

# Construction Regeneration

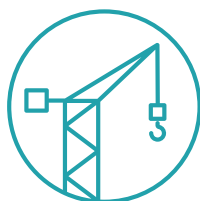
**MORGAN  
SINDALL  
GROUP**

Annual Report 2016



## About us

Morgan Sindall Group is a leading UK construction and regeneration group. We offer support at every stage of a project's life cycle through our six divisions of Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments.



### Construction

Our services include design, new build construction, infrastructure works, refurbishment and property maintenance in the commercial and public sectors. Our construction teams work on projects of all sizes and complexity, either standalone or through framework agreements and strategic alliances.



### Regeneration

We work in close partnership with land owners, local authorities and housing associations to regenerate cities with multi-phased, mixed-use developments. New housing, community buildings, shops, leisure facilities and public spaces help stimulate local economies and provide long-term social benefits.

FRONT COVER:  
The Word, a new state-of-the-art cultural centre in South Shields containing a library, exhibition space, gaming area, 'FabLab' with 3D printers, IT suite, café and rooftop space. Delivered by Urban Regeneration in partnership with South Tyneside Council.

#### Revenue

**£2.0bn**  
2015: **£1.9bn**

#### Revenue

**£0.6bn**  
2015: **£0.5bn**

Find out more about the Group from our website at [morgansindall.com](http://morgansindall.com).

Our activities touch the lives of a wide range of stakeholders. We have therefore decided to embark on a new approach to our annual report, integrating financial and non-financial reporting within our operating review.

# At a glance

The Group is structured around our two distinct but complementary activities, construction and regeneration.



Construction & Infrastructure page 22



Fit Out page 26



Property Services page 30



Partnership Housing page 32



# Construction

## Construction & Infrastructure

### Revenue

£1,321m

2015: £1,232m

### Operating profit - adjusted\*

£8.9m

2015: £3.8m

Provides specialist construction and infrastructure design and build services on projects, frameworks and strategic alliances of all sizes. Alongside its tunnelling design capability is the newly-named BakerHicks which offers multidisciplinary design and engineering consultancy services.

### End markets

Include education, highways, rail, aviation, energy, water, nuclear, commercial, defence, healthcare, industrial, leisure and retail.

### Responsible business

Working closely with its supply chain, committed to delivering social, environmental and economic improvements in education, health and public infrastructure to benefit the diverse communities in which it operates.

### Operations



## Fit Out

### Revenue

£634m

2015: £607m

### Operating profit - adjusted\*

£27.5m

2015: £24.0m

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.

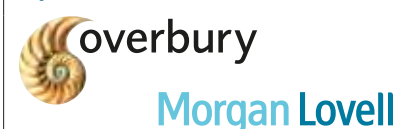
### End markets

Include commercial offices, higher education and retail banking.

### Responsible business

Empowers employees to take responsibility for reducing environmental impacts on sites and in offices. Actively engages with its supply chain to ensure environmental considerations are at the heart of every project.

### Operations



## Property Services

### Revenue

£55m

2015: £60m

### Operating profit - adjusted\*

£0.7m

2015: (£1.0m)

Provides strategic asset management and responsive, planned and cyclical maintenance to social housing providers; facilities management services to public buildings; and claims and reinstatement repairs for insurance providers.

### End markets

Include social housing, local authorities and insurance companies.

### Responsible business

A socially responsible business with a focus on creating social, economic and sustainable benefits for the communities in which it works, such as offering local employment opportunities and using local suppliers.

### Operation



## Partnership Housing

### Revenue

£433m

2015: £366m

### Operating profit - adjusted\*

£13.4m

2015: £9.6m

Specialises in the delivery of mixed-tenure regeneration partnership housing schemes, design and build of new homes and planned maintenance and refurbishment.

### End markets

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

### Responsible business

Committed to forming strong customer relationships, working in partnerships to provide sustainable residential communities and promote local employment.

### Operation



## Urban Regeneration

### Revenue

£156m

2015: £110m

### Operating profit - adjusted\*

£13.4m

2015: £12.9m

Works with landowners and public sector partners to unlock value from under-developed assets and bring about sustainable regeneration and urban renewal through the delivery of new mixed-use developments.

### End markets

Include residential, commercial, retail and leisure.

### Responsible business

Develops schemes that breathe new life into towns and cities by improving the environment and creating vibrant business and leisure destinations that generate jobs and benefit local communities.

### Operation



# Regeneration

## Investments

### Operating profit - adjusted\*

(£2.0m)

2015: (£1.5m)

Investments' rationale is to secure long-term **construction and regeneration** opportunities for other divisions. Creates long-term strategic partnerships to realise the potential of under-utilised assets of both public and private sector clients; 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, through partnerships with local authorities and other public sector organisations.

### Operations



\* Adjusted is defined as before intangible amortisation of £1.4m, and (in the case of earnings per share) deferred tax credit due to changes in the statutory tax rate of £0.7m (2015: exceptional operating items of £46.9m, 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). The following strategic report is given on an adjusted basis, unless otherwise stated.



Urban Regeneration page 36



Investments page 40

## Contents

<b>Strategic report</b>	
At a glance	IFC
Chairman's statement	2
Market overview	4
Business model	6
Chief Executive's statement	12
Strategic framework	14
Key performance indicators	16
Financial review	18
Operating review	21
People	42
Environment	45
Principal risks	46
<b>Governance</b>	
Board of directors	60
Group management team	62
Corporate governance report	64
Directors' remuneration report	80
Directors' report	98
Directors' responsibilities statement	102
<b>Financial statements</b>	
Independent auditor's report	104
Consolidated financial statements	111
Company financial statements	140
Shareholder information	146

# Highlights

## Strategic

Secured order book grew by 29%

Regeneration and development pipeline grew by 2%

Significant investment of capital into regeneration schemes to deliver longer-term profitability

The UK demand for affordable housing, urban regeneration and infrastructure is expected to generate increasing opportunities in the medium to long term

### Order book

**£3.6bn**

2015: **£2.8bn**

### Regeneration and development pipeline

**£3.2bn**

2015: **£3.2bn**

## Financial

Group adjusted\* profit before tax up 32% to £45.3m

Significant increase in cash, with closing net cash of £209m (2015: £58m) and daily average net cash of £25m (2015: average net debt of £53m)

Adjusted earnings per share up 34% to 84.7p

Total dividend up 21% to 35.0p per share

### Profit before tax (adjusted\*)

**£45.3m**

2015: **£34.3m**

### Profit/(loss) before tax (reported)

**£43.9m**

2015: **(£14.8m)**

## Operational

Reduction in accident frequency rate<sup>1</sup>

Increase in gross margin (adjusted\*), reflecting the higher quality of work secured as well as improved operational delivery

Reduction in carbon intensity of 17%

13% more graduates and apprentices recruited

### Accident frequency rate

**0.14**

2015: **0.17**

### Gross margin (adjusted\*)

**9.5%**

2015: **8.9%**

<sup>1</sup> The number of RIDDOR reportable accidents multiplied by 100,000 and divided by the number of hours worked.

## Chairman's statement

This is my first statement since becoming chairman last October and I am pleased to report that the Group produced a strong performance in 2016 across all our divisions. We have a clear strategy in place for the Group, which is being successfully implemented.

I have spent my first few months gaining an in-depth understanding of the Group and its divisions, visiting a wide variety of projects on site and meeting with the senior management teams. I have found a real sense of energy and pride in our people as well as a clear focus on making this Group a success. Our work provided new housing, revitalised schools, universities and workplaces, improved transport and enhanced urban communities.

Over the coming months, I will support our executive directors in delivering our strategic objectives, continuing our people development agenda and ensuring we remain focused on creating value for shareholders.

### Performance

2016 has been a year of positive growth for the Group, with strategic and operational progress being made across all divisions. Revenue for the year was up 7% at £2,562m (2015: £2,385m), with adjusted profit before tax up 32% to £45.3m (2015: £34.3m).

The cash performance of the Group has also been strong. This reflected our concerted focus on working capital management as well as a significant number of completions of regeneration schemes in Partnership Housing in the latter part of the year.

### Values and strategy

Our performance is underpinned by our core values (set out on [page 12](#)), which are embraced by all employees. These values place our clients in the highest regard and empower our employees to provide them with the best quality service. The Group is decentralised, with our divisions given authority to take decisions and innovate. However, the divisions are driven by shared strategic objectives and regularly collaborate on projects and exchange ideas. This results in a cohesive group of businesses that each offer specialist services to their customers while having the capability to work together on projects and provide a joined-up solution.



66

I have found a real sense of energy and pride in our people as well as a clear focus on making this Group a success.

99

The Group's strategy is to continue to focus on our well-established strengths in construction and regeneration, driven by the increasing demand in the UK for affordable housing, urban regeneration and investment in infrastructure.

Our recognised expertise and market positions in infrastructure, affordable housing and mixed-use regeneration development reflect our deep understanding of the built environment developed over many years. As a result, our capabilities are aligned with sectors of the UK economy which are expected to see increasing opportunities in the medium to long term.

**Board changes**

I would like to thank my predecessor, Adrian Martin, for his significant contribution to reshaping the business since he took over as chair in 2012. Adrian left the business in excellent shape, with a strong long-term order book and solid balance sheet. Liz Peace has decided not to stand for re-election at the 2017 AGM and will, therefore, be leaving the Board with effect from the conclusion of the meeting. I would like to thank Liz for her important contribution to the Board and its committees during her time as a director.

**Dividend**

The total dividend for the year has been increased by 21% to 35.0p per share (2015: 29.0p), which includes a proposed increase in the final dividend of 29% to 22.0p per share (2015: 17.0p), reflecting the improved result in the year and the Board's confidence in the future prospects of the Group.

**Looking ahead**

Our 2016 results demonstrate the considerable strategic and operational progress made in the Group over the last few years and the underlying quality of the business.

These achievements would not be possible without the hard work and commitment of the Group's 6,000 employees and I would like to extend my gratitude to all of them.

People and succession planning will remain one of the Board's three priorities, alongside strategy and its execution, and an ongoing commitment to our values.

As chairman I am fully focused on helping the executive team deliver long-term value for all of our stakeholders. We are confident in the outlook and expect the positive momentum across the Group to continue through 2017 and beyond.

