities

- > to assist the Board to review the Group's strategy with respect to HSE matters;
- > to receive reports on any major HSE incidents and ensure that all actions required by the report are appropriately implemented in a timely manner;
- > to report to the Board on development trends and forthcoming legislation in relation to HSE matters which may be relevant to the Group;
- > to monitor the Group's health and safety strategy framework and regulatory environmental obligations (including CRC – carbon reduction commitment – compliance) and how compliance with these and with applicable laws and regulations is ensured across the Group; and
- > to receive and review periodic health and safety, and environmental reports of the Group's performance.

The terms of reference, setting out the duties of the committee, are available on our website, www.corporate.morgansindall.com.

Activities during the year

The committee has an annual work plan, developed from its terms of reference with standing items that it considers at each meeting in addition to matters on which it has otherwise chosen to focus.

During 2015, the committee met with the Group's health and safety forum which comprises the divisional health and safety managers from each division and the Group's commercial director. The meeting enabled the committee to better understand the role of the forum and how health and safety is managed across the Group. Specifically the meeting included a discussion around work that was being undertaken across the Group to review initiatives to try and change behaviour that may lead to a health and safety incident. The committee also visited a Fit Out project to review its safety procedures in practice. The site was in the initial stages of the project and no safety breaches were observed. The committee is intending to undertake further site visits of the Group's projects in 2016.

Monthly monitoring and reporting to the Board includes a report from the Group commercial director on the Group's performance in relation to health and safety matters and environmental compliance. Further details are included in the chief executive's review on page 17, the risk review on page 44 and in the responsible business review on page 52.

AUDIT COMMITTEE



Members

Liz Peace (Chair)
Patrick De Smedt
Simon Gulliford
Malcolm Cooper (from 9 November 2015)

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 59. 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.

Malcolm Cooper will take over as chair of the audit committee at the AGM in May 2016.

Responsibilities

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

- > 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 judgements 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; and
- > to review the Company's procedures for raising concerns.

The terms of reference, setting out the duties of the committee, are available on our website, www.corporate.morgansindall.com.

Activities during the year

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. 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 FRC's Guidance on Audit Committees.

The main activities of the committee during the year have included:

- > review of the half- and full-year results;
- > review of the significant management judgements reflected in the results including certain contracts in Construction & Infrastructure 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; and
- > reporting to the Board on its proceedings and findings.

The committee's detailed review of the year-end position assisted the Board in making the going concern statement set out on page 29. The committee considered and approved the proposed methodology and key assumptions in the long-term viability statement (see page 49 for further information).

At each meeting, the committee receives a report on the internal controls framework and the internal audit activities. This year it received information on risk management tools being implemented within the Construction & Infrastructure division, reviews carried out by internal audit, management's response to the reports and any key trends emerging during the year. The Group head of audit and assurance meets separately with the chair of the committee at least twice a year and has direct access whenever required.

The committee also reviews:

- > the effectiveness of the Company's financial controls and systems of internal control by approving the internal audit plan, reviewing the findings and by reviewing the scope of work and reports of the external auditors. The detailed actions for a resolution of any identified weaknesses are closely monitored by the committee through to completion; and
- > the management of risk by reviewing the risk assessment process and corporate and divisional risk registers twice yearly. These form an element of the internal audit planning process.

The Company's whistleblowing procedures are 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 via the Group's intranets and on construction site notice boards. Reports of 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.

Full descriptions of the risk management and internal controls processes are set out below.

Fair, balanced and understandable assessment

One of the key compliance requirements of the Code is for the Board to confirm that the annual report and financial statements ('annual report'), taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance,

business model and strategy (see pages 6 to 9). To enable the Board to make this declaration, a formal process is embedded in the year-end process to ensure the committee and the Board as a whole have access to all relevant information and, in particular, management papers on significant issues faced by the Group. The committee receives a paper from management detailing the approach taken in preparing the annual report. The committee and the Board as a whole receive drafts of the annual report in sufficient time to facilitate their review and enable them to challenge the disclosures where necessary. In addition, the Group's external auditor reviews the consistency between the narrative reporting of the annual report and the financial statements.

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 judgements reflected in the financial results. This process involves reviewing relevant papers prepared by management in support of the policies adopted and judgements made.

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

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

> Exceptional operating item

Exceptional operating items have been separately disclosed within the Group's consolidated income statement. The committee has reviewed papers prepared by management showing how these costs have been identified and calculated. It has challenged both the quantum of the charge and its presentation in the consolidated income statement and is satisfied that these costs have been treated appropriately.

> 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, require management to exercise considerable judgement. 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.

AUDIT COMMITTEE CONTINUED

> 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 a 36-month period from the 31 December 2015 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 judgements 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 internal evaluation on the external audit process was undertaken with the assistance of the Group head of audit and assurance and senior members of the Company's and the divisions' finance teams. The feedback, 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 judgements. 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 2015 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 111 and total £11,000 in respect of tax compliance and disclosure services for one of our Investments' joint venture companies. 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 10 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.

Risk management and internal controls

The Board has reserved for itself specific responsibility for the formulation of the risk management strategy of the Group, the system of internal controls and for reviewing their effectiveness. Certain of these responsibilities have been delegated to the audit committee as outlined below and in the risk review on page 41. The 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 and, can only provide reasonable assurance against material misstatement or loss.

The risk management process and the system of internal controls have been in place for the whole year, up to the date of approval of the annual report and accord with the FRC's Internal Control Revised Guidance for Directors, and the Code.

The committee has conducted a review of the effectiveness of the system of internal controls for the year ended 31 December 2015 and for the period to the date of this report. The process included a formal review conducted by the committee of the Group risk register, as well as a review of the results of internal audit work and the overall effectiveness of the process.

Risk management

The risk management system is designed to identify principal risks attached to the Group's strategy and objectives and root cause for each risk, and to confirm 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 committee at least twice yearly. Further details of the Group's approach to risk and the principal risks identified as facing the Group are highlighted in the risk review on pages 40 to 48. 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.

Internal controls

The system of internal controls, which includes financial, operational and compliance controls, is based on a process of identifying, evaluating and managing risks. The committee assesses the effectiveness of the internal controls system on an ongoing basis. 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 its financial reporting process and the Group's process for preparation of the 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 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.

> 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.

DIRECTORS' REMUNERATION REPORT



Annual statement

Dear Shareholder

I am pleased to introduce our directors' remuneration report for the year ended 31 December 2015. The report is split into three sections, namely: (i) this annual statement; (ii) the remuneration policy (which sets out the shareholder approved director's remuneration policy); and (iii) the annual report on remuneration (explaining payments made in the year under review and how the policy will be operated for 2016). As no changes are being made to the remuneration policy, only the annual statement and the annual report on remuneration will be subject to a vote by shareholders at the forthcoming AGM on 5 May 2016.

Review of remuneration for 2015

The Group's adjusted operating profit is up 34%. While margins in Construction & Infrastructure have remained suppressed (albeit with a second half of the year improvement as a result of the considerable progress made in closing out its older, lower margin construction contracts in London and the South), Fit Out delivered an excellent result together with strong contributions from the Urban Regeneration and Affordable Housing divisions. This produced a PBTA for 2015 which triggered an 80.3% of salary bonus award. However, reflecting the challenging market conditions over the last three years, the long-term incentive awards granted in 2013 based on a three-year performance period ending 31 December 2015 failed to vest, with performance against earnings per share ('EPS') and relative total shareholder return ('TSR') targets falling below the threshold targets.

Remuneration arrangements for 2016

Following a review of the current remuneration policy, the committee was satisfied that the policy remains fit for purpose and aligned to the long-term strategy and, therefore, shareholder interests. Consistent with the general workforce increase, the base salary increase for John Morgan was limited to 3%. In recognition of the size of his role and responsibility levels and the significant contribution that Steve Crummett has made over the last 12 months in driving the performance of the Group and development of relationships with the divisions both on a financial and more general basis, the committee increased his salary by 9% from 1 January 2016. No changes were made to benefit or pension provision, the quantum and structure of the annual bonus (100% based on challenging financial targets) or the structure of long-term incentive provision (delivered through LTIP awards over shares worth up to 150% of salary based on stretching three-year EPS and TSR targets).

Remuneration policy

As the three-year remuneration policy was originally approved by shareholders under a binding vote at the 2014 AGM, the committee is intending to review the remuneration policy during 2016 to ensure that it remains appropriate for the Group's longer-term strategy and is planning to present the policy to shareholders for a binding vote at the 2017 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. We hope to continue to receive your support at the forthcoming AGM.

Patrick De Smedt

Chair of the Remuneration Committee

23 February 2016

REMUNERATION POLICY

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.

Base salary

Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Set to attract, retain and motivate talented individuals.	<p>Base salary is reviewed annually by the committee or, if appropriate, in the event of a change in an individual's position or responsibilities.</p> <p>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.</p>	<p>There is no prescribed maximum annual increase.</p> <p>Current salary levels are presented on page 82.</p>	N/A

Benefits

Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
To provide a market-competitive level of benefits.	<p>Current benefits include travel allowance, private medical insurance, income protection insurance and life assurance. Other benefits may be provided where appropriate.</p>	<p>The travel allowance is £17,000.</p> <p>The value of other benefits is based on the cost to the Company and is not pre-determined.</p>	N/A


REMUNERATION POLICY CONTINUED

Pension

Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
To provide a pension arrangement to contribute towards retirement planning.	<p>The Company will contribute to the defined contribution pension scheme, The Morgan Sindall Retirement Benefits Plan ('the Retirement Plan') or to personal pension arrangements at the request of the individual.</p> <p>The Company may also consider a cash alternative (eg where a director has reached the HMRC's lifetime or annual allowance limit).</p>	<p>Employer contributions are 10% of base salary.</p> <p>Directors who are members of the Retirement Plan may elect to exchange part of their salary or bonus award in return for pension contributions, where the Company will enhance the additional contributions by half of the saved employer's National Insurance Contribution ('NIC').</p>	N/A

Annual bonus

Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Rewarding the achievement of demanding annual performance metrics.	<p>Annual bonus is 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>	The maximum opportunity is 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

Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance.	Annual awards of conditional shares or nil (or nominal) cost options are granted with vesting dependent on the achievement of performance conditions over a three-year period.	150% of base salary.	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.
To encourage share ownership and provide further alignment with the interests of shareholders.	<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>		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.

 All employee sharesave plan

Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
To encourage share ownership and provide further alignment with shareholders.	This is an 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.	Prevailing HMRC limits apply.	N/A

REMUNERATION POLICY CONTINUED

Non-executive directors' fees

Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
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

- > 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 committee will operate the incentive plans in accordance with their respective rules, the Listing Rules and HMRC rules where relevant. The committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plan rules. These include (but are not limited to) the following:
 - who participates;
 - the timing of the grant of award and/or payment;
 - the size of an award (up to plan/policy limits) and/or a payment;
 - where 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 (eg 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 was 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).

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 2016, 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 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.

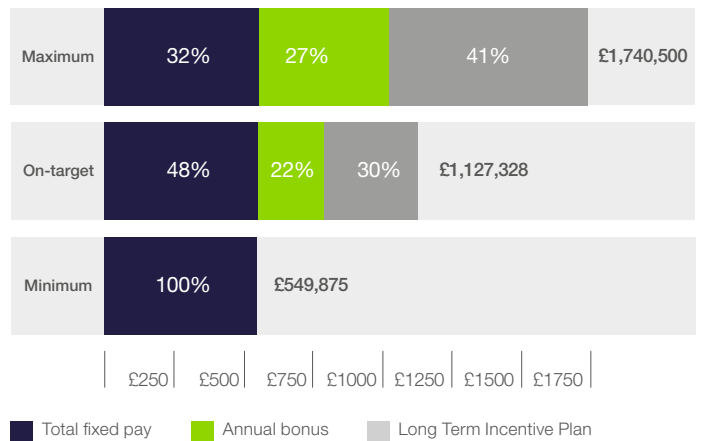
Remuneration scenarios for the executive directors

The following charts 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.