**MICHAEL FINDLAY**  
CHAIRMAN

23 FEBRUARY 2017

**Governance principles**

**Leadership**

See page 67  
Board members rigorously challenge each other on strategy, performance, responsibility and accountability to ensure that the decisions we make are of the highest quality.

**Effectiveness**

See pages 68 to 70  
The Board's performance is scrutinised in an annual effectiveness review. This examines the progress we are making against our plan, our collective and individual effectiveness, and the independence of our non-executive directors.

**Accountability**

See pages 75 to 79  
All our decisions are discussed in the context of the risks involved. Effective risk management is central to achieving our strategic objectives.

**Engagement**

See page 70  
Maintaining strong relationships with our shareholders, both private and institutional, is crucial to achieving our aims. We hold various events throughout the year to keep an open dialogue with investors.

**Remuneration**

See pages 80 to 97  
The Board ensures that there is a clear link between remuneration and delivery of Group strategy.

**Culture and values**

Each division is dedicated to running a business that is both responsible and sustainable. The Group has established five Total Commitments designed to create value for all stakeholders engaged in or affected by our activities as well as improving the environment. Our performance against them is set out on our website.

# Market overview

There are four fundamental long-term trends that will support growth in the Group over the next 10 to 20 years.

## Housing shortages

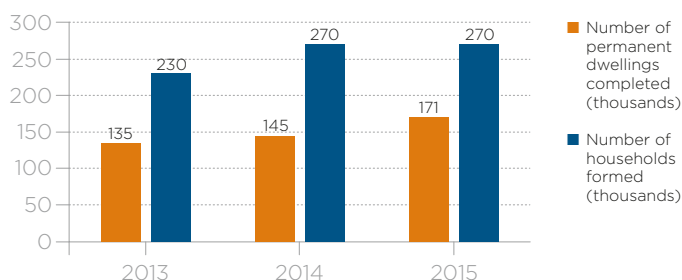
### £5.4bn Government fund for new homes

Since 2010 the number of new households formed has considerably exceeded the number of homes built (ONS). To address housing shortages and rising house prices, the Chancellor's autumn statement committed £2.3bn for infrastructure to support the construction of up to 100,000 new homes in areas where they are needed most, plus £1.4bn to build 40,000 new affordable homes and £1.7bn to speed up the construction of new homes on public sector land.

#### Opportunities for the Group

- To deliver mixed-tenure housing via Partnership Housing, Urban Regeneration and Investments
- The private rented sector offers potential cash efficiencies as properties can be forward-sold to an investor
- To deliver accelerated housebuilding using factory-assembled units via Partnership Housing

## UK housing shortfall



Source: ONS, Tables 401 and 241

## Investment in infrastructure

### £23bn additional spending

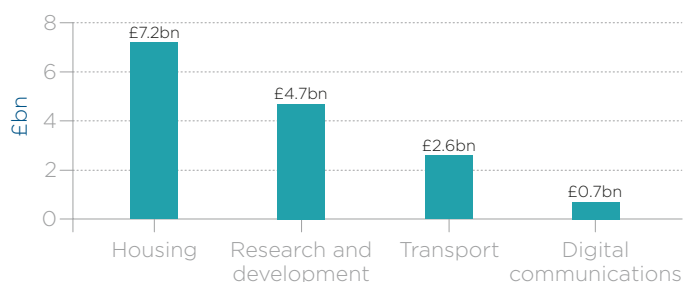
The National Infrastructure Delivery Plan (NIDP) published in March 2016 set out nearly £300bn of investment in economic and social infrastructure to be delivered over the next five years to 2020-21. The subsequent autumn statement announced a new National Productivity Investment Fund to provide £23bn of additional spending on areas that will increase productivity such as housing, transport, research and development, and digital communications.

#### Opportunities for the Group

- To deliver infrastructure in transport, energy, water, education and healthcare via Construction & Infrastructure; in further education through Fit Out; and in housing through Partnership Housing (see pages 22 to 35 for recent project wins)

## National Productivity Investment Fund

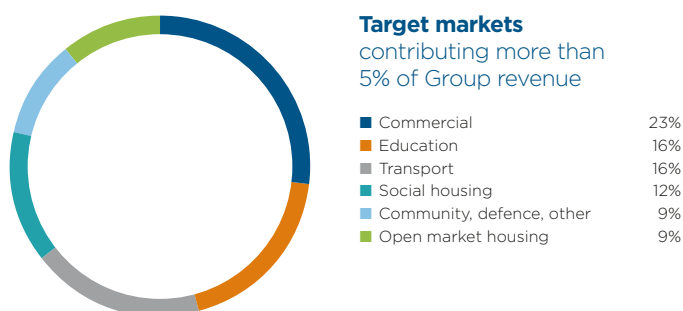
Key areas of spend include housing and transport



Source: gov.uk

## Current market conditions

The Construction Products Association (CPA) issued its industry forecast on 31 October 2016, estimating the overall construction market at £135bn in 2016 (2015: £134bn), up 0.6%. The CPA forecasts growth in the construction market of 0.3% in 2017, followed by a further rise of 0.2% in 2018. This includes growth in infrastructure work of 6.2% in 2017 and 10.2% in 2018. The chart to the right shows the contribution towards the Group's revenue of our key targeted markets.



## Population growth

### 1.6m more households by 2021

The UK population of 65m in 2015 is projected to grow to 70m by 2027 (Office for National Statistics (ONS) October 2015).

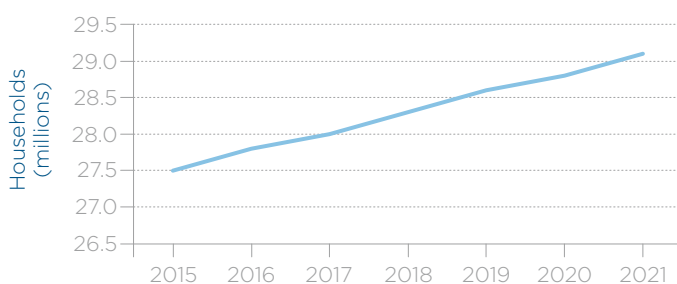
1.6m more households are forecast to form between 2015 and 2021 (ONS July 2016, table 401).

By mid-2039, more than one in 12 of the population is projected to be aged 80 or over, compared to one in 20 in 2016 (ONS October 2015).

#### Opportunities for the Group

- To satisfy an increasing demand to develop, construct, improve and maintain social, commercial and economic infrastructure through all divisions, particularly in our targeted markets of housing, education, transport and healthcare facilities

### UK household projections



Source: ONS, Table 401

## Constrained public expenditure

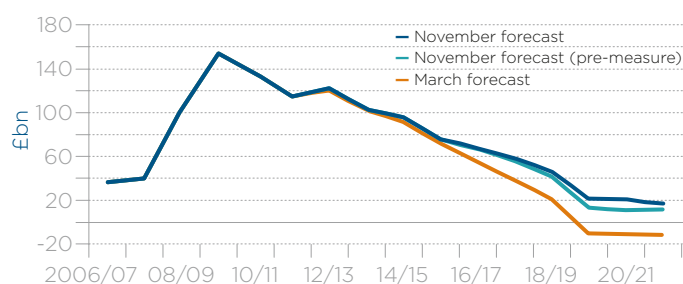
### Cost efficiencies in public sector

As announced in the autumn statement, the Government is no longer seeking a fiscal surplus in the current Parliament. However, it remains committed to returning public finances to balance, “ensuring that the UK lives within its means”. This means a continuing demand from the public sector for services that reduce capital and operating expenditure.

#### Opportunities for the Group

- To deliver increased efficiencies in public sector assets and services through all divisions (see pages 22 to 41 for further details)
- To provide funding solutions for local authority and NHS Trust development schemes via Investments. These include local asset-backed vehicles whereby local authorities invest land as an equity partner and use income from the development to help fund public services
- To gain positions on local and national public sector frameworks via all of our divisions

### Public sector net borrowing



Source: Office for Budget Responsibility, November 2016

### No notable impacts to date following the EU referendum result

The result of the EU referendum produced no notable slowdown in 2016 for the Group’s construction businesses. Construction & Infrastructure’s order book remained at pre-referendum levels with little sign of projects being delayed or cancelled. Property Services saw no impact and Fit Out continued to receive and win opportunities from clients whose offices were pre-let prior to the vote. The regeneration businesses were similarly unaffected. Partnership Housing saw a softening in the price of land and some reduction in construction costs

while Urban Regeneration had pre-sold virtually all of the stock it delivered in 2016 and noted a positive stimulus to overseas investors due to the impact on exchange rates. Based on current trading patterns, our high-quality secured order book and a visible pipeline of opportunities, the outlook for 2017 is very positive. It is still too early to predict the medium-to long-term effects of Brexit, however we remain optimistic as the UK’s need for infrastructure and housing complements our business model.



## Business model

The Group offers expertise in construction and regeneration to create better places to live, learn and work. The diversity of our offering, delivered through six specialist divisions, mitigates the impact of fluctuations in individual markets and our geographical spread provides us with deep local knowledge.

### Our resources and relationships

#### Strong client and partner relationships

These include landowners, funders and joint venture partners. 25% of the Group's order book is in frameworks while 20% is in joint venture.

#### A talented workforce

The Group has around 6,000 employees with a wide range of expertise and experience, all empowered to think independently.

#### Financial strength

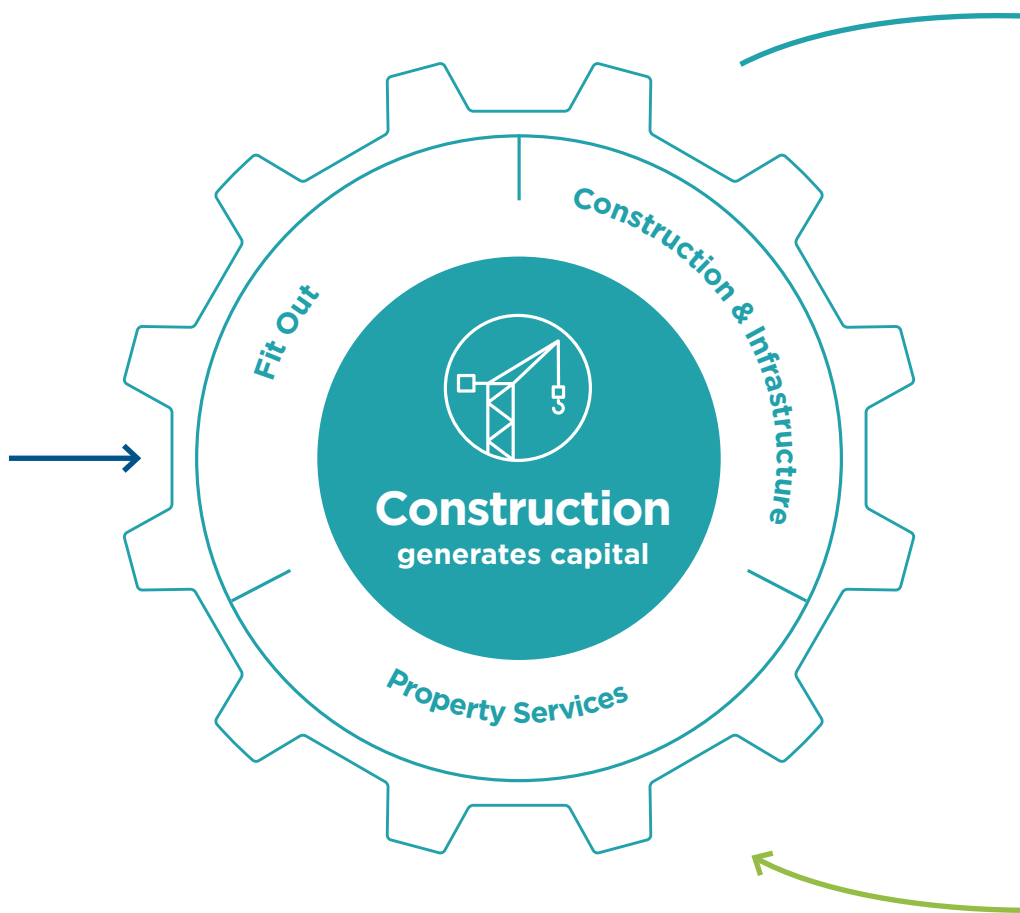
2016 shareholder equity was £277.2m (2015: £249.0m) with average daily net cash in 2016 of £25.0m (2015: average daily net debt £53.4m).

#### High-quality supply chain

The Group spends 88% of its cost of sales on goods and services procured from a supply chain aligned to both our values and our philosophy of Perfect Delivery<sup>1</sup>.

#### Technology

We invest in technology that improves employee performance and drives efficient project delivery. In 2016, the Group invested £2.5m in new technology (2015: £1.1m).



The Group's strategy is focused on its well-established core strengths of construction and regeneration. Our construction activities generate cash that we invest in our regeneration

<sup>1</sup> Perfect Delivery status is granted to projects that meet four customer service criteria specified by each division.

## Value created for stakeholders

### Clients and partners

We work closely with our clients to understand their needs and systematically obtain their feedback to continuously improve. With a talented workforce, high-quality supply chain and enabling technology, we can deliver safe, efficiently-run, high-quality projects that match our clients' and partners' objectives. This will increase the prospects of repeat business, framework positions and negotiated work.

### People

We recruit talented people, from apprentices and graduates to specialists in their field, and provide training and development to increase and maintain their skills and knowledge. We communicate our values to all employees, encouraging them to think differently and challenge the status quo so that we continually progress. This results in the highest standard of service for our clients.

### Shareholders

We seek to create increased profitability and shareholder returns in terms of share price growth and dividends (see [page 3](#)), along with long-term growth from investment in employees, technology and regeneration schemes. Through equity partnerships with landowners we can avoid the need to purchase land on the open market and where possible we forward-sell the properties we build. By fostering good relationships with financial institutions we maintain access to competitively priced debt facilities.

### Supply chain

We regard our suppliers and subcontractors as partners and build long-term relationships with them based on mutual trust, respect and fairness. We operate schemes whereby they are motivated to achieve preferred status and given feedback on their performance or guidance if their performance slips. These trusted partnerships result in a supply chain aligned to our values and quality criteria, reducing the likelihood of errors on projects and increasing both efficiency and client satisfaction (see [pages 43 to 44](#)).

### Communities

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. By transforming cities and improving infrastructure we can make a lasting difference to people's lives. Our projects offer business to local companies and employment to local people, while the newly created facilities stimulate local economies.



activities to generate longer-term value. Construction's progress is measured by margin and working capital, while regeneration is measured by return on capital employed.



**1,397** tonnes

of timber used and the  
equivalent replanted

**100** researchers

accommodated

# Creating places to work and learn



# Construction



Project  
**Centre for Sustainable Chemistry,  
University of Nottingham**

Division  
**Construction & Infrastructure**

Construction & Infrastructure built the UK's first carbon neutral laboratory to house the University of Nottingham's Centre for Sustainable Chemistry. The Centre, part-funded by a grant from GlaxoSmithKline, provides laboratory space for research, as well as teaching and outreach facilities.

Designed by The Fairhursts Design Group, the Centre is built from natural materials and the energy required to run it is met by renewable sources. The two-storey building has been awarded a LEED<sup>1</sup> 'Platinum' rating and is set to achieve a rating of BREEAM<sup>2</sup> 'Outstanding'.

1 Leadership in Energy and Environmental Design.  
2 Building Research Establishment Environmental Assessment Method.

LEFT: Inside the research laboratory.  
ABOVE: External view of the Centre.



# Regeneration

## Regenerating communities



Project  
**Slough urban regeneration,  
Slough**

Division  
**Investments**

Slough Urban Renewal (SUR) is a joint venture partnership between Investments and Slough Borough Council. The objective of the programme is to transform the borough into a better place to live and work.

SUR delivered two projects in 2016, both built by Construction & Infrastructure. The first was The Curve, a flagship library and cultural centre containing a café, museum, performance space, learning rooms and computer suite. The second was a multi-use football pitch with 3G synthetic turf, a car park and stands for Arbour Park Community Sports Stadium. Works have started on the main stand including a clubroom and community hub. Seven other projects are currently underway, including two residential developments being built by Partnership Housing, and there are more projects in the pipeline.

RIGHT: The Curve cultural centre and library.  
ABOVE: The football pitch at Arbour Park.





**15**-year  
regeneration programme

**30** projects  
in the pipeline

● ○ ○ ○ Strategic report

URVE

# Chief Executive's statement

2016 has been a year of strong growth for the Group, with strategic and operational progress being made across all divisions.

Each of the divisions contributed to this overall result and performance was in line with their strategic objectives. In Construction & Infrastructure, focus has been on improving operational delivery and the quality of work secured. This has resulted in the continued gradual improvement in operating margin, which was up to 0.7% in the year (2015: 0.3%), and in adjusted operating profit up to £8.9m (2015: £3.8m). Fit Out had another excellent year, with both revenue and margins improving on a strong prior year result: with operating profit up 15% to £27.5m (2015: £24.0m) and margin increasing to 4.3% (2015: 4.0%). As expected, Property Services delivered its first annual profit, benefiting from the emphasis on improved contract management, to give adjusted operating profit for the year of £0.7m (2015: loss of £1.0m).

Of our regeneration divisions, the strategic focus on mixed-tenure partnership activities helped Partnership Housing deliver good growth, with operating profit up 40% to £13.4m (2015: £9.6m). Urban Regeneration also reported operating profit of £13.4m (2015: £12.9m), which represented a return on capital employed of 15% and was derived from a mix of phased completions across its development portfolio.

## Strategy

We performed well in 2016 against our strategic objectives. These are outlined on [pages 14 to 15](#) together with performance against them. Our overall strategy is geared toward satisfying increasing demand in key sectors of the UK economy. The capabilities of Partnership Housing and Urban Regeneration are aligned to meet the need for more affordable housing and regeneration. Construction & Infrastructure is well positioned to meet the UK's ongoing investment in infrastructure, working on some of the UK's most high profile infrastructure projects. The division's geographically diverse construction activities are focused on important areas of education, health and defence.

Fit Out holds a leading position in its market and delivers a consistently strong operational performance. Fit Out, together with Construction & Infrastructure, generate cash resources to support our investment in affordable housing and mixed-use regeneration.

Additionally, we have a presence in the response maintenance market through Property Services, while Investments acts as a facilitator and provides opportunities across construction and regeneration activities.

Our strategic objectives are supported by our commitment to being a responsible business. In order to ensure that we continue to focus on the most important issues to our stakeholders, we carry out

a materiality review every three years. The most recent, carried out in late 2015, identified that social issues are more of a priority with our stakeholders now that addressing environmental issues has become a business necessity. This information was communicated to our divisions, reinforcing the importance of continually driving good, long-term client and supplier relationships, and developing a talented and diverse workforce able to respond to the needs of our markets. Further details can be found on our website and on [pages 42 to 44](#) of this annual report.

## Health, safety and wellbeing

We introduced a number of new initiatives in 2016 in pursuit of our objective to keep employees, subcontractors and visitors safe on our sites. A health and safety steering group was formed in the year which includes divisional managing directors. It meets to consider lessons learned and initiatives that can be adopted to further improve our safety performance. New arrangements were also put in place across the Group to improve our learning from incidents and how we share best practice.

The Group was active in supporting a number of external UK programmes including the recently launched Health and Safety Executive's 'Helping Great Britain work well' strategy, the Health in Construction Leadership Group and a number of industry research projects.

Our continued focus on safety has seen the number of RIDDOR<sup>1</sup> incidents fall from 81 to 62 in 2016, a reduction of 23%. Similarly, our accident frequency rate<sup>2</sup> has reduced from 0.17 to 0.14.

In 2017, we will look at where we can develop further joint approaches across the divisions, such as a Group-wide focus on how best to promote occupational health, including mental health and wellbeing.

## Core values

Our core values were developed 21 years ago when we started the business. They underpin the way we all behave and are critical to our success:

1. The customer comes first
2. Talented people are key to our success
3. We must challenge the status quo
4. Consistent achievement is key to our future
5. We operate a decentralised philosophy



**John Morgan**  
Chief Executive

Construction & Infrastructure has already made a start in this area, working in partnership with mental health charity, Mind, to develop a wellbeing strategy for employees.

Further information can be found on [page 43](#) and in the health, safety and environment committee's report on [page 74](#).