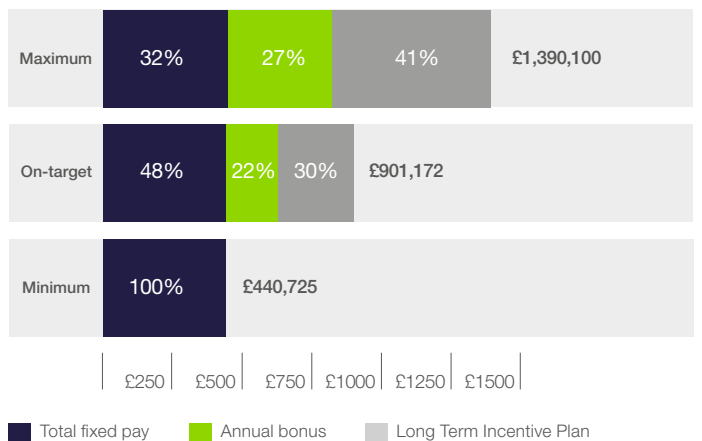
In these charts:

- > Base salary levels are as at 1 January 2016.
- > 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.

Chief Executive £000



Finance Director £000



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 (that is, cash or shares), performance conditions and the time over which they would have vested or been paid.

REMUNERATION POLICY CONTINUED

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

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

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

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

Directors' service contracts and payments for loss of office

All executive directors' service agreements are terminable on 12 months' notice. In circumstances of termination on notice, the committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the director on garden leave for the notice period.

In case of payment in lieu or garden leave, base salary, employer pension contributions and employee benefits will be paid for the period of notice served on garden leave or paid in lieu. The remuneration committee will endeavour to make payments in phased instalments and to apply mitigation in the case of offsetting payments against earnings elsewhere.

The annual bonus may be payable in respect of the period of the bonus scheme year worked by the director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. The bonus would be payable at the normal date.

Long-term incentives granted under the LTIP will be determined by the LTIP rules which contain discretionary good leaver provisions for designated reasons (that is, 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 Executive Remuneration Plan 2005 ('the ERP'), the awards will be determined by the ERP rules which contain discretionary good leaver provisions for designated reasons (that is, 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 Financial Conduct Authority ('the FCA') and the relevant schedules of the Act.

	Appointment letter date	Month/year initial three-year term was extended
Adrian Martin	28 November 2008	November 2011
Patrick De Smedt	26 November 2009	November 2012
Malcolm Cooper	9 November 2015	–
Simon Gulliford	24 February 2010	February 2013
Liz Peace	5 November 2012	November 2015

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

ANNUAL REPORT ON REMUNERATION



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

Remuneration committee



Members

Patrick De Smedt (Chair)
Malcolm Cooper (from 9 November 2015)
Simon Gulliford
Liz Peace

All members are independent.



Responsibilities

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, setting out the duties of the committee, are available on our website, www.corporate.morgansindall.com.



Activities of the committee

The committee met on three occasions during the year and attendance at meetings is disclosed in the corporate governance report on page 65. The meetings covered the normal business of confirming performance-related pay for the year ended 31 December 2015 and setting bonus and long-term incentive targets for 2016. Additional consultation between committee members and between the chair of the committee and the chief executive took place outside of formal meetings.

External advice received

During the year, the committee received independent advice from New Bridge Street ('NBS'), part of Aon plc, in relation to its consideration of the structure of the executive directors' remuneration for 2015 and 2016 and other matters considered by the committee during the year. The committee also consulted the chief executive but not in relation to his own remuneration. NBS also provided advice to the Company on accounting for share awards and the operation of the Company's share option schemes but provided no other material services to the Company or the Group, although another part of the Aon plc group has provided some limited broking services to associated companies in the Group. The committee is comfortable that these services do not prejudice NBS's position as an independent adviser to the committee.

The fees paid by the Company to NBS during the financial year for advice to the committee were £33,485 (2014: £75,315), of which £17,437 (2014: £34,900) related to the advice to the Company referred to above.

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

ANNUAL REPORT ON REMUNERATION

CONTINUED

Shareholder voting at AGM

At last year's AGM held on 7 May 2015, the directors' remuneration policy and the directors' remuneration report (excluding the remuneration policy) for the year ended 31 December 2014 received the following votes from shareholders:

	Directors' remuneration policy		Annual statement and annual report on remuneration	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	35,592,847	98.46	36,137,232	99.61
Against	557,603	1.54	142,578	0.39
Total votes cast (for and against)	36,150,450	100.00	36,279,810	100.00
Votes withheld ¹	131,594	–	4,564	–
Total votes cast (including withheld votes)	36,282,044	–	36,284,374	–

¹ A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'For' and 'Against' a resolution.

Implementation of the Remuneration Policy for 2016

Base salaries

In setting the 2016 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 John Morgan should receive the same increase. In respect of Steve Crummett, the committee reviewed the size of his role and responsibility levels together with the significant contribution that he has made over the last 12 months in driving the performance of the Group and the development of relationships with the divisions both on a financial and more general basis. Following this review, the committee determined that Steve Crummett should receive a 9% salary increase from 1 January 2016.

Accordingly, annual base salaries for the executive directors for 2016 will be as follows:

	From 1 January 2016 £	From 1 January 2015 £	Increase
John Morgan	476,250	462,419	3%
Steve Crummett	379,750	348,398	9%

Pension arrangements

The Company will contribute up to 10% of base salary to a personal pension plan and/or as a cash supplement. Consistent with all employees participating in the Retirement Plan, relevant executive directors may 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 2016 will remain at 100% of base salary. To ensure that management is focused on the financial performance of the Company in 2016, 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.

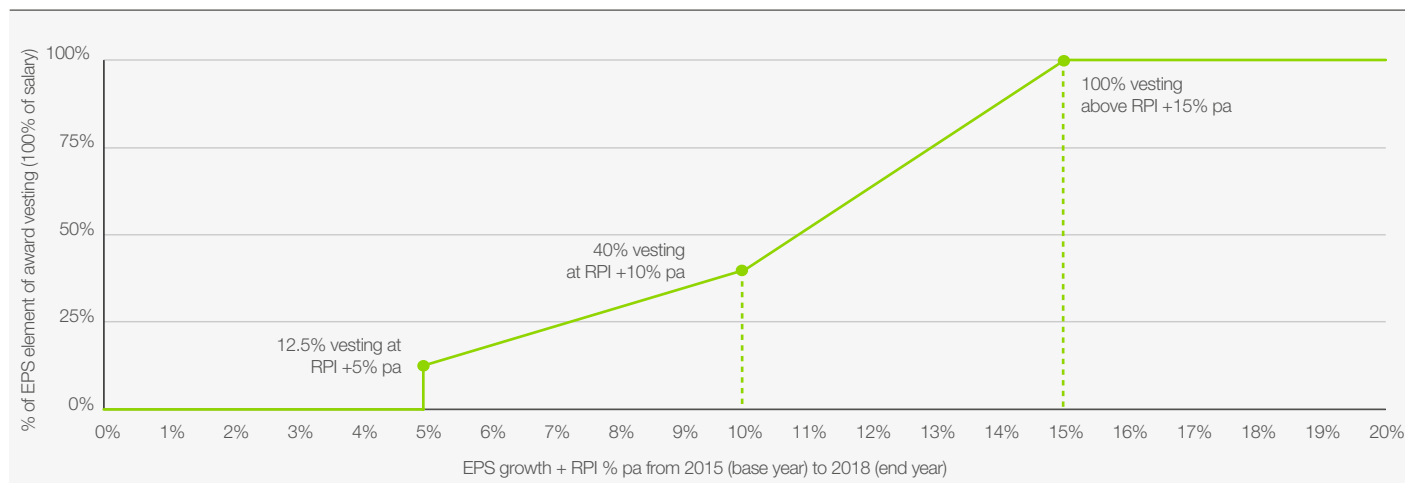
Long-term incentives

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

As per the 2015 LTIP awards, the awards to be granted in 2016 will be set at 150% of base salary. 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 be based on a condition measuring the Company’s TSR compared with seven of its UK-listed peers, over a three-year period.

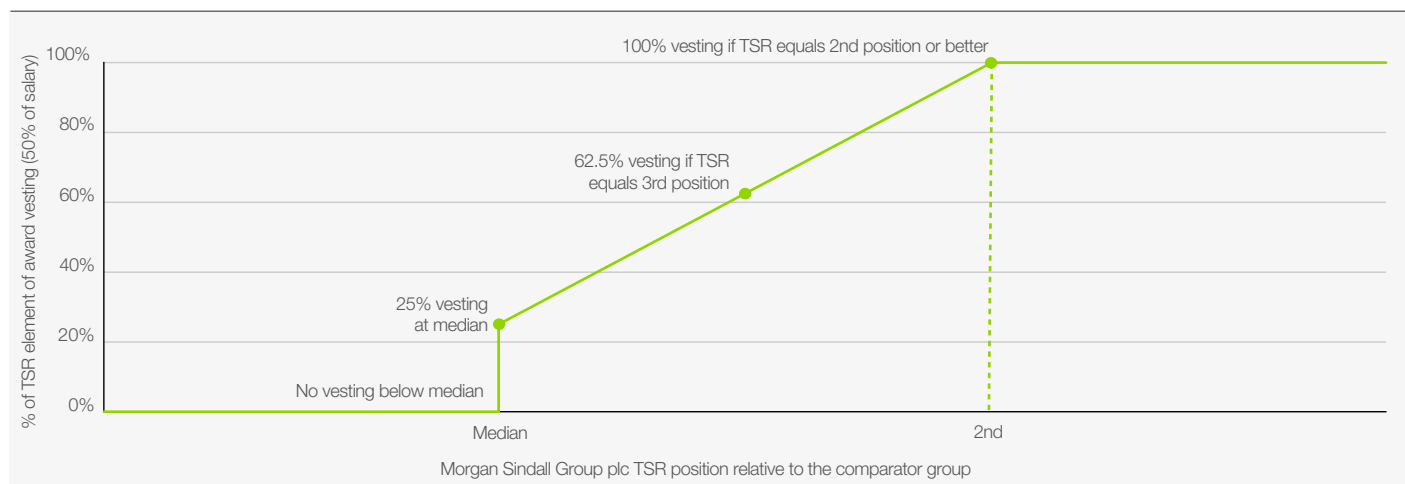
EPS performance condition

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, Interserve Plc, Keller Group plc and Kier Group plc. The target range for the TSR performance condition is shown graphically below:



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

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

The LTIP awards will be subject to clawback provisions.

ANNUAL REPORT ON REMUNERATION

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 2016. As part of the review of non-executive directors fees the Company has agreed, in line with market practice, to pay the senior independent director a fee of £6,000. The additional fees for committee chairs remain unchanged. Accordingly the annual fees from 1 January are as follows:

	2016 £	2015 £	Increase
Chairman	143,220	139,050	3%
Base fee	44,800	43,497	3%
Additional fees:			
Audit committee chair	7,500	7,500	–
Remuneration committee chair	6,000	6,000	–
Senior independent director	6,000	–	100%

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 2007 Employee Share Option Plan are satisfied by shares purchased in the market via the Company's employee benefit trust and shares for the Company's other share plans may be satisfied using either new issue shares or market purchased shares although the Company's present intention is to use market purchase shares to satisfy these awards. However, it retains the ability to use new issue shares instead and may decide to do so up to the dilution limits recommended by the 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 3.02% of the current issued ordinary share capital under all employee share plans, of which 3.02% relates to discretionary share plans.

Separately, the employee benefit trust currently holds 466,425 shares which may be used to satisfy awards.

Directors' remuneration (audited)

	Fees/ basic salary £000	Benefits ¹ £000	Pension contributions £000	Annual cash bonuses ² £000	Value of long-term incentives ³ £000	Employee termination payments £000	Total remuneration £000
Executive directors							
John Morgan							
2015	462	26	46	371	–	–	905
2014	449	22	45	–	–	–	516
Steve Crummett							
2015	348	23	35	280	–	–	686
2014	338	19	34	–	–	–	391
Non-executive directors							
Adrian Martin							
2015	139	–	–	–	–	–	139
2014	135	–	–	–	–	–	135
Patrick De Smedt							
2015	49	–	–	–	–	–	49
2014	48	–	–	–	–	–	48
Malcolm Cooper ⁴							
2015	6	–	–	–	–	–	6
2014	–	–	–	–	–	–	–
Simon Gulliford							
2015	43	–	–	–	–	–	43
2014	42	–	–	–	–	–	42
Liz Peace							
2015	51	–	–	–	–	–	51
2014	50	–	–	–	–	–	50
Geraldine Gallacher ⁵							
2015	–	–	–	–	–	–	–
2014	42	–	–	–	–	–	42

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

2 The table below shows performance against PBTA targets for 2015 representing 100% of the annual cash bonus potential:

	Threshold target £m	50% target £m	Maximum target £m	Actual performance £m	Percentage of salary
Adjusted Group PBTA at 31 December 2015	30.1	32.0	35.8	34.3	80.3%

3 Based on awards granted in 2013 under the ERP, which were due to vest on 26 February 2016 subject to EPS and relative TSR performance for the year ended 31 December 2015. 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	67.50p	75.1p	90p	63p	0
Relative TSR	Median	N/A	Second position	Below median	0
Total vesting					0

4 Malcolm Cooper joined the Company on 9 November 2015.

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

ANNUAL REPORT ON REMUNERATION

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 ¹ £	% Vesting at threshold	Performance period
John Morgan	LTIP	2 March 2015	150% of salary	£7.029	98,680	£693,629	16.67%	Three financial years to 31 December 2017
Steve Crummett	LTIP	2 March 2015	150% of salary	£7.029	74,348	£522,597	16.67%	

¹ Based on the average share price for the five dealing days preceding the date of grant. The closing share price on 2 March 2015 was £7.50.