### Looking to the future

The year has been successful in terms of winning new work for future delivery. The secured order book for the Group at the year end grew to £3,637m, an increase of 29% compared to the prior year and an increase of 16% on the half year position. Within this, Fit Out ended the year with a record order book of £466m, Property Services' order book was up 90% to £687m while Construction & Infrastructure and Partnership Housing increased their order books by 18% and 30% respectively.

The regeneration and development pipeline also grew, up 2% to £3,210m. We continue to pursue regeneration opportunities which will contribute to the pipeline in 2017 and beyond, with significant opportunities identified in Partnership Housing and Urban Regeneration.

The UK is struggling to cope with the increasing demand for affordable housing and there is a clear need for the Government to deliver urban regeneration and infrastructure investment to support future economic growth. The Group has strong established positions in these markets, and the balance sheet and cash position to fund further investment and growth.

From this strong base, we are confident in the outlook and expect the positive momentum across the Group to continue. With significant opportunities in Partnership Housing, the continued improvement in operational delivery in Construction & Infrastructure, and the size and quality of our secured order book in Fit Out and elsewhere across the Group, we are well-placed to deliver a result for the year which is slightly above our previous expectations.

### Committed order book<sup>1</sup>:

	2016 £m	2015 £m	Change %
Construction & Infrastructure	1,886	1,595	+18
Fit Out	466	341	+37
Property Services	687	361	+90
Partnership Housing	445	342	+30
Urban Regeneration	203	218	-7
Investments	16	17	-6
Inter-divisional orders	(66)	(48)	
<b>Total</b>	<b>3,637</b>	<b>2,826</b>	<b>+29</b>

<sup>1</sup> Committed order book comprises the secured order book and framework agreements 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.

### Regeneration and development pipeline<sup>2</sup>:

	2016 £m	2015 £m	Change %
Partnership Housing	764	782	-2
Urban Regeneration	2,233	2,181	+2
Investments	213	196	+9
<b>Total</b>	<b>3,210</b>	<b>3,159</b>	<b>+2</b>

<sup>2</sup> Regeneration and development pipeline represents the Group's share of the gross development value of secured schemes including the development value of open market housing schemes.

<sup>1</sup> The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.  
<sup>2</sup> The number of RIDDOR reportable accidents multiplied by 100,000 and divided by the number of hours worked.



## Strategic framework

We want to be recognised as the leading UK construction and regeneration group and the supplier, partner and employer of choice. To achieve these goals we focus on five strategic objectives. The divisions adapt these objectives to produce strategic priorities that drive their respective businesses – see pages 22 to 41.

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### Strategic objectives



#### Win in targeted markets

We target markets that offer the best opportunity for growth and prioritise opportunities that both match our expertise and are appropriate for our business. Success depends on achieving the highest standards in health and safety and delivering an exceptional customer service.

To keep up the momentum of winning in our chosen markets, we build long-term relationships with clients, develop and motivate our people to work to the highest standards and give preferred status to trusted suppliers and subcontractors who share our outlook and approach.



#### Develop and retain talented people

Our people are our key asset and we must continue to attract, train and motivate the best in the industry. We invest continuously in our people, designing personal and professional development programmes to suit their skills and aspirations. Succession planning is essential to secure the future of the business and we seek to promote internally wherever possible.



#### Disciplined use of capital

A disciplined use of capital is necessary to preserve the long-term sustainability of the business. Overheads, cash and working capital are all rigorously managed.

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 also use alternative funding sources when favourable opportunities arise.



#### Maximise efficiency of resources

Operating efficiently increases profitability and generates higher returns for our shareholders. We continuously seek new ways to increase efficiency, such as Group-wide procurement agreements, optimising business processes and support functions and upgrading or adopting new technology. Our close collaboration with clients and subcontractors and our Perfect Delivery process seek to ensure projects run more smoothly with less chance of delays and changes are managed with minimal disruption. In 2016, 81% of completed projects achieved Perfect Delivery (2015: 77%).

We also work to reduce our carbon emissions and waste production, regularly monitoring and measuring our progress.



#### Pursue innovation

Challenging the status quo is part of our culture and we encourage different ways of working and thinking. We view technology as an enabler for our employees and our divisions invest in new technology wherever it adds value, including developing their own software.

Our responsible business strategy is driven by five Total Commitments which support the Group's strategic objectives. For more information, see the responsible business section on our website.

Our Total Commitments	Risks	Strategic objectives performance		
		We have selected the following key performance indicators to monitor and measure our progress against each objective.		
<ul style="list-style-type: none"> <li>- Protecting people</li> <li>- Enhancing communities</li> </ul>	<ul style="list-style-type: none"> <li>- Changes in the economy</li> <li>- Exposure to the UK housing market</li> <li>- Poor contract selection</li> <li>- Safety or environmental incident</li> </ul>	<p><b>£3.6bn</b> Committed order book</p>	<p><b>£3.2bn</b> Regeneration and development pipeline</p>	<p><b>0.14</b> Accident frequency rate</p>
<ul style="list-style-type: none"> <li>- Developing people</li> </ul>	<ul style="list-style-type: none"> <li>- Failure to attract and retain talented people</li> </ul>	<p><b>13%</b> Voluntary employee turnover</p>	<p><b>205</b> Graduates and apprentices recruited</p>	<p><b>3.9</b> Average training days per employee</p>
<ul style="list-style-type: none"> <li>- Working together with our supply chain</li> </ul>	<ul style="list-style-type: none"> <li>- Insolvency of key client, subcontractor or supplier</li> <li>- Inadequate funding</li> <li>- Mismanagement of working capital</li> </ul>	<p><b>301%</b> Operating cash conversion (adjusted for investment in regeneration)</p>	<p><b>13.2%</b> Return on capital employed in regeneration activities</p>	<p><b>-14%</b> Working capital as a percentage of revenue in construction activities</p>
<ul style="list-style-type: none"> <li>- Improving the environment</li> </ul>	<ul style="list-style-type: none"> <li>- Mispricing a contract</li> <li>- Changes to contracts and contract disputes</li> <li>- Poor project delivery</li> </ul>	<p><b>8.9%</b> Gross margin in construction activities</p>	<p><b>7.1%</b> Overheads as a percentage of revenue in construction activities</p>	<p><b>12.0</b> Carbon intensity</p>
<ul style="list-style-type: none"> <li>- Developing people</li> <li>- Working together with our supply chain</li> </ul>	<ul style="list-style-type: none"> <li>- Failure to innovate</li> <li>- Failure to invest in information technology</li> </ul>	<p>Fit Out's new electronic snagging tool (see <a href="#">page 29</a>) and Property Services' MSi asset management software (see <a href="#">page 30</a>) are examples of new technology developed by the divisions which are improving project delivery and adding value for our clients.</p>		

See our principal risks on pages 46 to 57 for more information.

See pages 16 to 17 for further information on KPIs.

# Key performance indicators

We use financial and non-financial KPIs to measure progress in delivering our strategic objectives.

## Committed order book



See page 13 for a definition of committed order book.

Our order book increased 29% on 2015, with significant increases in most divisions. The quality of the order book was maintained with a similar proportion of work secured through negotiated, framework or two-stage bidding processes. We will continue to be selective in the work for which we bid in 2017.

## Regeneration and development pipeline



See page 13 for a definition of regeneration and development pipeline.

Our pipeline was up 2% on 2015. The pipeline is long-term with 77% relating to 2019 onwards. We continue to pursue regeneration opportunities which will contribute to the pipeline in future years.

## Accident frequency rate (AFR)



The accident frequency rate is the number of RIDDOR reportable accidents multiplied by 100,000 and divided by the number of hours worked.

Our total number of accidents was 62 in 2016, reduced from 81 in 2015. This resulted in an accident frequency rate of 0.14 which surpasses our 2016 short-term target of 0.15 and is in line with our longer-term target of 0.10 by 2020. Our focus for 2017 will be on occupational health, particularly mental health and wellbeing, and the use of new technology to improve safety at work.

## Operating cash conversion (adjusted for investment in regeneration)



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

Cash conversion was very strong during the year. This was due to a combination of settling a number of long-standing final accounts, better working capital management and the phasing on certain regeneration schemes which saw a large number of completions in the last quarter of the year. The final account settlements will not recur in 2017 and the cash inflow from regeneration schemes will unwind during the coming year as further cash is reinvested. We therefore continue to target operating cash conversion of close to 100% after allowing for changes in capital employed in regeneration schemes which often do not follow an annual cycle.

## Return on capital employed in regeneration activities



Return on capital employed is calculated as adjusted\* operating profit less interest on non-recourse debt less unwind of discount on deferred consideration, divided by average capital employed.

Capital employed is calculated as total assets (excluding goodwill, intangible assets and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).

The increase in return on capital employed was due to a 19% increase in operating profit. Average capital employed was broadly unchanged on the previous year. Return on capital employed is expected to dip slightly in 2017 as we invest further capital into schemes that will deliver higher profits in 2018 and beyond.

## Working capital as a percentage of revenue in construction activities



Working capital is 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.

Our continuing focus on working capital management has resulted in a further improvement of 190bps. This was also due, in part, to the settling of a number of historic final accounts which delivered a benefit that will not recur in 2017.

**Related strategic objectives:**

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

**Voluntary employee turnover**



This is the number of employees leaving the business voluntarily during the year divided by the average number of employees.

While employee turnover rates are falling, there is still room for improvement in some divisions. We recognise that a certain level of turnover amongst employees is good for the Group to ensure a regular injection of new ideas and approach. We have therefore set ourselves a long-term target to reduce employee turnover to 10%.

**Number of graduates and apprentices recruited**



The increase in the number of graduates and apprentices recruited across the Group during the year demonstrates our commitment to developing a succession pool of talent. In 2016 we sponsored 116 undergraduates and supported 639 people through NVQs and professional qualifications. This investment in new talent is expected to continue in 2018.

**Average number of training days per employee**



This KPI is calculated by dividing the total number of days of training provided to employees by the average number of employees.

The increase in training days across the Group is in line with our strategy to develop and retain talented people. This trend is expected to continue in 2018.

**Gross margin in construction activities**



Gross margin is gross profit as a percentage of revenue.

Our gross margin improved by 60bps, reflecting the higher quality of work secured as well as improved operational delivery. This trend is expected to continue as Construction & Infrastructure continues to progress towards delivering more normalised margins.

**Overheads as a percentage of revenue in construction activities**



As expected, this metric continued to rise and was up 30bps on the prior year. This reflects the Group gearing up for further growth with increased headcount and enhanced financial incentives. We expect this trend to continue into 2017.

**Carbon intensity**



Carbon intensity is total carbon emissions as a percentage of revenue.

The Group's carbon intensity measure decreased by 16.6% which demonstrates our clear and continuing commitment to reducing energy consumption across our entire supply chain. In 2017 we will strive to continue this trend, recognising that it will become harder to continue to make significant year-on-year reductions in emissions.

# Financial review

## Adjusted operating profit\*

**£48.8m**  
(+26%)

## Revenue

**£2,562m**  
(+7%)



Steve Crummett  
Finance Director

	2016	2015
Revenue	<b>£2,562m</b>	£2,385m
Operating profit - adjusted*	<b>£48.8m</b>	£38.8m
Profit before tax - adjusted*	<b>£45.3m</b>	£34.3m
Earnings per share - adjusted*	<b>84.7p</b>	63.0p
Year end net cash balance	<b>£208.7m</b>	£57.9m
Average net cash/(debt)	<b>£25.0m</b>	(£53.4m)
Total dividend per share	<b>35.0p</b>	29.0p
Operating profit/(loss) - reported	<b>£47.4m</b>	(£10.3m)
Profit/(loss) before tax - reported	<b>£43.9m</b>	(£14.8m)
Basic earnings per share - reported	<b>83.8p</b>	(22.6p)

\* Adjusted is defined as before intangible amortisation of £1.4m, and (in the case of earnings per share) deferred tax credit due to changes in the statutory tax rate of £0.7m (2015: exceptional operating items of £46.9m, 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).

## Net working capital<sup>1</sup>

Net working capital has improved by £125.2m to (£203.6m) as shown below:

	2016 £m	2015 £m	Change
Inventories	<b>213.9</b>	246.7	-32.8
Trade and other receivables	<b>329.6</b>	352.2	-22.6
Trade and other payables	<b>(747.1)</b>	(677.3)	-69.8
<b>Net working capital<sup>1</sup></b>	<b>(203.6)</b>	<b>(78.4)</b>	<b>-125.2</b>

<sup>1</sup> 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, interest accruals and derivative financial assets and liabilities'.

## Performance

2016 has been a year of positive growth for the Group.

Revenue for the year was up 7% at £2,562m (2015: £2,385m), with adjusted operating profit up 26% to £48.8m (2015: £38.8m). This resulted in an adjusted operating margin of 1.9%, an improvement of 30bps compared to the prior year and an improvement of 60bps on the 2014 result. The net finance expense reduced to £3.5m (2015: £4.5m) due to a lower net interest charge on borrowings and, after deducting this, the adjusted profit before tax was £45.3m, up 32% (2015: £34.3m).

The reported profit before tax was £43.9m compared to a reported loss before tax in 2015 of £14.8m. The prior year loss included exceptional operating items of £46.9m. The tax charge for the year is £7.1m, which broadly equates to the UK statutory rate after adjusting for the impact of tax on joint ventures and for the deferred tax effect of future reductions in the UK statutory rate. Almost all of the Group's operations and profits are in the UK, and we maintain an open and constructive working relationship with HMRC.

The adjusted earnings per share was 34% up to 84.7p (2015: 63.0p), with the fully diluted adjusted earnings per share of 82.3p up 32% (2015: 62.2p).

Details on performance by division are shown on [pages 22 to 41](#).

66

## The Group's cash performance has been strong.

99

### Net cash

The Group's cash performance has been strong with operating cash inflow of £179.9m in the year and free cash inflow of £173.7m (2015: free cash outflow of £0.9m). This included an improvement in working capital of £125.2m. At the year end, the Group had net cash of £208.7m (2015: £57.9m), an improvement of £150.8m. The average daily net cash for the year was £25m, a significant improvement of £78.4m on the prior year, and was due to overall better working capital management, settling a number of long-standing final accounts and the phasing of scheme completions and commencements in Partnership Housing and Urban Regeneration. Based on current plans and phasing for investment in the regeneration activities and the forecasts for cash generation of the construction activities, we expect an overall average daily net cash position for 2017.

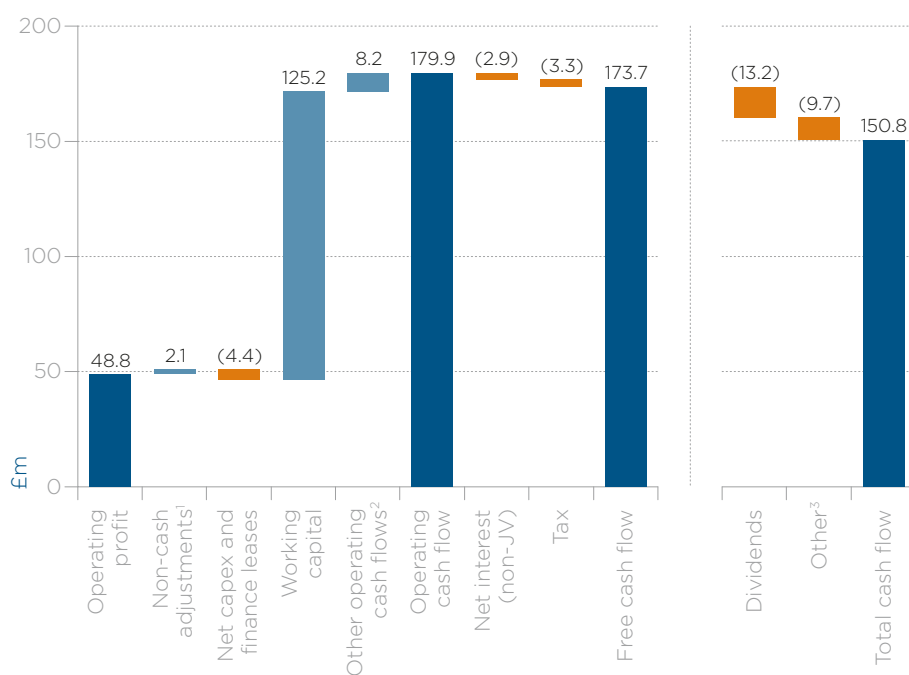
### Financing facilities

The Group has £175m of committed loan facilities maturing as follows: £15m in May 2018 and £160m in September 2018. The banking facilities are subject to financial covenants, all of which have been met throughout the year.

In the normal course of our business, we arrange for financial institutions to provide client guarantees (bonds) as security against the financial instability of the contractor prejudicing completion of the works. We pay a fee and provide a counter-indemnity to the financial institutions for issuing the bonds. As at 31 December 2016, contract bonds in issue under uncommitted facilities covered £227.7m (2015: £221.6m) of our contract commitments.

Further information on the Group's use of financial instruments is explained in [note 25](#) to the consolidated financial statements.

### Cash flow



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

2 Other operating cash flows includes JV dividends and interest income, provision movements, shared equity redemptions, investment property disposals, additional pension contributions and gains on disposals.

3 Other includes net loans advanced to JV's, deferred consideration paid to acquire an interest in a JV, proceeds from the issue of new shares, purchase of shares in the Company by The Morgan Sindall Employee Benefit Trust and payment to acquire an additional interest in a subsidiary.

### Going concern

The Group's business activities, together with the factors likely to affect our future development, performance and position, are set out in this strategic report. As at 31 December 2016, the Group had net cash of £208.7m 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 over the period of assessment. 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 prepare the annual financial statements on the going concern basis. See [page 58](#) for further information on the Group's longer-term viability.

193

new homes in 2016

5,575 sqft

of retail space

Project

**Lewisham Gateway,  
Lewisham, south east London**

Lewisham Gateway is located at a major transport hub in south east London, served by road, bus, rail and DLR services. The regeneration project was designed to transform the existing layout, dominated by a busy roundabout which effectively cut Lewisham town centre off from the transport facilities, into an attractive gateway and a new heart for the town. When completed, the project will deliver around 900 homes, retail and leisure space, a hotel and restaurants, and a new urban park with improved waterways.

Urban Regeneration has created two new river corridors for the Ravensbourne and Quaggy rivers to provide space for the urban park. In 2016 the roundabout was completely removed, a new road system introduced and the bus network improved. Pedestrians now have easier access to public transport and land has been freed up for further development. Two residential buildings were also completed in the year, with ground floor retail space. Both buildings were designed to the energy-efficient Passivhaus standard and every apartment provided with a folding bike to encourage sustainable travel.

Lewisham Gateway is being delivered in partnership with the London Borough of Lewisham, the Mayor of London, Transport for London and the Homes and Communities Agency.





## Operating review

We believe that a resilient strategy for creating value over the long term must be founded on a strong commitment to operating responsibly and an understanding of how our operations affect our stakeholders. A strong performance over the past year across our divisions, despite a volatile marketplace, validates our approach.

The following pages set out our operational and financial performance by division, including how their activities have created value for our shareholders, clients, employees, suppliers and the local communities where we build and regenerate.





# Construction & Infrastructure

Significant progress has been made in the year, with the overall focus remaining on safety, contract selection and project delivery.

## Revenue £m



**+7%**  
CHANGE

## Operating profit — adjusted\* £m



**+134%**  
CHANGE

## Operating margin — adjusted\* %



**+40 bps**  
CHANGE

- Operating profit more than doubled to £8.9m
- Infrastructure order book increased 53%
- Significant framework opportunities secured
- Innovations in engineering and safety
- Targeted local supplier and apprenticeship opportunities on all projects

The division's revenue of £1,321m was up 7% (2015: £1,232m). Split by type of activity, Construction (which includes design) accounted for 60% of divisional revenue at £788m, which was up 16% compared to 2015, while Infrastructure was 40% of divisional revenue at £533m, down 3% on the prior year.

The operating margin of 0.7% was up from 0.3% in 2015 and resulted from a continual improvement in performance throughout the year. The second half margin of 0.8% compared favourably to the first half margin of 0.5% and reflected further progress towards delivering more normalised margins for the division. Infrastructure delivered an operating margin of c.1.6%, while Construction was broadly break-even.