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 while Steve Crummett, who joined the Board in February 2013, is still working towards the guideline.

The interests of the directors, all of which are beneficial, in the shares of the Company are given below.

	31 December 2015 No. of shares	31 December 2014 No. of shares
Adrian Martin	12,000	12,000
John Morgan	4,004,352	3,999,322
Steve Crummett	14,615	12,200
Patrick De Smedt	2,000	2,000
Malcolm Cooper ¹	–	N/A
Simon Gulliford	11,350	3,350
Liz Peace	1,375	–

¹ Malcolm Cooper joined the Company on 9 November 2015.

There have been no changes in the interests of the directors between 31 December 2015 and 23 February 2016.

Directors' outstanding share incentives

Details of the executive directors' interests in long-term incentive awards as at 31 December 2015 and movements during the year are as follows:

Performance shares

	Date of award	No. of awards outstanding as at 1 January 2015	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 2015	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
	2.3.2015	–	98,680	–	–	–	98,680	31.12.2017	2.3.2018
Total		205,097	98,680	–	–	(68,224)	235,553		
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
	2.3.2015	–	74,348	–	–	–	74,348	31.12.2017	2.3.2018
Total		133,707	74,348	–	–	–	208,055		

Notes

- The awards granted in 2012 under the ERP failed to vest with EPS and TSR for the year ended 31 December 2014 falling below the threshold targets.
- The awards granted in 2013 under the ERP failed to vest with EPS and TSR for the year ended 31 December 2015 falling below the threshold targets.
- 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% per annum, reducing on a sliding scale to 12.5% vesting for achieving EPS growth of RPI+4% per annum. There is no vesting for this part of an award for EPS growth less than RPI+4% per annum. The other 50% of the award is subject to the same TSR condition described above.
- The awards of performance shares over 150% of salary granted in 2015 are subject to adjusted EPS growth targets and a TSR performance condition. For awards over 100% of salary, awards vest in full for achieving adjusted EPS growth of RPI+18% per annum, reducing on a sliding scale to 12.5% vesting for achieving EPS growth of RPI+4% per annum. There is no vesting for this part of an award for EPS growth less than RPI+4% per annum. For awards over the remaining 50% of salary, the award is subject to the same TSR condition described above.

Share options

	Date of grant	No. of options outstanding as at 1 January 2015	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2015	End of performance period	Exercise price	Date from which exercisable
John Morgan	20.5.2005	107,736	(107,736)	–	–	31.12.2007	£7.24	20.5.2008
	5.4.2006	81,016	–	–	81,016	31.12.2008	£12.59	5.4.2009
	17.3.2010	106,364	–	–	106,364	31.12.2012	£5.55	17.3.2013
Total		295,116	(107,736)	–	187,380			

Notes

- John Morgan exercised 107,736 share options on 19 May 2015. The share price on the date of exercise was £7.92.
- The outstanding options granted in 2006 and 2010 have satisfied their performance condition and are exercisable.
- The outstanding options detailed above will, if not lapsed or exercised earlier, lapse 10 years from the date of grant.

The mid-market price of a share on 31 December 2015 was £7.40 and the range during the year was £6.13 to £8.64.

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 ERP long-term incentive awards granted on 21 May 2012 to Paul Smith, David Mulligan and Paul Whitmore was not met and the awards lapsed on 21 May 2015. No other payments were made to former directors during the year.

ANNUAL REPORT ON REMUNERATION

CONTINUED

Percentage change in remuneration levels

The table below shows the movement in salary, benefits and annual bonus for the chief executive between the 2014 and 2015 financial years, compared to that for the average of all employees of the Group:

	Change
Chief executive	
Salary	3.0%
Benefits	18.2%
Bonus	100.0% ¹
Average employee	
Salary	2.7%
Benefits	(2.2%)
Bonus	64.2%

¹ Reflects that no bonus was paid for 2014.

Relative importance of spend on pay

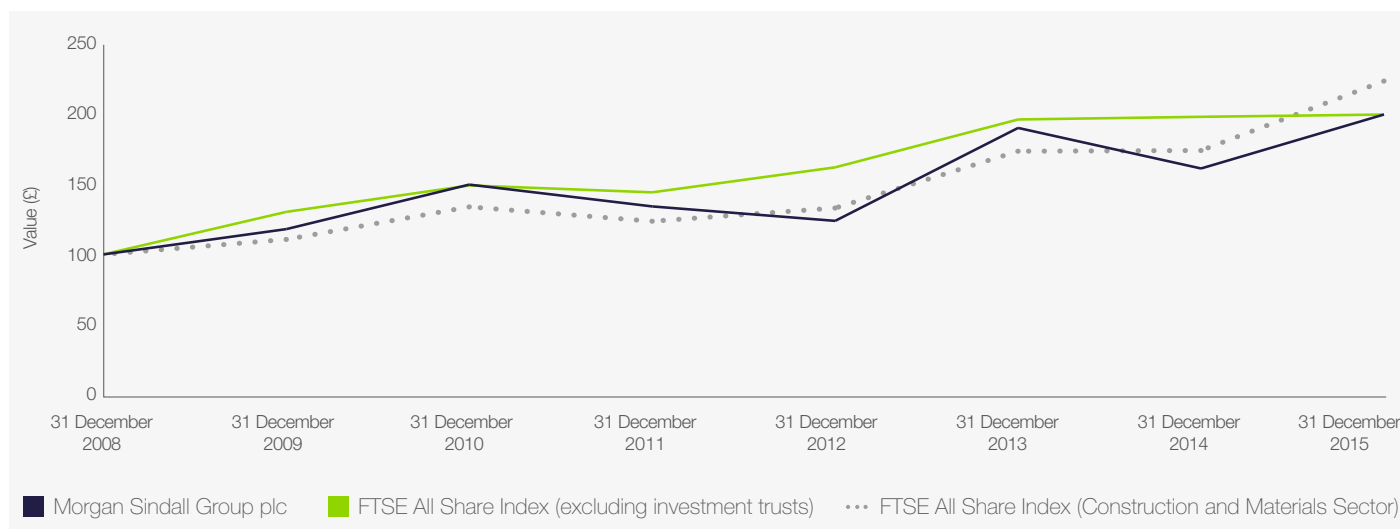
The following table sets out the percentage change in profit, dividends and overall spend on pay in 2015 compared to 2014:

	2015	2014	Change
Adjusted EPS (pence)	63.0	46.7	+35%
Dividends paid during the year (£m)	11.8	11.5	+3%
Employee remuneration costs (£m)	368.9	325.8	+13%

Seven-year performance graph and table

The graph below shows the TSR for the Company's shares over the last seven financial years. It shows the value to 31 December 2015 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.

Total shareholder return



The total remuneration figures for the chief executive during each of the last seven 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 pay-out and long-term incentive award vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	2015	2014	2013	2012	2012	2011	2010	2009
Chief executive		John Morgan ¹			Paul Smith ²			
Total remuneration (£000)	905	516	507 ³	671	1,327	1,025	1,096	796
Annual bonus %	80	–	– ³	30	26	85	100	27
LTIP share awards vesting %	–	–	–	–	49	–	–	25
LTIP share options vesting %	–	–	–	46	46	–	–	–

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

23 February 2016

DIRECTORS' REPORT

Other disclosures

The Act requires the directors to present a fair review of the business during the year to 31 December 2015 and of the position of the Company at the end of the financial year together with the financial statements, auditor's report and a description of the principal risks and uncertainties which the Group faces. The strategic report can be found on pages 2 to 56. The Disclosure and Transparency Rules require certain information to be included in a corporate governance report which can be found on pages 62 to 73.

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 94, which include the corporate governance report and the strategic report, together with the notice of AGM including the explanatory notes and 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
Dividends	See page 113 of the consolidated financial statements.
Capital structure (details of the issued share capital)	See page 123 of the consolidated financial statements.
Directors	<ul style="list-style-type: none"> > See page 85 of the remuneration report detailing the directors who served during the year. > Biographical details of the directors of the Company who are seeking election and re-election are set out on pages 58 and 59. > Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on pages 86 to 87.
The Morgan Sindall Employee Benefit Trust ('the Trust')	Details of the shares held by the Trust may be found in the consolidated financial statements on page 123.
Environmental, social and governance ('ESG') disclosures	Details of the Group's approach to diversity and ESG disclosures can be found in the responsible business review on pages 50 to 56, the risk review on page 44 and in the corporate governance report on page 68.
Morgan Sindall Group plc Long Term Incentive Plan ('LTIP')	Details of the Group's LTIP are set out in note 25 of the consolidated financial statements on page 124 and the annual report on remuneration on page 83.
Greenhouse gas emissions	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 responsible business review on page 54.

Capital structure

At each AGM the Board seeks authorisation from its shareholders to allot shares. The directors were granted authority at the AGM on 7 May 2015 to allot relevant securities up to a nominal amount of £110,412. 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-pre-emptive 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.

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); and
- > 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 7 May 2015, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,416,479 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 7 August 2016 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 1.05% of the issued share capital of the Company as at 31 December 2015 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 2015 which equated to 1.24% of the total dividend paid.

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 indemnity is categorised as a 'qualifying third-party indemnity provision' 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.

The Company also had and continues to have in place a pension trustee's 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. This constitutes a 'qualifying pension scheme indemnity provision' for the purposes of the Act.

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, www.corporate.morgansindall.com.

Substantial shareholdings

As at 23 February 2016, 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	6,194,562	13.98	Indirect
John Morgan	4,004,352	9.04	Direct
Old Mutual plc	3,551,194	8.02	Indirect
Standard Life	2,679,262	6.05	3.64% Indirect 2.41% Direct
Ameriprise Financial Inc.	2,627,969	5.93	Indirect
JO Hambro Capital Management Group Ltd ¹	2,239,565	5.06	Direct
Aberdeen Asset Managers Ltd ²	2,010,042	4.54	Indirect
John James Clifford Lovell	1,715,273	3.87	Direct

¹ As at 23 February 2016 JO Hambro Capital Management Group Ltd had notified the Company via RDIR that its total direct shareholding in the Company was 3,932,132.

² As at 23 February 2016 Aberdeen Asset Managers Ltd had notified the Company via RDIR that its total indirect shareholding in the Company was 1,742,658.

Related party transactions

There were no related party transactions in the year to 31 December 2015.

Change of control

The Group's banking facilities which are described in the finance review on page 29 require repayment in the event of a change of 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.

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 5 May 2016 at 10.00am. 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, 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 90 to 93 inclusive was approved by the Board and signed on its behalf by:

Clare Sheridan

Company Secretary

23 February 2016

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 ('IFRS's) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 judgements and accounting estimates that are reasonable and prudent;
- > state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



Responsibility statement

We confirm that to the best of our knowledge:

- > the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- > the strategic report 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 responsibility statement was approved by the Board of directors and is signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

23 February 2016

23 February 2016

FINANCIAL STATEMENTS

Independent auditor's report	96
Consolidated financial statements	100
Company financial statements	129
Shareholder information	135

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 2015 and of the Group's loss 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 judgements 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 and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained on page 29 and the directors' statement on the longer-term viability of the Group on page 49.