The division has performed well securing new business which provides a platform for its future growth plans. Its committed order book at the year end was £1,886m, up 18% compared to the prior year end. This increase was driven by a very strong performance in Infrastructure, where the order book increased by 53% against 2015 to £1,296m (69% of divisional total order book). The Construction order book was £590m, a reduction of 21% against 2015 year end.

### Construction

Construction continued its focus on quality of earnings and bidding disciplines to ensure that projects won have an appropriate risk profile and terms for future sustainable growth. Of the Construction order book, 88% by value came through negotiated,





# Building better connections

**99.8%**

waste diverted from landfill

**100%**

spoil recycled or reused



ABOVE:  
A sprayed concrete tunnel in progress on the C510 tunnels contract.

LEFT:  
A tunnel boring machine making its way through the eastbound platform tunnel at Whitechapel station.

Project  
**Crossrail,  
C510 Whitechapel and  
Liverpool Street station tunnels**

Crossrail is among the most significant infrastructure projects to be undertaken in the UK and is due to be completed in 2018. This major new rail link will change the way people travel around London, improving journey times, easing congestion and offering better connections. Construction & Infrastructure, in joint venture,

is delivering the underground stations at Whitechapel and Liverpool Street, due to be complete in 2017. This project forms an integral part of the wider Crossrail scheme, and involves the construction of sprayed concrete lining tunnels including construction shafts, platform tunnels, cross passages, escalator barrels and ventilation ducts.

In addition, the team is constructing a link passageway from the new Liverpool Street station to the London Underground Northern Line Moorgate station platform, and a crossover at the west end of Whitechapel station.

framework or two-stage bidding procurement processes, with 12% through competitive tender processes. Although the total value of the Construction order book has reduced, this is more than offset by the significant amount of pipeline opportunities where the division is preferred bidder. These do not meet the strict criteria for inclusion in the order book.

In education, key completions during the year include the £15.8m Centre for Sustainable Chemistry for the University of Nottingham (see [pages 8 to 9](#)), while work continued on the construction and upgrade of six schools for the London Borough of Southwark's School Framework to which the division was originally appointed in January 2015.

In healthcare, the £60m Spire Nottingham Hospital project in Tollerton, a modern and technically advanced hospital set in seven acres of landscaped gardens, is underway.

In defence, work has continued on the £90m contract for BAE Systems to develop the industrial facilities at their submarine building site in Barrow-in-Furness and the £39m training facility for the Civil Nuclear Constabulary in West Cumbria.

Other significant ongoing projects include the £70m scheme to transform Lambeth's Town Hall and civic buildings for Urban Regeneration and project partner Lambeth Council, as well as the £107m mixed-use scheme at Marischal

Square in Aberdeen, also for Urban Regeneration. In addition, a design and build project for BUPA UK is currently underway to see the creation of its flagship office overlooking Salford Quays, while work is concluding on the £30m redevelopment of 55 Colmore Row, an office building in Birmingham's city centre.

#### **Infrastructure**

Infrastructure has maintained its focus on its key sectors of highways, rail, aviation, energy, water and nuclear. The significant increase in Infrastructure's secured order book across these sectors underpins the future growth of the business and its appointment to some high profile UK infrastructure projects reflects the capabilities and skills of the division. Key projects include:

- The Central Enabling Works for High Speed Two (HS2) to be undertaken in joint venture, which will be worth up to £100m to the division over a four-year period;
- A five-year contract extension to the Infrastructure Strategic Alliance (ISA) which was originally awarded in joint venture in 2012 to provide essential infrastructure assets for the next phase of the Sellafield site in Cumbria. This is the first renewal of a contract which has the potential for further extension periods up to a total life of 15 years and with a total value of up to £1.1bn. The current extension takes the contract through to 2022;

- An extension to its existing contract with Heathrow Airport, which was initially awarded in 2014 to deliver a £3bn programme of upgrades alongside three partners. The extension takes the contract through to 2020;
- The appointment to London Underground's £350m 'future stations' Civils and Tunnelling Works framework, in joint venture, which will be delivered over an eight-year period.

Following the year end (and therefore not included in the year end order book), the Infrastructure business was awarded one of three places on Transport for London's (TfL) Surface Transport Major Projects Framework. This is a four-year framework anticipated to be worth some £500m between the three appointed contractors.

During the first half of the year, commercial settlement was reached on the second of the two old construction contracts identified in 2013, both of which were transferred to the Group as part of the acquisition of the design and project services division of Amec in 2007. The first of these contracts reached commercial settlement in 2015. The commercial settlement was in line with the previously estimated position and therefore had no impact on the reported results.

Looking ahead the division will continue to focus on improving the quality of earnings rather than revenue growth and on growing its margin back to normalised levels over the medium term. For Construction, the medium-term target margin is set at 2%. For Infrastructure the medium-term target margin is set at 2.5%. 2017 is expected to show further margin growth progression towards these medium-term targets and the nature and quality of work in the secured order book provides the platform to deliver this.

#### **James Paget Hospital, Great Yarmouth**

State-of-the-art operating theatres were installed and equipped with the latest ventilation systems. Works took place in a live hospital environment, between a cancer ward and children's ward and above a pathology unit. Regular meetings with the hospital's estates department and the use of specialist plant and equipment enabled the hospital to continue functioning without disruption.





Employee

**Alison Chippington,  
Head of Bid Management  
and Proposals**

Alison began working at Construction & Infrastructure 25 years ago as a summer placement student. On achieving her civil engineering degree, she joined the division's graduate training programme and within six years became a chartered engineer. She now mentors undergraduates and graduates and enjoys sharing their passion for engineering. "It's incredibly rewarding to be a part of a close team which makes complex projects happen."

**Progress against  
2016 strategic priorities**

**Focus on chosen growth markets**

New customer relationship management software was adopted as part of a strategic approach to client relationships, project selectivity and bid governance.

Infrastructure's transport team was restructured to maximise the large potential for growth in the transport sector.

**Maintain quality of order book / long-term projects that offer higher margins through frameworks, joint ventures and strategic alliances**

Construction secured 88% of its work through its preferred procurement routes of frameworks, two-stage tenders and negotiated projects. Framework appointments and extensions secured by Infrastructure will generate opportunities through to 2022. Of Infrastructure's work in the year, 57% was carried out in joint venture.

**Increase opportunities to work with other Group divisions**

The division worked in partnership with Urban Regeneration on developments in Marischal Square, Aberdeen and Lambeth, and with Investments on the Slough Urban Renewal programme (see [page 10](#)), the North West Priority Schools Building Programme (see [page 41](#)) and Berry Court, Bournemouth. Its position on the Southern Construction Framework yielded the opportunity for Partnership Housing on the Salisbury Plain housing development (see [page 34](#)).

**Build enduring relationships with clients, partners and supply chain to create innovative and cost-effective solutions and deliver quality projects with the highest levels of safety**

The division designed and implemented a new site information management system that improves risk management and efficiency on projects and gives clients greater visibility of progress. The pioneering

use in the UK of an uphill excavator on the Whitechapel station project for Crossrail won the BBMV<sup>1</sup> joint venture 'Technical Innovation of the Year' at the NCE Tunnelling and Underground Space Awards.

During 2016, Construction & Infrastructure rolled out a cultural development programme for all employees focused on safety, Perfect Delivery and the division's People Promise<sup>2</sup>. The division developed a strategy for occupational health and is training managers to detect physical and mental signs of stress or fatigue in people early, before they lead to illness or accidents on site. It introduced a new safety initiative called Human Factors on motorway works for Highways England, which mitigates the impacts of human error, and as a result became the best performing contractor on the framework in terms of safety.

**Strategic priorities for 2017  
Construction**

- Select projects based on capability, relationships, procurement route and risk profile, procuring work mainly via frameworks and other Group divisions
- Focus on core markets of education, health and defence as well as selected projects in the commercial and industrial markets
- Invest in people to attract, engage and retain them

**Infrastructure**

- Develop and retain talented people, including apprentices and graduates, and increase diversity and inclusiveness
- Continue to drive safety, including health and wellbeing
- Focus on productivity and efficiency to ensure delivery for clients and achievement of financial targets

1 A joint venture with Balfour Beatty and VINCI Construction.

2 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.



# Fit Out

An excellent year for Fit Out, with further progress made on margin improvement through a relentless focus on superior project delivery.

## Revenue £m



**+4%**  
CHANGE

## Operating profit — adjusted\* £m



**+15%**  
CHANGE

## Operating margin — adjusted\* %



**+30bps**  
CHANGE

- Revenue and profit up
- Order book increased 37% on prior year
- Significant improvement in London design and build business
- Continued investment in people and enabling technology