We have nothing material to add or draw attention to in relation to:

- > the directors' confirmation on page 41 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- > the disclosures on pages 42 to 48 that describe those risks and explain how they are being managed or mitigated;
- > the directors' statement on page 29 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- > the director's explanation on page 49 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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>Recognition of contract revenue, margin and related receivables and liabilities</p> <p>For construction companies there is considerable judgement in assessing the appropriate contract revenue and margin to recognise.</p> <p>Revenue and margin are recognised based on the stage of completion of individual contracts, calculated on the proportion of total costs at the reporting date compared to the estimated total costs of the contract.</p> <p>This involves the assessment of the valuation of work performed, claims and liquidated damages; the completeness and accuracy of forecast costs to complete; and in turn the evaluation of the related receivables and liabilities at each reporting date.</p> <p>Revenue from construction contracts at 31 December 2015 was £1,784.9m (2014: £1,624.3m) as set out in note 1. Amounts due from construction contract customers was £166.1m (2014: £241.5m) and trade receivables were £170.0m (2014: 176.7m) as set out in note 15.</p> <p>The Group has reported contract losses of £46.9m in relation to legacy contracts as exceptional operating items.</p>	<p>We evaluated the design and implementation of controls over revenue recognition, amounts due from construction contract customers and contract debtors. We also carried out site visits for a number of contracts in the year.</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, 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 receipts.</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> <p>We assessed the nature of the items disclosed as exceptional to determine whether they met the definition included in the Group's accounting policies on page 109 and whether the definition had been applied consistently.</p>
<p>Impairment of goodwill</p> <p>Under accounting standards, goodwill must be tested annually for impairment, which requires a comparison between the carrying amount of the cash generating unit ("CGU") and its recoverable amount.</p> <p>Determination of the recoverable amount incorporates significant judgements based on assumptions about future profitability and cash flows for the related businesses; and the application of appropriate long-term growth rates and discount rates.</p> <p>The carrying value of goodwill at 31 December 2015 was £213.9m (2014: £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:</p> <ul style="list-style-type: none"> > assessing the appropriateness of the CGUs identified and goodwill allocation during the period; > assessing the appropriateness cash flow projections relative to previous performance, current order book, and Office for National Statistics guidance on construction growth rate; > benchmarking against the wider peer group; and > recalculating the discount rates and perpetuity rates used. <p>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>Carrying value of land and work in progress</p> <p>The determination of net realisable value is a key area of judgement due to the assumptions made by management on future expected sales values and development opportunities.</p> <p>Carrying value of inventory at 31 December 2015 was £247.3m (2014: £202.2m as set out in note 14).</p>	<p>For a sample of land and development appraisals, we have evaluated the assumptions made which underpin the assessments, such as market values, local demand and likelihood of success of planning applications, by scrutinising them against recent sales information and external market data on house prices and commercial property values. 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>Valuation of shared equity loan debtors</p> <p>The determination of the fair value of the loans issued under the shared equity schemes in the Affordable Housing division requires judgement in relation to the discount rate, rate of expected default and forecast house price growth.</p> <p>Carrying value of shared equity loan debtors at 31 December 2015 was £20.3m (2014: £20.4m) as set out in note 13.</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, redemptions rates, discount rates and performance of the shared equity scheme to date.</p>

Management has set out their key accounting judgements and estimates in relation to each of the risks above on page 109.

The description of risks above should be read in conjunction with the significant issues considered by the audit committee discussed on pages 71 to 72. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Morgan Sindall Group plc

Our application of materiality

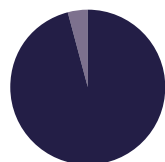
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

We determined materiality for the Group to be £2.5m (2014: £2.7m), which is 7.5% (2014: 7.5%) of the five-year average profit before tax and exceptional operating items, and approximately 1% (2014: approximately 1%) of net equity. We use profit before tax and exceptional operating items as it represents a key performance measure for the Group. Profit before tax and exceptional operating items can vary significantly year on year, dependant 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 rolling average profit before tax and exceptional operating items as a benchmark.

We agreed to report to the audit committee all audit differences in excess of £0.1m (2014: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Revenue



Full audit scope	96%
Audit of specific balances	4%
Analytical review	0%

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.

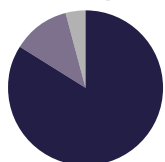
Based on this assessment, our Group audit scope focused primarily on the audit work at the significant components which were selected based on our assessment of the identified risks of material misstatement identified above. These represent the principal business units within the Group's reportable segments. We have performed full audit procedures for the significant components which account for 96% (2014: 97%) of the Group's revenue, 84% (2014: 78%) of the Group's adjusted profit before tax and 90% (2014: 93%) of the Group's net assets.

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 specific account balances and the remaining components were subject to analytical review procedures by the Group audit team.

Our audit work on components was executed to a lower level of materiality ranging from 50% – 70% of Group materiality (2014: 50% – 70%).

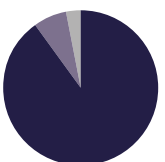
At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified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

Profit for tax and exceptionals



Full audit scope	84%
Audit of specific balances	12%
Analytical review	4%

Net assets



Full audit scope	90%
Audit of specific balances	7%
Analytical review	3%

The Group audit team communicated regularly with all component audit teams and carried out a programme of planned visits so that either the Senior Statutory Auditor or another senior member of the Group audit team visited 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 components. The Senior Statutory Auditor is the audit partner for the Group's most significant component, the Construction & Infrastructure Division.

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 Statement

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

Our duty to read other information in the annual report

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

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

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). 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

23 February 2016

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2015

	Notes	2015			2014
		Before exceptional items £m	Exceptional operating items (note 3) £m	Total £m	Total £m
Revenue	1	2,384.7	–	2,384.7	2,219.8
Cost of sales		(2,171.5)	(46.9)	(2,218.4)	(2,038.8)
Gross profit		213.2	(46.9)	166.3	181.0
Administrative expenses		(184.0)	–	(184.0)	(160.3)
Share of net profit of joint ventures	12	9.6	–	9.6	6.3
Other gains and losses		–	–	–	1.9
Operating (loss)/profit before amortisation of intangible assets		38.8	(46.9)	(8.1)	28.9
Amortisation of intangible assets	9	(2.2)	–	(2.2)	(2.4)
Operating (loss)/profit		36.6	(46.9)	(10.3)	26.5
Finance income	5	1.2	–	1.2	1.0
Finance expense	5	(5.7)	–	(5.7)	(4.7)
(Loss)/profit before tax	3	32.1	(46.9)	(14.8)	22.8
Tax	6	(4.7)	9.5	4.8	(4.8)
(Loss)/profit for the year		27.4	(37.4)	(10.0)	18.0
Attributable to:					
Owners of the Company		27.5	(37.4)	(9.9)	18.1
Non-controlling interests		(0.1)	–	(0.1)	(0.1)
(Loss)/profit for the year		27.4	(37.4)	(10.0)	18.0
(Loss)/earnings per share					
Basic	8			(22.6p)	42.3p
Diluted	8			(22.3p)	41.6p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
(Loss)/profit for the year		(10.0)	18.0
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain arising on defined benefit obligation	19	(0.1)	0.1
Deferred tax on retirement benefit obligation	20	(0.1)	(0.2)
		(0.2)	(0.1)
Items that may be reclassified subsequently to profit or loss:			
Movement on cash flow hedges in equity accounted joint ventures	12	–	(0.2)
Foreign exchange movement on translation of overseas operation		(0.4)	(0.2)
Other movement on cash flow hedges		0.2	–
		(0.2)	(0.4)
Other comprehensive expense		(0.4)	(0.5)
Total comprehensive (expense)/income		(10.4)	17.5
Attributable to:			
Owners of the Company		(10.3)	17.6
Non-controlling interests		(0.1)	(0.1)
Total comprehensive (expense)/income		(10.4)	17.5

CONSOLIDATED BALANCE SHEET

at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Goodwill and other intangible assets	9	217.3	218.1
Property, plant and equipment	10	20.8	19.2
Investment property	11	8.8	9.5
Investments in joint ventures	12	50.3	55.0
Other investments		–	0.3
Shared equity loan receivables	13	20.3	20.4
Retirement benefit asset	19	1.4	0.8
Non-current assets		318.9	323.3
Inventories	14	246.7	202.2
Trade and other receivables	15	353.6	442.4
Cash and cash equivalents	27	115.7	87.6
Current assets		716.0	732.2
Total assets		1,034.9	1,055.5
Liabilities			
Trade and other payables	17	(674.5)	(690.1)
Current tax liabilities		(3.5)	(5.2)
Finance lease liabilities	18	(1.6)	(1.6)
Borrowings	27	(12.8)	–
Provisions	21	(0.1)	(1.2)
Current liabilities		(692.5)	(698.1)
Net current assets		23.5	34.1
Trade and other payables	17	(17.8)	(22.0)
Finance lease liabilities	18	(1.8)	(2.5)
Borrowings	27	(45.0)	(31.9)
Deferred tax liabilities	20	(11.9)	(16.5)
Provisions	21	(16.9)	(16.6)
Non-current liabilities		(93.4)	(89.5)
Total liabilities		(785.9)	(787.6)
Net assets		249.0	267.9
Equity			
Share capital	24	2.2	2.2
Share premium account		32.0	30.9
Other reserves		(1.0)	(0.8)
Retained earnings		216.5	236.2
Equity attributable to owners of the Company		249.7	268.5
Non-controlling interests		(0.7)	(0.6)
Total equity		249.0	267.9

The consolidated financial statements of Morgan Sindall Group plc were approved by the Board on 23 February 2016 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Operating activities			
Operating (loss)/profit		(10.3)	26.5
Adjusted for:			
Amortisation of intangible assets	9	2.2	2.4
Share of net profit of equity accounted joint ventures	12	(9.6)	(6.3)
Depreciation	10	5.5	4.8
Share option expense	25	2.0	0.7
Profit on disposal of interests in joint ventures		–	(1.9)
Gain on disposal of property, plant and equipment		(0.3)	(0.2)
Movement in fair value of shared equity loan receivables	13	(1.4)	(1.8)
Non-cash impairment of investments		–	1.0
Non-cash exceptional operating items	3	46.9	–
Additional pension contributions	19	(0.7)	(0.7)
Disposals of investment properties	11	0.7	0.5
Repayment of shared equity loan receivables	13	1.5	1.1
Decrease in provisions	21	(0.8)	(6.6)
Operating cash inflow before movements in working capital		35.7	19.5
Increase in inventories		(44.5)	(41.2)
Decrease/(increase) in receivables		41.5	(55.7)
(Decrease)/increase in payables		(20.3)	85.1
Movements in working capital		(23.3)	(11.8)
Cash inflow from operations		12.4	7.7
Income taxes paid		(1.7)	(4.4)
Net cash inflow from operating activities		10.7	3.3
Investing activities			
Interest received		1.3	0.9
Dividend from joint ventures	12	0.7	0.8
Proceeds on disposal of property, plant and equipment		0.6	0.4
Purchases of property, plant and equipment		(6.2)	(5.7)
Purchases of intangible fixed assets		(1.4)	–
Net decrease/(increase) in loans to joint ventures	12	13.6	(0.9)
Proceeds on disposal of interests in joint ventures		–	5.9
Payment for the acquisition of subsidiaries, joint ventures and other businesses		–	(5.1)
Proceeds on disposal of other investments		–	0.3
Net cash inflow/(outflow) from investing activities		8.6	(3.4)
Financing activities			
Interest paid		(4.7)	(4.9)
Dividends paid	7	(11.8)	(11.5)
Repayments of obligations under finance leases		(1.9)	(1.5)
Proceeds from borrowings	27	25.9	8.8
Proceeds on issue of share capital	24	1.1	4.0
Proceeds on exercise of share options		0.2	–
Net cash inflow/(outflow) from financing activities		8.8	(5.1)
Net increase/(decrease) in cash and cash equivalents		28.1	(5.2)
Cash and cash equivalents at the beginning of the year		87.6	92.8
Cash and cash equivalents at the end of the year	27	115.7	87.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non- controlling interests £m	Total equity £m
1 January 2014	2.2	26.9	(0.4)	228.8	257.5	(0.5)	257.0
Total comprehensive income	–	–	(0.4)	18.0	17.6	(0.1)	17.5
Share option expense	–	–	–	0.7	0.7	–	0.7
Tax relating to share option expense	–	–	–	0.2	0.2	–	0.2
Issue of shares at a premium	–	4.0	–	–	4.0	–	4.0
Dividends paid	–	–	–	(11.5)	(11.5)	–	(11.5)
1 January 2015	2.2	30.9	(0.8)	236.2	268.5	(0.6)	267.9
Total comprehensive income	–	–	(0.2)	(10.1)	(10.3)	(0.1)	(10.4)
Share option expense	–	–	–	2.0	2.0	–	2.0
Issue of shares at a premium	–	1.1	–	–	1.1	–	1.1
Exercise of share options and vesting of share awards	–	–	–	0.2	0.2	–	0.2
Dividends paid	–	–	–	(11.8)	(11.8)	–	(11.8)
31 December 2015	2.2	32.0	(1.0)	216.5	249.7	(0.7)	249.0

Other reserves

Other reserves include:

- > Capital redemption reserve of £0.6m (2014: £0.6m) which was created on the redemption of preference shares in 2003.
- > Hedging reserve of (£0.6m) (2014: (£0.8m)) 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 (£1.0m) (2014: (£0.6m)) 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 2015 was 466,425 (2014: 545,767) with a cost of £3.5m (2014: £4.1m).

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 December 2015

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 3.

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 29 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.

- > Annual improvements 2010-2012 cycle. Amends the following standards:
 - IFRS 2 'Share-based Payments'. Amends the definition of vesting condition and market condition and adds definitions for performance condition and service condition.
 - IFRS 3 'Business Combinations'. Requires contingent consideration to be re-measured at fair value at each reporting date.
 - IFRS 8 'Operating Segments'. Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments. Clarifies that reconciliation of segment assets is only required if segment assets are reported regularly to the chief operating decision maker.
 - IFRS 13 'Fair Value Measurement'. Clarifies that the ability to measure short-term receivables and payables on an undiscounted basis has not been removed.
 - IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets'. Clarifies that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
 - IAS 24 'Related Party Disclosures'. Clarifies how payments to entities providing management services are to be disclosed.
- > Annual improvements 2011-2013 cycle. Amends the following standards:
 - IFRS 1 'First-time Adoption of International Financial Reporting Standards'. Clarifies which versions of IFRSs can be used on initial adoption.
 - IFRS 3 'Business Combinations'. Clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- IFRS 13 'Fair value measurement'. Clarifies the scope of the portfolio exception in paragraph 52.
- IAS 40 'Investment property'. Clarifies the inter-relationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

- > IAS 19 (amended) 'Employee Benefits'. Clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

(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 2012-2014 cycle
- > IAS 1 (amended) 'Presentation of Financial Statements'
- > IAS 12 (amended) 'Income Taxes'
- > 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 11 (amended) 'Joint Arrangements': Accounting for acquisitions of interests in joint operations
- > IFRS 14 'Regulatory Deferral Accounts'
- > IFRS 15 'Revenue from Contracts with Customers'
- > IFRS 16 'Leases'

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 and IFRS 16 on the recognition and disclosure requirements in relation to revenue recognition and leases respectively.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company, together with the Group's share of the results of joint ventures made up to 31 December each year.

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

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

(a) Subsidiaries

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

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

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.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Revenue and margin recognition continued**(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.

(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 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. Those that are acquired separately, such as software, are recognised at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. 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 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 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.

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. There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

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.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Retirement benefit schemes continued

(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.

There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

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 JUDGEMENTS AND ESTIMATES

for the year ended 31 December 2015

The preparation of financial statements under IFRS requires the Company's management to make judgements, 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 judgement and estimation required:

> Accounting for construction and service contracts

Recognition of revenue and profit is based on judgements made in respect of the ultimate profitability of a contract. Such judgements 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 arose on the sale of properties under shared equity home ownership schemes which are recognised and measured at fair value through profit or loss. The Group makes estimates of fair value of the loans on a portfolio basis. Key assumptions used by management in making these estimates include market value growth, the discount rate, the anticipated loan duration and the expected rate of debtor

default. Assumptions made in relation to these inputs are set out in note 13 and have a material impact on the carrying value of the loan portfolio recognised on the balance sheet and the fair value movement recognised in the income statement.

> Provisions

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

> Disclosure of exceptional operating items

The Group has presented certain items of a one-off and material nature as exceptional operating items in the income statement and notes to the consolidated financial statements. These items have been disclosed because the directors view their presentation as relevant to the understanding of the Group's underlying financial performance. Judgement is required to determine which items are disclosed as exceptional. Inclusion within this category is restrictive and is applied consistently.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Revenue

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

	2015 £m	2014 £m
Revenue from construction contracts	1,784.9	1,624.3
Other services	110.8	98.8
Construction revenue	1,895.7	1,723.1
Regeneration revenue	489.0	496.7
Total revenue	2,384.7	2,219.8

Finance income of £1.2m (2014: £1.0m) is excluded from the table above.

2 Business segments

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

- > Construction & Infrastructure: offers design, construction and infrastructure services working on projects, and in frameworks and strategic alliances of all sizes across a broad range of markets including commercial, defence, education, energy, healthcare, industrial, leisure, retail, transport and water. The division's professional services business offers multi-disciplinary engineering and design consultancy services.
- > Fit Out: Overbury specialises in fit out and refurbishment projects, operating through multiple procurement routes. Morgan Lovell specialises in office design and build, providing an end-to-end service which includes workplace consultancy and furniture solutions.
- > Affordable Housing: Partnership Housing specialises in the delivery of mixed-tenure developments, building and developing homes for open market sale and for social/affordable rent, and new build house contracting and planned maintenance. Property Services includes the division's response maintenance activities offering 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 new mixed-use communities. Typically creates commercial, retail, residential, leisure and public realm facilities.
- > Investments: creates long-term strategic partnerships to realise the potential of under-utilised property assets, promotes sustained economic growth through regeneration and drives cost efficiencies through innovative and integrated estate management solutions. The division covers a wide range of markets including asset backed, education, healthcare and social care, residential, student accommodation, leisure and infrastructure.

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

2015

	Construction & Infrastructure £m	Fit Out £m	Affordable Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
External revenue	1,230.5	606.2	424.5	110.4	13.1	–	–	2,384.7
Inter-segment revenue	1.9	0.4	1.3	–	–	–	(3.6)	–
Total revenue	1,232.4	606.6	425.8	110.4	13.1	–	(3.6)	2,384.7
Operating profit/(loss) before amortisation of intangible assets and exceptional operating items	3.8	24.0	8.6	12.9	(1.5)	(9.0)	–	38.8
Amortisation of intangible assets	–	–	(0.6)	(1.6)	–	–	–	(2.2)
Exceptional operating items	(46.9)	–	–	–	–	–	–	(46.9)
Operating profit/(loss)	(43.1)	24.0	8.0	11.3	(1.5)	(9.0)	–	(10.3)
Other information:								
Average number of employees	3,570	653	1,416	65	93	31		5,828

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)	–
Total revenue	1,171.7	506.9	422.6	112.7	24.9	–	(19.0)	2,219.8
Operating profit/(loss) before amortisation of intangible assets and exceptional operating items	3.5	15.0	6.0	10.0	0.9	(6.5)	–	28.9
Amortisation of intangible assets	–	–	(0.6)	(1.8)	–	–	–	(2.4)
Operating profit/(loss)	3.5	15.0	5.4	8.2	0.9	(6.5)	–	26.5
Other information:								
Average number of employees	3,507	592	1,478	55	89	29		5,750

During the year ended to 31 December 2015 and the year ended 31 December 2014, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

3 (Loss)/profit for the year

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

	2015 £m	2014 £m
Exceptional operating items – impairment of trade and other receivables in relation to two old construction contracts	46.9	–
Government grants received	(11.5)	(3.1)

The exceptional operating item relates to the impairment of amounts recoverable on two construction contracts identified in 2013, both of which were transferred as part of the acquisition of the design and project services division of Amec in 2007. Both contracts have the Secretary of State for Defence as the overall employing party. One contract relates to the design and construction of a floating jetty, the other to the design and construction of living accommodation and infrastructure, both around the Faslane Naval Base in West Scotland.

Commercial resolution has been achieved on one of these contracts, whilst on the other the Board has assessed its options to recover amounts, looking at a range of potential likely outcomes from pursuing legal and/or commercial settlement routes. Based upon this assessment and taking into account the risks and costs associated with pursuing legal remedies an exceptional item of £46.9m has been charged, which is non-cash in nature.

Auditor's remuneration

	2015 £m	2014 £m
Audit of the Company's annual report	0.1	0.1
Audit of the Company's subsidiaries and joint ventures	0.6	0.6
Total audit fees	0.7	0.7
Other services	–	0.1
Total non-audit fees	–	0.1
Total fees	0.7	0.8

4 Staff costs

	2015 £m	2014 £m
Wages and salaries	323.1	285.2
Social security costs	36.1	31.7
Other pension costs (note 19)	9.7	8.9
	368.9	325.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5 Finance income and expense

	2015 £m	2014 £m
Interest receivable from joint ventures	0.9	0.8
Other interest income	0.3	0.2
Finance income	1.2	1.0
Interest payable on bank overdrafts and borrowings	(2.9)	(1.6)
Interest payable on finance leases	(0.2)	(0.3)
Loan arrangement and commitment fees	(2.0)	(1.9)
Other interest payable	(0.6)	(0.9)
Finance expense	(5.7)	(4.7)
Net finance expense	(4.5)	(3.7)

Included within other interest payable in 2015 is a discount unwind of £0.4m (2014: £0.5m) in relation to deferred consideration on the acquisition of an increased investment in a joint venture and £0.2m (2014: £0.4m) discount unwind on deferred land payments.

6 Tax

	2015 £m	2014 £m
Current tax (credit)/expense:		
Corporation tax	0.3	3.4
Adjustment in respect of prior years	(0.4)	0.9
	(0.1)	4.3
Deferred tax (credit)/expense:		
Current year	(4.7)	0.8
Adjustment in respect of prior years	–	(0.3)
	(4.7)	0.5
Income tax (credit)/expense for the year	(4.8)	4.8

Corporation tax is calculated at 20.25% (2014: 21.5%) of the estimated assessable (loss)/profit for the year.

After exceptional items the Group has recognised a net loss for the year. This loss has resulted in tax losses carried forward. As the Group expects to generate profits in subsequent years capable of being offset against these carried forward tax losses, a deferred tax asset has been recognised in respect of the tax losses. The table below reconciles the tax charge for the year to tax at the UK statutory rate:

	2015 £m	2014 £m
Current tax expense:		
(Loss)/profit before tax	(14.8)	22.8
Less: post tax share of profits from joint ventures	(9.6)	(6.3)
	(24.4)	16.5
UK corporation tax rate	20.25%	21.50%
Income tax (credit)/expense at UK corporation tax rate	(4.9)	3.5
Tax effect of:		
Gain on disposal of joint ventures not giving rise to a tax liability	–	(0.4)
Non-taxable income and expenses	0.2	(0.2)
Tax liability upon joint venture profits ¹	1.7	1.1
Adjustments in respect of prior years	(0.4)	0.6
Expected forthcoming change in tax rates upon deferred tax balance	(1.7)	–
Other	0.3	0.2
Income tax (credit)/expense for the year	(4.8)	4.8

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

7 Dividends

Amounts recognised as distributions to equity holders in the year:

	2015 £m	2014 £m
Final dividend for the year ended 31 December 2014 of 15.0p per share	6.5	–
Final dividend for the year ended 31 December 2013 of 15.0p per share	–	6.4
Interim dividend for the year ended 31 December 2015 of 12.0p per share	5.3	–
Interim dividend for the year ended 31 December 2014 of 12.0p per share	–	5.1
	11.8	11.5

The proposed final dividend for the year ended 31 December 2015 of 17.0p 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

	2015 £m	2014 £m
(Loss)/profit attributable to the owners of the Company	(9.9)	18.1
Adjustments:		
Exceptional operating items net of tax	37.4	–
Amortisation of intangible assets net of tax	1.8	1.9
Deferred tax credit arising due to change in UK corporation tax rates	(1.7)	–
Adjusted earnings	27.6	20.0
Basic weighted average number of ordinary shares (m)	43.8	42.8
Dilutive effect of share options and conditional shares not vested (m)	0.6	0.7
Diluted weighted average number of ordinary shares (m)	44.4	43.5
Basic (loss)/earnings per share	(22.6p)	42.3p
Diluted (loss)/earnings per share	(22.3p)	41.6p
Adjusted earnings per share	63.0p	46.7p
Diluted adjusted earnings per share	62.2p	46.0p

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 £7.66 (31 December 2014: £7.70).