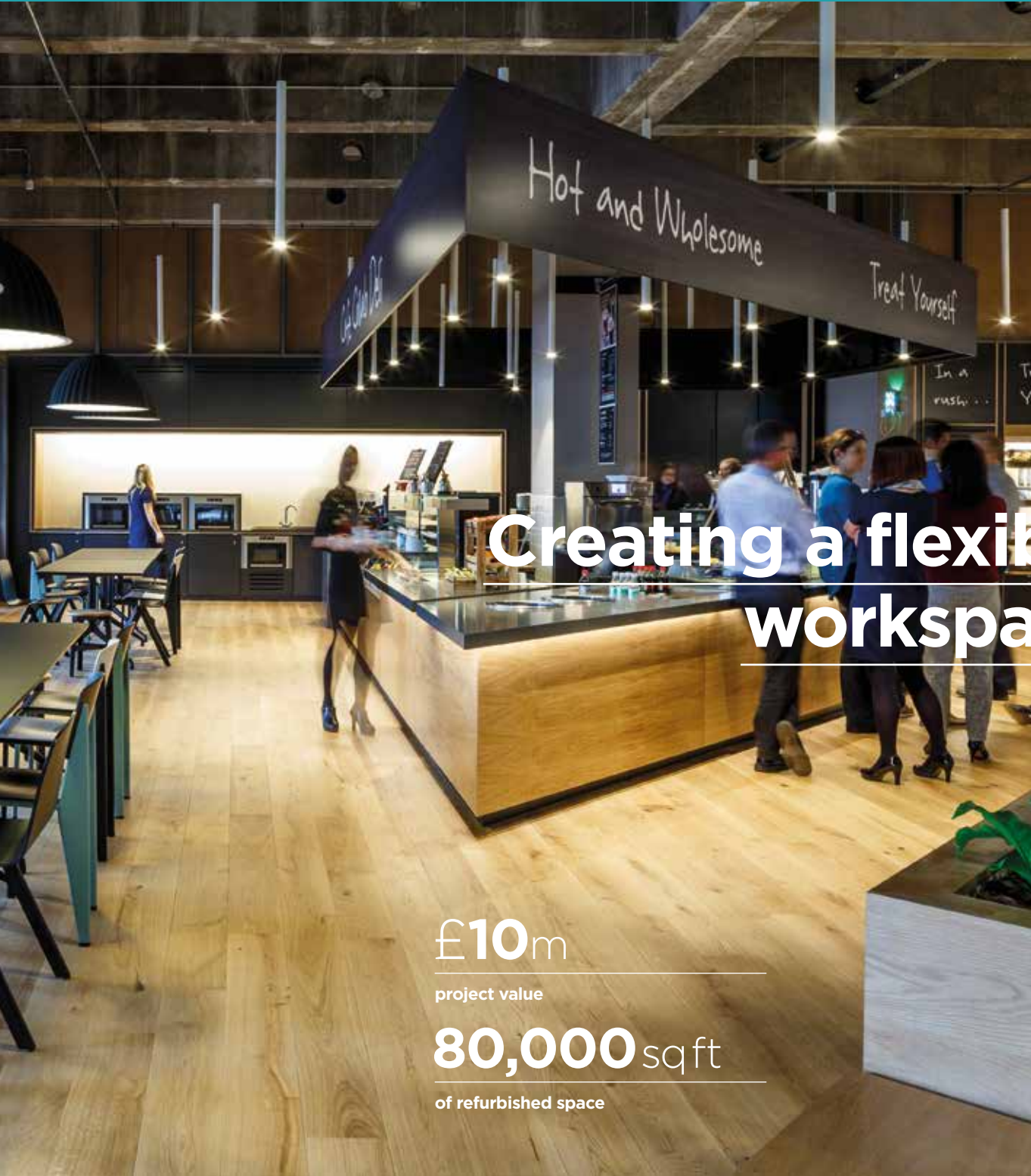
Revenue for the year was up 4% to £634m, with operating profit up 15% to £27.5m (2015: £24.0m) and the operating margin increasing to 4.3% (2015: 4.0%).

There was little change to the geographic mix of work undertaken during the year, with the London region remaining the largest geographic market, accounting for 65% of revenue (2015: 67%). Likewise, the split between the type of work undertaken remained consistent with previous years: 81% of revenue came from traditional fit out work (2015: 82%), compared to 19% design and build (2015: 18%). No significant change to the geographic mix or the type of work is expected in the future, these being Fit Out's core markets and expertise.

The balance of work increased slightly towards the fit out of existing office space, with 82% of revenue (2015: 73%) including 68% refurbishment 'in occupation', while the remaining 18% related to new office fit out (2015: 27%).

The commercial office sector remains the division's main market providing 86% of revenue (2015: 83%), with higher education the next largest sector at 6% of revenue. Retail banking accounted for 2% of revenue while other sectors including Government and local authority work made up the balance.





# Creating a flexible workspace

£10m

project value

80,000 sq ft

of refurbished space



ABOVE and LEFT: The new flexible workspace provides a communal café, breakout areas and access to state-of-the-art technology.

Project  
**AstraZeneca, Macclesfield**

This refurbishment for AstraZeneca in Macclesfield was the latest in a series of projects undertaken by Fit Out for the global pharmaceutical company as it upgrades its UK offices to create flexible, collaborative workspaces.

A 1960s manufacturing and packing facility containing dated cellular offices was refurbished to provide a bright, modern space accommodating up to 1,000 people. The new facilities enabled activity-based working by providing

a mix of open plan spaces, formal meeting rooms, a café with a 'grab & go' counter and catering kitchen, collaboration zones, quiet booths, resource hubs and brew stations.

Delivering a technically challenging project while the building was in occupation required the project team to liaise closely with the office workers. Innovative construction measures that reduced the amount of noise and dust were used throughout the programme, and well-designed temporary routes and services helped to maintain an optimum working environment.



Employee  
**Charlie White,**  
Contracts Manager

Charlie started at Fit Out as an assistant site manager on a work experience placement and continued to work each summer and for a full year in 2005 while studying for a construction management degree. He rejoined the Group on graduating, working with experienced mentors. Charlie quickly progressed to contracts manager, responsible for projects up to £5m in value. His team works for clients such as MasterCard and A+E Networks.

Further improved operational processes and efficiencies in contract delivery supported the increase in the operating margin, up 30bps to 4.3% (2015: 4.0%). This reflects the benefit from the division's ongoing investment in operational training and making technology solutions available to on-site teams.

Fit Out's order book has grown significantly during the year. At the year end, the secured order book was £466m, an increase of 37% on the prior year end and, importantly, an increase of 25% from the position at the half year. This is a record high for the division. Of this total amount, £410m (88%) relates to 2017 and provides much greater visibility of future workload than in previous years.

Significant project wins in the year include the fit out of a 265,000 sq ft building for Deloitte in London, one of the first projects in the UK to target both a BREEAM<sup>1</sup> Outstanding rating and a WELL Building Standard<sup>2</sup> Gold certificate. In addition, the division was contracted to fit out 315,000 sq ft of office space for Schroder Corporate Services in London as well as further commercial space for Schroder Real Estate Investment Management in Manchester's City Tower. Other projects include an £8m fit out for AECOM in Aldgate Tower, London, a £2.7m project completed at the Queen Elizabeth II Centre in London and a contract to refurbish Bristol City Council's newly acquired office at 100 Temple Street.

With the size and quality of the order book, together with Fit Out's ongoing focus on contract delivery, 2017 is expected to be another strong year. The medium-term target is to maintain market position, which is expected to deliver performance levels consistently within a range at or around current levels of operational and financial performance.

**People at work**  
Designers working on initial concepts for an inspiring new workplace that promotes wellbeing, productivity and collaboration.



1 BREEAM International Refurbishment and Fit Out Technical Standard.  
2 As certified by the International WELL Building Institute.



**UK Green Building Council**

Fit Out's project to refurbish the UK Green Building Council's central London headquarters achieved the lowest embodied carbon footprint ever recorded for an office refurbishment in the UK. Innovative features were installed to promote wellbeing, such as a living wall with over 1,500 plants and a ventilation system that has delivered a 750% increase in fresh air.

**Progress against 2016 strategic priorities**

**Win work in all chosen markets**

Fit Out has the advantage of being able to offer national coverage and consistent service to clients with property portfolios across the UK. In 2016, 77% of revenue came from repeat business.

**Further improve quality of earnings**

The division has been showing year-on-year margin progression towards 5%. This has been largely due to its investment in people and technology, which has increased productivity and effectiveness.

**Continue investment in enabling technology to improve customer service and efficiency**

In 2016, Fit Out integrated its in-house project management software with its newly developed bespoke snagging tool, and made both available on mobile devices. These tools are used by clients and their consultants as well as by Fit Out employees and subcontractors, and are designed to make project delivery faster and smoother.

**Invest in training and development to support succession planning**

Fit Out increased its training and development expenditure by 136% in 2016. The division continued to invest in its Foundation Programme for school leavers and graduates and has increased its demographic of under 34s by 8% since 2013. This age group now constitutes 31% of Fit Out's total workforce. The division also built an on-site training facility at its London head office and launched an e-learning system containing a catalogue of training courses tailored to its two businesses.

Fit Out's voluntary staff turnover rate reduced to 7% in 2016 despite a highly competitive market for resources.

**Strategic priorities for 2017**

- Continue to deliver high quality work
- Invest in and develop people
- Invest in enabling technology



**MotoNovo Finance, Cardiff**

Fit Out designed and built a new headquarters and customer service centre for MotoNovo Finance to accommodate the financial services company's planned growth. The £6.5m project was supported by Welsh government funding as part of a bigger £100m city-wide investment package and MotoNovo Finance has pledged to create over 500 jobs in Cardiff in the next five years. The design included a number of wellbeing facilities to align with MotoNovo's culture and help attract new recruits, including a canteen, multiple breakout areas and a gym.





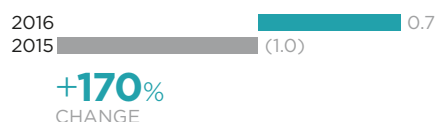
# Property Services

Efficiencies from improved contract and overhead management have helped Property Services to deliver its first full year profit.

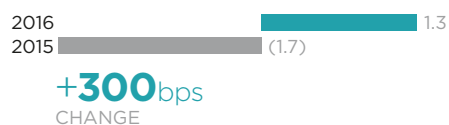
## Revenue £m



## Operating (loss)/profit — adjusted\* £m



## Operating margin — adjusted\* %



- Operating margin of 1.3%
- Secured largest contract to date
- Working with 31 partners at year end
- Created BasWorx social enterprise to provide training and apprenticeships to Basildon residents
- Order book increased by £326m

Property Services delivered a profit of £0.7m which was ahead of its previous target of achieving break-even in 2016 and compares to a number of consecutive years of losses, the most recent being a loss of £1.0m in 2015. The division now has an established and proven business model and a stable operational platform from which to grow. Future revenue and margin growth will be driven primarily by new contracts won.

The committed order book has increased significantly, up 90% to £687m since the prior year end. In housing, new strategic asset management contracts include a £300m contract for Basildon Borough Council that started in July 2016 and is expected to generate between £20m and £25m of revenue per year, including £2m per year of facilities management work. The Basildon contract is for 10 years with the potential for a five-year extension and is the largest contract secured by the business to date.

In addition Property Services secured a £5m, five-year contract with Ability Housing to provide asset management services for more than 700 homes across London and the South East, and an existing contract with King Street Housing was extended to cover over 800 homes in Cambridge. New planned works include a four-year electrical specialist contract with Hackney Council with the possibility to extend to eight years and a potential total value of up to £56m. The division was also one of four contractors selected for a four-year framework with A2Dominion worth up to £8m to deliver planned refurbishment works to properties in the

Winchester area. In addition, it secured positions on two new frameworks for Camden Council: its £140m, four-year 'Better Homes' framework, of which four projects worth c.£6m have so far been secured, and an electrical framework which has a potential value of c.£11m over four years.