A total of 1,174,560 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 2015 (31 December 2014: 268,056).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost or valuation			
1 January 2014 and 31 December 2014	213.9	29.9	243.8
Additions	–	1.4	1.4
31 December 2015	213.9	31.3	245.2
Accumulated amortisation			
1 January 2014	–	(23.3)	(23.3)
Amortisation	–	(2.4)	(2.4)
1 January 2015	–	(25.7)	(25.7)
Amortisation	–	(2.2)	(2.2)
31 December 2015	–	(27.9)	(27.9)
Net book value at 31 December 2015	213.9	3.4	217.3
Net book value at 31 December 2014	213.9	4.2	218.1

Goodwill represents the value of people, track record and expertise acquired within acquisitions that are not capable of being individually identified and separately recognised. 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 (2014: £151.1m), Affordable Housing (Partnership Housing) £46.8m (2014: £46.8m) and Urban Regeneration £16.0m (2014: £16.0m).

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 strategic plans for the next five years. Cash flows beyond five years have been extrapolated using an estimated nominal growth rate of 2.2% (2014: 2.2%). 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 11.0% (2014: 11.5%) for Construction & Infrastructure, 12.0% (2014: 12.0%) for Affordable Housing (Partnership Housing) and 12.5% (2014: 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 2016 to 2020 by either 25% or 50% and increasing pre-tax discount rates by 100bps. The results of these analyses showed that the value in use of the cash-generating units continued to exceed their carrying value.

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. These will be fully amortised by 2019.
- > software and IT systems. These will be fully amortised by 2020.

10 Property, plant and equipment

	Freehold property and land £m	Leased property £m	Plant and equipment £m	Total £m
Cost				
1 January 2014	2.4	8.3	41.2	51.9
Additions	2.4	0.8	2.7	5.9
Disposals	–	(0.2)	(0.8)	(1.0)
1 January 2015	4.8	8.9	43.1	56.8
Additions	–	2.5	4.9	7.4
Disposals	–	(0.7)	(1.4)	(2.1)
31 December 2015	4.8	10.7	46.6	62.1
Accumulated depreciation				
1 January 2014	–	(4.9)	(28.7)	(33.6)
Depreciation charge	–	(1.1)	(3.7)	(4.8)
Disposals	–	0.2	0.6	0.8
1 January 2015	–	(5.8)	(31.8)	(37.6)
Depreciation charge	–	(1.2)	(4.3)	(5.5)
Disposals	–	0.7	1.1	1.8
31 December 2015	–	(6.3)	(35.0)	(41.3)
Net book value at 31 December 2015	4.8	4.4	11.6	20.8
Net book value at 31 December 2014	4.8	3.1	11.3	19.2

The Group's obligations under finance leases are secured by the lessor's title to the leased assets. The carrying value of plant and equipment which is subject to finance leases is £2.1m (2014: £3.2m). No other assets have been pledged to secure borrowings.

11 Investment property

	2015 £m	2014 £m
Valuation		
1 January	9.5	10.0
Disposals	(0.7)	(0.5)
31 December	8.8	9.5

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 (2014: £0.5m). Direct operating expenses arising on properties generating rent and vacant properties in the year amounted to £0.2m (2014: £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 2015 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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 Investments in joint ventures

The Group has the following interests in significant joint ventures:

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.

Health Innovation Partners Limited 50% share

Through the Health Innovation Partners joint venture, the Group has a 25% interest in Strategic Transformation Real Innovation and Delivery Excellence LLP ('STRIDE'), a joint venture with Arcadis BAC Limited and Burton Hospitals NHS Foundation Trust. STRIDE was set up as the Trust's Strategic Infrastructure and Efficiency Partner to deliver efficiency savings and infrastructure projects over the next 10 years. Joint control is exercised through the board of directors who are appointed in proportion to the holdings of each class of ordinary shares.

hub West Scotland Limited 54% share

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

ISIS Waterside Regeneration (General Partner) Limited 50% equity participation

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

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 in Warrington, 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.

PSBP NW Holdco Limited 45% share

PSBP NW Holdco limited is a joint venture with Equitix and the Department for Education. The joint venture was set up to design, build, finance and maintain 12 schools in the North West of England under the Priority Schools Building Programme. Joint control is exercised through the board of directors who are appointed in proportion to the holdings of each class of ordinary shares.

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:

	2015 £m	2014 £m
1 January	55.0	54.0
Equity accounted share of net profits	9.6	6.3
Loans advanced to joint ventures	8.6	13.2
Loans repaid by joint ventures	(22.2)	(12.3)
Non-cash impairment	–	(1.0)
Disposals	–	(4.2)
Dividends received	(0.7)	(0.8)
Movement on cash flow hedges	–	(0.2)
31 December	50.3	55.0

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

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 (General Partner) Limited		Other	
	2015 £m	2014 £m	2015 £m	2014 £m
Non-current assets (100%)	–	–	116.8	125.8
Current assets (100%)	47.1	67.3	193.2	196.0
Current liabilities (100%)	(6.4)	(19.1)	(60.4)	(64.5)
Non-current liabilities (100%)	–	–	(164.1)	(191.9)
Net assets reported by equity accounted joint ventures (100%)	40.7	48.2	85.5	65.4
Proportion of the Group's ownership interest (50%)	20.4	24.1		
Other adjustments	(0.8)	(0.1)		
Carrying amount of the Group's interest in the joint venture	19.6	24.0		
Revenue (100%)	40.5	31.2	122.2	118.0
Expenses (100%)	(34.2)	(24.4)	(109.4)	(110.9)
Net profit (100%)	6.3	6.8	12.8	7.1

At 31 December 2015, ISIS Waterside Regeneration (General Partner) Limited had current loans of £1.1m (2014: £14.9m) and incurred £0.4m of finance expense for the year (2014: £0.4m).

Results of equity accounted joint ventures:

	2015 £m	2014 £m
Group share of profit before tax	9.6	6.3
Group share of tax	–	–
Group share of profit after tax	9.6	6.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13 Shared equity loan receivables

	2015 £m	2014 £m
1 January	20.4	19.7
Net change in fair value recognised in the income statement	1.4	1.8
Repayments	(1.5)	(1.1)
31 December	20.3	20.4

During the year, there were repayments of shared equity loan receivables of £1.5m (2014: £1.1m). All repayments were at values at or above the values held in the accounts.

The Group's maximum credit exposure is limited to the carrying value of the shared equity loan receivables granted. The Group's credit risk is partially mitigated as the shared equity loan receivables are secured by way of a second charge over the property. The change in the fair value attributable to a change in the credit risk during the year was £nil (2014: £nil). There were two defaults during the year (2014: one default).

Basis of valuation and assumptions made

There is no directly observable fair value for individual loans arising from the sale of specific properties under the scheme, and therefore the Group has developed a model for determining the fair value of the portfolio of loans based on national property prices, expected property price increases, expected loan defaults and a discount factor which reflects the interest rate expected on an instrument of similar risk and duration in the market. Details of the key assumptions made in this valuation are as follows:

	2015	2014
Assumption		
Period over which shared equity loan receivables are discounted:		
First Buy and Home Buy schemes	20 years	20 years
Other schemes	9 years	9 years
Nominal discount rate	6.6%	6.7%
Weighted average nominal annual property price increase	2.8%	3.2%
Forecast default rate	2.0%	2.0%
Number of loans under the shared equity scheme outstanding at the year end	669	709

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 2015, if the nominal discount rate had been 100bps higher at 7.6% 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 period and equity (excluding the effects of tax).

At 31 December 2015, 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 period and equity (excluding the effects of tax).

14 Inventories

	2015 £m	2014 £m
Work in progress	246.7	202.2

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

15 Trade and other receivables

	2015 £m	2014 £m
Amounts due from construction contract customers (note 16)	166.1	241.5
Trade receivables (note 27)	170.0	176.7
Amounts owed by joint ventures (note 26)	0.8	3.3
Prepayments	10.1	11.9
Other receivables	6.6	9.0
	353.6	442.4

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 £1.2m (2014: £8.3m).

16 Construction contracts

	2015 £m	2014 £m
Amounts due from construction contract customers (note 15)	166.1	241.5
Amounts due to construction contract customers (note 17)	(53.9)	(48.9)
Carrying amount at the end of the year	112.2	192.6
Contract costs incurred plus recognised profits less recognised losses to date	6,637.4	6,732.1
Less: progress billings	(6,525.2)	(6,539.5)
	112.2	192.6

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

	2015 £m	2014 £m
Trade payables	161.5	167.7
Amounts due to construction contract customers (note 16)	53.9	48.9
Amounts owed to joint ventures (note 26)	0.2	0.2
Other tax and social security	33.2	17.0
Accrued expenses	396.2	429.2
Deferred income	4.5	8.6
Other payables	25.0	18.5
Current	674.5	690.1
Other payables	17.8	22.0
Non-current	17.8	22.0

The directors consider that the carrying amount of trade payables approximates to their fair value. No interest was incurred on outstanding balances. Non-current other payables have been discounted by £1.1m (2014: £1.7m) to reflect the time value of money.

Current and non-current other payables include £7.0m and £7.0m respectively (2014: £nil and £13.6m) related to the discounted deferred consideration due on the acquisition of an additional interest in ISIS Waterside Regeneration (General Partner) Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18 Finance lease liabilities

	Minimum lease payments		Capital element of lease payments	
	2015 £m	2014 £m	2015 £m	2014 £m
Amounts payable under finance leases:				
Within one year	1.7	1.8	1.6	1.6
In the second to fifth years inclusive	1.9	2.6	1.8	2.5
	3.6	4.4	3.4	4.1
Less: future finance charges	(0.2)	(0.3)	n/a	n/a
Present value of lease obligations	3.4	4.1	3.4	4.1
Current lease liability			1.6	1.6
Non-current lease liability			1.8	2.5
			3.4	4.1

It is the Group's policy to lease certain of its property, plant, machinery and equipment under finance leases. The average lease term is five years (2014: seven years). For the year ended 31 December 2015, the average effective borrowing rate was 4.0% (2014: 5.0%). 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 £9.7m (2014: £8.9m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2015, contributions of £1.4m (2014: £1.1m) were due in respect of December's contribution not paid over to the Retirement Plan. The Company, with the consent of the Trustees, can decide how to use monies held in a defined contribution general account.

Defined benefit plan

The Retirement Plan includes a defined benefit section comprising liabilities and transfers of funds representing the accrued benefit rights of active and deferred members and pensioners of pension plans of companies which are now part of the Group. These include salary related benefits for members in respect of benefits accrued before 31 May 1995 (and benefits transferred in from The Snape Group Limited Retirement Benefits Scheme 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:

	2015 %	2014 %
Key assumptions used:		
Discount rate	3.8	3.4
Expected rate of salary increases	4.3	4.1
Rate of inflation	2.3	2.1
Rate of future pension increases ¹	3.0–3.5	3.0–3.5
Average life expectancy for pensioner retiring now at age 65 (years)	87.5	87.4
Average life expectancy for pensioner retiring in 20 years at age 65 (years)	89.4	89.4

1 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.

	2015			2014		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	11.3	(10.5)	0.8	9.3	(9.3)	–
Finance income/(expense)	0.3	(0.3)	–	0.4	(0.4)	–
Actuarial (losses)/gains	(0.7)	0.6	(0.1)	1.3	(1.2)	0.1
Contributions from sponsoring company	0.7	–	0.7	0.7	–	0.7
Benefits paid	(0.3)	0.3	–	(0.4)	0.4	–
31 December	11.3	(9.9)	1.4	11.3	(10.5)	0.8

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 50bps	0.7
Increase in inflation rate of 50bps	0.1
Increase in average life expectancy of one year	0.3

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

	2015 £m	2014 £m
Actuarial (loss)/gain recognised during the year	(0.1)	0.1
Cumulative actuarial loss recognised	(2.9)	(2.8)

The Retirement Plan assets comprise 55% corporate bonds (2014: 56%), 43% gilts (2014: 43%) and 2% cash (2014: 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:

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Present value of the Retirement Plan liabilities	(9.9)	(10.5)	(9.3)	(10.4)	(9.4)
Fair value of the Retirement Plan assets	11.3	11.3	9.3	8.9	8.1
Surplus/(deficit) in the Retirement Plan	1.4	0.8	–	(1.5)	(1.3)

The amount of contributions expected to be paid to the Retirement Plan during 2016 is £0.7m (2015: £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 2014	(16.5)	(0.1)	–	0.6	(16.0)
Charge to income statement	–	(0.3)	–	(0.2)	(0.5)
Charge to other comprehensive income	–	–	(0.2)	–	(0.2)
Credit to equity	–	–	–	0.2	0.2
1 January 2015	(16.5)	(0.4)	(0.2)	0.6	(16.5)
Credit to income statement	0.1	2.7	–	0.2	3.0
Charge to other comprehensive income	–	–	(0.1)	–	(0.1)
Credit to equity	–	–	–	0.1	0.1
Effect of change in tax rate:					
Credit to income statement	1.7	–	–	–	1.7
Charge to equity	–	–	–	(0.1)	(0.1)
31 December 2015	(14.7)	2.3	(0.3)	0.8	(11.9)

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 2015, the Group had unused tax losses of £18.3m (2014: £3.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of £14.6m (2014: nil) of these losses. No deferred tax asset has been recognised in respect of the remaining £3.7m (2014: £3.5m) due to the unpredictability of future profit streams against which the losses may be utilised. Losses may be carried forward indefinitely.

The UK corporation tax rate is set to reduce to 19% during 2017 and to 18% during 2020. All closing deferred tax balances have been calculated using a rate of 18% as they will not materially reverse before the tax rate change is effective, except for the deferred tax relating to tax losses, which has been calculated using the tax rates expected to apply when the tax losses are utilised.

21 Provisions

Current liabilities

	Employee provisions £m	Total £m
1 January 2014	2.2	2.2
Utilised	(1.0)	(1.0)
1 January 2015	1.2	1.2
Utilised	(1.1)	(1.1)
31 December 2015	0.1	0.1

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 2014	0.4	13.2	8.6	22.2
Utilised	–	(2.5)	(1.0)	(3.5)
Additions	–	3.2	0.2	3.4
Released	–	–	(5.5)	(5.5)
1 January 2015	0.4	13.9	2.3	16.6
Utilised	–	(2.6)	(0.3)	(2.9)
Additions	–	4.1	–	4.1
Released	–	(0.9)	–	(0.9)
31 December 2015	0.4	14.5	2.0	16.9

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 £3.5m (2014: £2.4m) held in the Group's captive insurance company, Newman Insurance Company Limited.

Other provisions include onerous lease commitments and property dilapidations. The amount released in 2014 related 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.

22 Operating lease commitments

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

	2015			2014		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	6.3	4.3	10.6	6.4	5.1	11.5
Within two to five years	11.3	4.1	15.4	11.4	5.5	16.9
After more than five years	7.9	–	7.9	4.7	–	4.7
31 December	25.5	8.4	33.9	22.5	10.6	33.1

The operating lease expense in the year was £12.3m (2014: £11.3m).

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

Leases are negotiated for an average term of four years (2014: three years) and rentals are fixed for an average of four years (2014: 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 2015, contract bonds in issue under uncommitted facilities covered £221.6m (2014: £208.1m) of contract commitments of the Group.

24 Share capital

	2015		2014	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	44,079,565	2.2	43,259,364	2.2
Exercise of share options	216,438	–	820,201	–
31 December	44,296,003	2.2	44,079,565	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

216,438 shares were issued during 2015 in respect of options exercised under The Morgan Sindall Savings Related Share Option Scheme ('SAYE') for a total consideration of £1.1m (2014: 820,201 shares were issued for a total consideration of £4.0m). No other shares were issued during the year.

Own shares

Own shares at cost represent 466,425 (2014: 545,767) 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 2015 of £7.40 (2014: £6.20), the market value of the shares was £3.5m (2014: £3.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 Share-based payments

The Group recognised a share option expense of £2.0m (2014: £0.7m) 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 page 83.

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

	Share awards under 2014 LTIP		Share options under SAYE	Share options under 2014 SOP
	Awards with TSR condition	Awards with EPS condition		
Number of shares/options granted	266,168	323,839	982,156	1,049,093
Weighted average fair value at date of grant (per share)	£3.87	£7.50	£1.87	£1.75
Weighted average share price at date of grant	£7.50	£7.50	£8.03	£7.50
Weighted average exercise price	n/a	n/a	£6.15	£7.03
Valuation model	Stochastic	Black-Scholes	Black-Scholes	Black-Scholes
Expected term (from date of grant)	3.0 years	3.0 years	3.1 years	6.5 years
Expected volatility ¹	25.9%	n/a	25.2%	32.4%
Expected dividend yield ²	0.0%	0.0%	3.4%	3.6%
Risk free rate	0.8%	0.8%	0.7%	1.4%

- 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.
- 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:

	2015		2014	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	1,633,613	6.48	3,217,776	6.04
Granted during the year	2,031,249	6.64	40,000	6.40
Lapsed during the year	(292,106)	7.22	(704,962)	6.23
Exercised during the year	(530,834)	5.92	(919,201)	5.13
Outstanding at 31 December	2,841,922	6.62	1,633,613	6.48
Exercisable at 31 December	496,400	8.46	1,066,016	9.93
Weighted average remaining contractual life	4.9 years		2.9 years	

The weighted average share price at the date of exercise for share options exercised during the year was £7.74 (2014: £6.86).

The options outstanding at 31 December 2015 had exercise prices ranging from £4.37 to £15.81.

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	
	2015 £m	2014 £m	2015 £m	2014 £m
Joint venture				
Ashton Moss Developments Limited	–	–	(0.2)	(0.1)
Claymore Roads (Holdings) Limited	0.1	0.1	–	0.1
ECf (General Partner) Limited	1.9	2.4	–	–
HB Community Solutions Limited	1.7	1.9	–	–
HB Villages Development Limited	–	0.2	–	0.2
HB Villages Limited	1.2	0.3	0.4	0.3
HB Villages Tranche 2 Limited	–	0.2	–	0.2
hub West Scotland Projectco 1 Limited	0.2	0.1	–	–
Hull Esteem Consortium PSP Limited	–	4.1	–	–
Leyton Mount Development LLP	1.0	12.5	–	1.9
PSBP NW Holdco Limited	1.5	–	–	–
PSBP NW ProjectCo Limited	26.7	–	–	–
Slough Regeneration Partnership Community Projects LLP	12.1	6.6	–	0.1
St Andrews Brae Developments Limited	–	–	–	0.1
Strategic Transformation Real Innovation and Delivery Excellence LLP	–	–	0.3	–
The Bournemouth Development Company LLP	0.1	0.4	–	0.1
The Compendium Group Limited	5.8	7.0	–	–
Wapping Wharf (Alpha) LLP	0.2	0.2	–	0.1
Wellspring Partnership Limited	1.3	0.9	0.1	0.1
	53.8	36.9	0.6	3.1

	Amounts owed by/(to) related parties	
	2015 £m	2014 £m
Amounts owed by related parties (note 15)	0.8	3.3
Amounts owed to related parties (note 17)	(0.2)	(0.2)
	0.6	3.1

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'.

	2015 £m	2014 £m
Short-term employee benefits	7.5	4.6
Post-employment benefits	0.3	0.4
Termination benefits	–	0.5
Share option expense	1.2	0.4
	9.0	5.9

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 23 February 2016.

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 23 February 2016.

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:

	2015 £m	2014 £m
Cash and cash equivalents	115.7	87.6
Non-recourse project financing due in less than one year	(12.8)	–
Borrowings due between two and five years	(45.0)	(15.0)
Non-recourse project financing due after more than one year	–	(16.9)
Net cash	57.9	55.7

Included within cash and cash equivalents is £28.9m (2014: £33.8m) which is the Group's share of cash held within jointly controlled operations.

The Group has £175m of committed loan facilities, of which £15m mature in May 2017, £20m in September 2017 and £140m in September 2018. Additional project finance borrowings of £12.8m (2014: £16.9m) 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 2015 was £53.4m (2014: net debt £8.8m).

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 2015 were £59.6m (2014: £60.4m). These will be collected in the normal operating cycle of the Group.

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

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

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

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

	2015		2014	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	120.2	–	122.2	–
Past due 1 to 30 days	21.9	–	24.8	–
Past due 31 to 120 days	8.3	0.1	7.1	–
Past due 121 to 365 days	11.7	0.3	8.3	0.7
Past due greater than one year	9.1	0.8	22.6	7.6
	171.2	1.2	185.0	8.3

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

	2015 £m	2014 £m
1 January	8.3	8.6
Amounts written off during the year	(6.3)	–
Amounts recovered during the year	(0.5)	(0.3)
Other movements in the provision	(0.3)	–
31 December	1.2	8.3

The average credit period on revenue is 26 days (2014: 29 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 £49.8m (2014: £54.5m) 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 111 days (2014: 161 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 reduction 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27 Financial instruments continued

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, continual monitoring of working capital exceptions (overdue debts and conversion of work performed into certificates and invoices); continual review of levels of current and forecast profitability on contracts; review of client and supplier credit references; and approval of credit terms with clients and suppliers to ensure they are appropriate.

The Group does not have any material derivative or non-derivative financial liabilities with the exception of trade and other payables, current tax liabilities, finance lease liabilities and retirement benefit obligations. Trade and other payables 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 contracts have a nominal value of £14.3m (2014: £14.9m) and fixed interest payments at an average rate of 5.1% (2014: 5.1%) for periods up until 2033.

The Group's share of the fair value of swaps entered into at 31 December 2015 by joint ventures is estimated at a £0.8m liability (2014: £0.8m 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.

In order to hedge foreign currency exposures for a construction joint arrangement the Group entered into foreign exchange forward contracts with third-party banks during the year, and has entered into corresponding contracts with the joint arrangement. The Group has designated a portion of the contracts with the banks, equal to its share of the joint arrangement, as hedging instruments for the purposes of the consolidated financial statements. The fair value of the foreign exchange forward contracts with the third party banks is an asset of £0.5m (2014: £nil) and the fair value of the contracts with the other joint arrangement partners is a liability of £0.3m (2014: £nil). The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts and is classified as Level 2 as defined by IFRS 7 'Financial Instruments: Disclosures'.

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 28 and 29.

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 £175m of committed bank facilities expiring in 2017 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.

COMPANY BALANCE SHEET

at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Tangible assets		1.5	0.9
Investments	1	421.7	374.6
Retirement benefit asset		1.4	0.8
Fixed assets		424.6	376.3
Trade debtors		0.2	–
Amounts owed by subsidiary undertakings			
– due within one year		52.6	52.6
– due after one year		4.0	59.0
Deferred tax asset		0.6	0.7
Other debtors		1.5	0.5
Prepayments and accrued income		2.2	2.2
Cash at bank and in hand		22.1	37.2
Current assets		83.2	152.2
Liabilities			
Bank overdrafts		(58.2)	(110.3)
Finance lease obligations		(0.5)	(0.2)
Trade payables		(1.4)	(0.6)
Amounts owed to subsidiary undertakings		(280.7)	(308.7)
Corporation tax payable		(1.9)	(0.9)
Other tax and social security		(0.3)	(0.2)
Other payables		(0.6)	(0.6)
Accrued expenses		(4.6)	(2.4)
Creditors: amounts falling due within one year		(348.2)	(423.9)
Net current liabilities		(265.0)	(271.7)
Total assets less current liabilities		159.6	104.6
Bank loans		(45.0)	(15.0)
Finance lease obligations		(0.7)	(0.1)
Provision for liabilities	2	(11.3)	(11.9)
Creditors: amounts falling due after one year		(57.0)	(27.0)
Net assets		102.6	77.6
Shareholders' funds			
Share capital		2.2	2.2
Share premium account		32.0	30.9
Capital redemption reserve		0.6	0.6
Special reserve		13.7	13.7
Profit and loss account		54.1	30.2
Shareholders' funds		102.6	77.6

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 23 February 2016 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

FINANCIAL STATEMENTS

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
1 January 2014	2.2	26.9	0.6	13.7	33.7	77.1
Profit for the year	–	–	–	–	7.2	7.2
Other comprehensive income:						
Actuarial gain arising on retirement benefit asset	–	–	–	–	0.1	0.1
Tax arising on actuarial gain on retirement benefit asset	–	–	–	–	(0.2)	(0.2)
Total comprehensive income	–	–	–	–	7.1	7.1
Share option expense	–	–	–	–	0.7	0.7
Issue of shares at a premium	–	4.0	–	–	–	4.0
Tax relating to share option expense	–	–	–	–	0.2	0.2
Dividends paid	–	–	–	–	(11.5)	(11.5)
1 January 2015	2.2	30.9	0.6	13.7	30.2	77.6
Profit for the year	–	–	–	–	33.7	33.7
Other comprehensive income:						
Actuarial gain arising on retirement benefit asset	–	–	–	–	(0.1)	(0.1)
Tax arising on actuarial gain	–	–	–	–	(0.1)	(0.1)
Total comprehensive income	–	–	–	–	33.5	33.5
Share option expense	–	–	–	–	2.0	2.0
Issue of shares at a premium	–	1.1	–	–	–	1.1
Exercise of share options and vesting of share awards	–	–	–	–	0.2	0.2
Dividends paid	–	–	–	–	(11.8)	(11.8)
31 December 2015	2.2	32.0	0.6	13.7	54.1	102.6

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 December 2015

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 Financial Reporting Standard 100 ('FRS 100') issued by the Financial Reporting Council. Accordingly, the Company has prepared its financial statements in accordance with Financial Reporting Standard 101 ('FRS 101') 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

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.

These financial statements have been prepared on the going concern basis as discussed in the finance review on page 29, 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 £33.7m (2014: £7.2m).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Investments

	Subsidiary undertakings £m	Other investments £m	Total £m
Cost			
1 January 2015	377.8	0.3	378.1
Additions	47.4	–	47.4
Disposals	–	(0.3)	(0.3)
31 December 2015	425.2	–	425.2
Provisions			
1 January 2015 and 31 December 2015	(3.5)	–	(3.5)
Net book value at 31 December 2015	421.7	–	421.7
Net book value at 31 December 2014	374.3	0.3	374.6

A list of all subsidiary and associated undertakings owned by the Group is shown below:

Name of undertaking	Direct or indirect holdings	Proportion of shares held
Lovell Partnerships Limited	Direct	100
Lovell Bow Limited	Indirect	100
Lovell Director Limited	Indirect	100
Lovell Guf Limited	Indirect	100
Lovell Plus Limited	Indirect	100
Lovell Property Rental Limited	Indirect	100
The Compendium Group Limited	Indirect	50
Magnor Plant Hire Limited	Direct	100
Morgan Lovell plc	Direct	100
Morgan Sindall Holdings Limited	Direct	100
Morgan Sindall Construction & Infrastructure Ltd	Indirect	100
Bluestone Limited	Indirect	100
MS (MEST) Limited	Indirect	100
Morgan Est Rail Limited	Indirect	100
Morgan Utilities Limited	Indirect	100
UJGM Limited	Indirect	100
Morgan Sindall Investments Limited	Direct	100
Claymore Roads (Holdings) Limited	Indirect	50
Community Solutions for Education Limited	Indirect	100
PSBP NW Holdco Limited	Indirect	45
Community Solutions for Emergency Services Limited	Indirect	100
Community Solutions for Health Limited	Indirect	100
Community Solutions for Leisure Limited	Indirect	100
Community Solutions for Leisure (Basildon) Limited	Indirect	100
Community Solutions for Regeneration Limited	Indirect	100
Community Solutions for Regeneration (Bournemouth) Limited	Indirect	100
The Bournemouth Development Company LLP	Indirect	50
Community Solutions for Regeneration (Slough) Limited	Indirect	100
Slough Regeneration Partnership LLP	Indirect	50
Towcester Regeneration Limited	Indirect	100
Community Solutions Limited	Indirect	100
Community Solutions Management Services Limited	Indirect	100
Community Solutions Management Services (Hub) Limited	Indirect	100
Community Solutions HUB SubDebt Limited	Indirect	100
Community Solutions Living Limited	Indirect	100
HB Community Solutions Holdco Limited	Indirect	78.75
HB Community Solutions Living Limited	Indirect	50
Hampshire LIFT Management Services Limited	Indirect	50
Health Innovation Partners Limited	Indirect	50
Community Solutions Partnership Services Limited	Indirect	100
Hamsard 3134 Limited	Indirect	100
Wessex Delivery LLP	Indirect	60
Hamsard 3135 Limited	Indirect	100
Morgan Sindall Investments (Lancashire Fire Stations) Limited	Indirect	100
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50

Name of undertaking	Direct or indirect holdings	Proportion of shares held
Wellspring Partnership Limited	Indirect	90
hub West Scotland Limited	Indirect	54
Morgan Sindall Professional Services Limited	Direct	100
Morgan Sindall Professional Services (France) Limited	Indirect	100
Morgan Sindall Pharmachem SAS ¹	Indirect	100
Morgan Sindall Professional Services (Switzerland) Limited	Indirect	100
Morgan Sindall Professional Services AG ¹	Indirect	100
UNPS Limited	Indirect	100
Morgan Sindall Property Services Limited	Direct	100
Lovell Powerminster Limited	Indirect	100
Manchester Energy Company Limited	Indirect	100
Muse Developments Limited	Direct	100
Bromley Park (Holdings) Limited	Indirect	50
Chatham Place (Building 1) Limited	Indirect	100
Chatham Place Building 1 (Commercial) Limited	Indirect	100
Chatham Place (Phase 1) Estate Manco Limited	Indirect	100
Chatham Square Limited	Indirect	100
Ashton Moss Developments Limited	Indirect	50
ECf (General Partner) Limited	Indirect	33.33
Eurocentral Partnership Limited	Indirect	99.2
Hulme High Street Limited	Indirect	50
Hulme Management Company Limited	Indirect	33.33
ICIAN Developments Limited	Indirect	100
Intercity Developments Limited	Indirect	50
Lewisham Gateway Developments (Holdings) Limited	Indirect	100
Lewisham Gateway Developments Limited	Indirect	100
Lewisham Gateway (Plot A & B) Management Company Limited	Indirect	100
Lewisham Gateway Estate Management Company Limited	Indirect	100
Lingley Mere Business Park Development Company Limited	Indirect	100
Logic Leeds Management Company Limited	Indirect	50
Muse (Brixton) Limited	Indirect	100
Muse (ECf) Partner Limited	Indirect	100
English Cities Fund Limited Partnership	Indirect	12.5
Muse (Warp 4) Partner Limited	Indirect	100
Muse Chester Limited	Indirect	100
Muse Developments (Northwich) Limited	Indirect	100
Muse Properties Limited	Indirect	100
North Shore Development Partnership Limited	Indirect	100
Northshore Management Company Limited	Indirect	100
Plot 2000, Phase 2 (Ashton Moss) Management Company Limited	Indirect	100
Rail Link Europe Limited	Indirect	100
Sovereign Leeds Limited	Indirect	100
St Andrews Brae Developments Limited	Indirect	50
Stockport Exchange Phase 2 Limited	Indirect	100
Wapping Wharf (Alpha) LLP	Indirect	50
Warp 4 General Partner Limited	Indirect	100
ISIS Waterside Regeneration (General Partner) Limited	Indirect	50
Warp 4 General Partner Nominees Limited	Indirect	50
Warp 4 Limited Partnership	Indirect	100
Newman Insurance Company Limited¹	Direct	100
Overbury plc	Direct	100
Backbone Furniture Limited	Direct	100
Barnes & Elliott Limited	Direct	100
Bluebell Printing Limited	Direct	100
Sindall Eastern Limited	Indirect	100
Elec-Track Installations Limited	Direct	100
Hinkins & Frewin Limited	Direct	100
Lovell Partnerships (Northern) Limited	Direct	100
Lovell Partnerships (Southern) Limited	Direct	100
Morgan Est (Scotland) Limited	Direct	100
Morgan Beton And Monierbau Limited	Indirect	100
Morgan Lovell London Limited	Direct	100
Morgan Sindall Trustee Company Limited	Direct	100
Morgan Utilities Group Limited	Direct	100

FINANCIAL STATEMENTS

1 Investments continued

Name of undertaking	Direct or indirect holdings	Proportion of shares held
Roberts Construction Limited	Direct	100
Sindall Limited	Direct	100
SMHA Limited	Direct	100
Stansell Limited	Direct	100
T J Braybon & Son Limited	Direct	100
The Snape Group Limited	Direct	100
Snape Design & Build Limited	Indirect	100
Snape Roberts Limited	Indirect	100
Vivid Interiors Limited	Direct	100
Wheatley Construction Limited	Direct	100

1 With the exception of Newman Insurance Company Limited, registered and operating in Guernsey, Morgan Sindall Professional Services AG, registered and operating in Switzerland, and Morgan Sindall Pharmachem SAS, registered and operating in France, all undertakings are registered in England and Wales or Scotland and the principal place of business is the UK.

The proportion of ownership interest is the same as the proportion of voting power held except English Cities Fund, details of which are shown in note 12 of the consolidated financial statements.

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
1 January 2014	0.4	11.0	11.4
Utilised	–	(1.7)	(1.7)
Additions	–	2.2	2.2
1 January 2015	0.4	11.5	11.9
Utilised	–	(1.9)	(1.9)
Additions	–	2.2	2.2
Released	–	(0.9)	(0.9)
31 December 2015	0.4	10.9	11.3

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 2016

Financial year end	31 December 2015
Preliminary results announcement	23 February 2016
Annual general meeting and trading update	5 May 2016
Final dividend:	
Ex-dividend date	28 April 2016
Record date	29 April 2016
Payment date	23 May 2016
Half year results announcement	August 2016
Interim dividend payable	October 2016
Trading update	November 2016

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) 370 707 1695. Lines are open from 8.30am to 5.30pm (UK time), Monday to Friday).

By email: webcorres@computershare.co.uk

Online: www.investorcentre.co.uk/contactus

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

Dividend mandates

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

Website and electronic communications

The 2015 annual report and other information about the Company are available on its website, www.corporate.morgansindall.com. The Company operates a service whereby you can register to receive notice by email of all announcements released by the Company.

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

Shareholder documents are now, following changes in Company law and shareholder approval, primarily made available via the Company's website, www.corporate.morgansindall.com, 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.

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.corporate.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,
- > 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.

SHAREHOLDER INFORMATION CONTINUED

- > Search the list of unauthorised firms and individuals to avoid doing business with at 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.
- > If the unsolicited phone calls persist, hang up.
- > If you wish to limit the amount of unsolicited mail you receive, contact The Mailing Preference Service, FREEPOST 29 (LON20771), London W1E 0ZT or visit the website at www.mpsonline.org.uk.

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

Share dealing services

You can buy shares through any authorised stockbroker or bank that offers a share dealing service in the UK, or in your country of residence if outside the UK.

A telephone dealing service has also been arranged with Stocktrade which provides a simple way of buying or selling Morgan Sindall Group plc shares. Basic commission is 1%, subject to a minimum commission of £25. Sales are carried out on a 10-day settlement basis with purchases on a two-day basis. When purchasing shares, payment must be made by debit card at the time of dealing. For further information, please call 0131 240 0414 and quote reference 'Morgan Sindall dial and deal service'.

Annual general meeting ('AGM')

The AGM of the Company will be held at 10.00am on Thursday 5 May 2016 at the offices of Jefferies Hoare Govett, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ. The Notice of Annual General Meeting can be found in the investors section on the Morgan Sindall Group plc website, www.corporate.morgansindall.com.

Electronic Voting

Shareholders can submit proxies for the 2016 AGM electronically by logging on to www.investorcentre.co.uk/eproxy. Electronic proxy appointments must be received by the Company's registrar no later than 10.00am on Tuesday 3 May 2016 (or not less than 48 hours before the time fixed for any adjourned meeting).

Analysis of shareholdings at 31 December 2015

	Number of accounts	% of total accounts	Number of shares	% of total shares
Holding of shares				
Up to 1,000	822	52.32	394,554	0.89
1,001 to 5,000	517	32.91	1,109,351	2.51
5,001 to 100,000	174	11.08	4,049,907	9.14
100,001 to 1,000,000	48	3.05	13,935,863	31.46
Over 1,000,000	10	0.64	24,806,298	56.00
	1,571	100.00	44,295,973	100.00

Shareholder communication

Email: cosec@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

Registrars

Computershare Investor Services PLC

Independent auditor

Deloitte LLP
London

Forward looking statements

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

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

The Group undertakes no obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.



Printed by Park Communications on FSC® certified paper. Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001. 100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled.

This document is printed on Galerie Satin, a paper containing 15% recycled fibre and 85% virgin fibre sourced from well managed, responsible, FSC certified forests. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

Designed and produced by Emperor, London
Copywriting provided by SGC Communications Ltd
Project photography on pages 12-13, 19 and 27 by Darren Carter,
Morgan Sindall Construction & Infrastructure Ltd
Board photography by Simon Jarratt Photography

Designed and produced by Emperor 
www.emperordesign.co.uk +44 (0)20 7729 9090

**MORGAN
SINDALL
GROUP**

Morgan Sindall Group plc
Kent House
14-17 Market Place
London W1W 8AJ
Company number: 00521970

 [@morgansindall](https://twitter.com/morgansindall)

 www.corporate.morgansindall.com