Based on the current order book and identified market opportunities, we expect further revenue and profit growth is expected in 2017. The division's medium-term target is to improve its operating margin up to at least 3% which will be generated by the operational leverage impact of additional volumes from new work and continuous improvement in contract management.

### Progress against 2016 strategic priorities Grow pipeline through long-term partnerships with local authorities and housing associations and through collaboration with sister divisions

Property Services restructured its operations to focus on its core markets of social housing, facilities management and insurance. It has built a reputation as a strategic asset management partner to housing providers, enabling them to drive efficiencies and save costs. In 2016 it further developed its electronic asset management software, MSi, which is used to monitor properties and drive down the need for responsive repairs. The application of MSi by King Street Housing Society in 2016 helped it to win the National Housing Maintenance Forum award for 'Project of the Year'. Property Services is launching a bespoke module of MSi for the insurance market in 2017.

Property Services collaborates with other divisions in the Group on bidding opportunities where it can add facilities management support.

### Strategic priorities for 2017

- Maintain a culture of providing excellent customer service
- Ensure that its projects continue to contribute socially and economically to local communities
- Invest in training and development for employees
- Continue to seek innovative technological solutions



# Social value in the community

**41** new jobs

created since July 2016

**56** people

in construction or employment skills training



TOP and ABOVE: BasWorx's community gateway manager talks to local residents at the launch of the enterprise's first training programme.

Project  
**BasWorx social enterprise, Basildon**

Basildon Borough Council wanted its £300m strategic asset management contract to create social value for the local community. Property Services formed BasWorx, an independent, commercially sustainable social enterprise that provides structured

training in construction skills, work experience and the opportunity to take part in workshops that enhance employment skills and boost confidence. Scott Logan, the Council's commissioning director – people and place, described the enterprise as a "pioneering initiative" that will help deliver the Council's objective of "Creating Opportunity, Improving Lives".



# Partnership Housing

The significant increase in profit supports our view of the size of the market opportunity for Partnership Housing.

## Revenue £m



**+18%**  
CHANGE

## Operating profit — adjusted\* £m



**+40%**  
CHANGE

## Operating margin — adjusted\* %



**+50bps**  
CHANGE

- Revenue increased by 18%
- Return on capital employed<sup>1</sup> was 12%
- Secured the division's largest ever construction contract at Salisbury Plain
- 816 open market units sold
- New digital strategy to drive business efficiency and customer service

Revenue of £433m was up 18% in the year. Growth was primarily driven by the mixed-tenure activities, where revenue was up 38% at £204m (47% of total revenue). Revenue in the contracting activities (including planned maintenance and refurbishment) increased by 5% to £229m (53% of revenue). Operating profit increased significantly to £13.4m, up 40%, and resulted in an operating margin of 3.1%, up 50bps on the prior year.

The average capital employed for the last 12-month period was £110.8m, with the overall return on capital employed of 12%. Capital employed at the period end was low, at £63.9m reflecting the significant level of sales activity in the fourth quarter of the year. It is expected that the level of capital employed will increase over the course of 2017 to above prior year levels, with the intention to increase average capital employed to in excess of £120m.

On the mixed-tenure side of the business, 1,060 units were completed across the open market sales and the social housing element of mixed-tenure at an average sales price of £192k (2015: £162k).

<sup>1</sup> Return on capital employed equals adjusted operating profit divided by the average capital employed over the last 12 months.



**10-year**  
regeneration scheme  
**280**  
new homes delivered





# Regenerating the neighbourhood



TOP: Weston Heights neighbourhood park.

ABOVE: Compendium Living invited the local community to an event celebrating the development's completion.

Project  
**Weston Heights,  
 Weston Coyney, Stoke-on-Trent**

The Weston Heights regeneration scheme was completed in 2016, delivered through Compendium Living in partnership with Riverside housing association, Stoke-on-Trent City Council and the Coalville Residents' Association, with support from the Government's Housing Market Renewal Initiative. The Coalville mining estate, built for local miners in 1954 by the National Coal Board, had become run down and the objective of the project was to develop it into a place where existing residents and new families would want to live.

The result is a thriving new community, where substandard properties and ailing streets have been replaced with modern, mixed-tenure homes, a purpose-built neighbourhood park and recreational spaces. The regeneration has seen average home prices on the estate rise from £45,000 to £150,000 between 2005 and 2015.

Councillor Jack Brereton, Stoke-on-Trent City Council's cabinet member for regeneration said of the development: "It has completely transformed the neighbourhood with the delivery of new, good quality housing. The development has strengthened the local community and is designed very well to complement other homes in the area".



Employee  
**Priya Halai,**  
**graduate Quantity Surveyor**

Priya joined Partnership Housing's graduate programme after getting a degree in quantity surveying and commercial management. Following her two-year graduate traineeship, which included various six-week placements across the business, she was promoted to assistant surveyor in the London region. As a CITB (Construction Industry Training Board) 'construction ambassador', Priya regularly shares her own experiences of the industry to inspire others to consider a career in construction. She is also a representative on the Group's 'Next Generation' stakeholder panel.

A number of key projects have commenced in the year including the start of construction at Trinity Walk (the first of three estates being regenerated as part of the £384m Trinity Woolwich project, in partnership with Greenwich Borough Council and asra Housing Group).

In addition, a 600-home development at Kings Lynn in Norfolk has commenced with its first phase, Marsh Lane, containing 110 units, while works started via the Compendium Living joint venture (with Riverside housing association) on a housing development in the Ings area in partnership with Hull City Council. An early commencement agreement was signed on the mixed-tenure development of 800 homes at The Mill in Canton, Cardiff with work due to start on site in January 2017 while at Mollins Gate in Moodiesburn, work began on a £6m development which will create 55 affordable and open market homes in North Lanarkshire in partnership with Link Group Ltd.

In mixed tenure, Partnership Housing's regeneration and development pipeline decreased 2% to £764m, while the secured order book for the contracting element in mixed tenure increased 26% to £140m.

On the contracting side of the business, the secured order book increased 32% to £305m. In addition to this, the division has been selected as preferred bidder for the development of c.900 homes at Salisbury Plain by the Defence Infrastructure Organisation, which will be developed on three sites and will house service families returning from Germany. The contract sum will likely be c.£200m, with building work taking two and a half years to complete. The award followed on from the successful project at MOD Stafford where the division delivered 346 homes for service families in just over a year.

In planned maintenance and refurbishment works, noteworthy new contracts secured in the year include £2.5m per year of housing improvements for Nuneaton & Bedworth Borough Council; a £2.4m refurbishment contract for Sandwell Metropolitan Borough Council; a £7.5m refurbishment programme in Coventry for Whitefriars Housing; the remodelling of an apartment block for Kettering Borough Council (£1.3m); £4m of negotiated works under a framework for Northampton Partnership Homes; and £1.8m of retained works under an existing contract with North West Leicestershire District Council.

Partnership Housing has seen a sizeable increase in its dialogue with local authorities and housing associations on opportunities for future land and development partnerships and the business is well positioned to support the UK's current and future affordable housing and regeneration needs. Based on current market conditions and the number of active developments, 2017 is expected to be a further year of revenue and profit growth. The medium-term target for the division is to generate a return on capital employed in excess of 20%.

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



**Capital employed at year end £m**



<sup>1</sup> Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).

**Progress against 2016 strategic priorities**  
**Grow regeneration pipeline through long-term partnerships with local authorities and housing associations and through collaboration with sister divisions**

Partnership Housing restructured parts of its business in order to focus on long-term partnerships. This included creating a dedicated South Wales and South West region, a new focus in the Eastern region on partnerships rather than single contracting opportunities, and a refocus in Scotland on mixed tenure. In addition to ongoing works in direct partnership with local councils and housing associations, the division has continued to collaborate with Investments on the Slough and Towcester regeneration schemes and with Urban Regeneration in developments at Lakeside and Waterdale in Doncaster and Vivo Northshore at Stockton-on-Tees.

As part of its new digital strategy to drive efficiency for the business and an improved service for home buyers, Partnership Housing introduced a new software system that links open market sales to progress made on

construction, enabling houses to be built at the rate at which they are sold. The software also captures trends in home buyer preferences which inform new house designs, and features an online augmented reality programme that allows home buyers to select specifications for their new home prior to meeting the sales team.

**Progress schemes within existing regeneration programmes**

Partnership Housing sold a total of 816 open market homes in 2016. In addition, the division progressed Milestone, its first residential development as part of Investments' regeneration programme in Slough (see page 10) and started construction on the second residential development, Wexham Green, which will produce 104 mixed-tenure homes for sale in 2017.

**Accelerate completion of residential schemes**

The early commencement agreed for the Mill development in Cardiff and the six-month lead on the Woolwich programme are both examples of schemes being fast-tracked to meet market demand.

**Strategic priorities for 2017**

- Pursue digital strategy, linking sales, design and construction
- Increase sales outlets from 20 to over 30
- Create at least two strategic partnerships with housing associations or local authorities in every region
- Achieve a minimum strike rate on land and contracting bids of one in three



**Loftus Garden Village, Newport, South Wales**

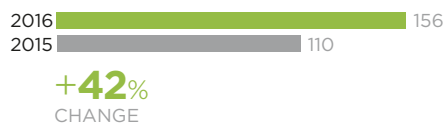
Loftus Garden Village is a four-year, £30m regeneration scheme which will provide 250 high-quality homes for mixed tenure by 2018. The former industrial estate is being given the feel of a traditional country village, using tree-lined streets, landscaped areas, kitchen gardens, parks, a central green space and a village pond. 106 homes were completed in 2016 and the scheme was named Best Residential Development at the 2016 Insider Wales Property Awards.



# Urban Regeneration

Urban Regeneration has a strong visible pipeline of future regeneration opportunities.

## Revenue £m



## Operating profit – adjusted\* £m



- **15.4% return on capital employed<sup>1</sup> on average over the last three years**
- **Major growth in housing market**
- **Good progress made on all regeneration schemes**
- **Increased forward development pipeline by 2% to £2.2bn**

Urban Regeneration delivered an operating profit for the year of £13.4m, up 4% on the prior year. As expected, performance was weighted to the second half due to the phased timing of scheme completions.

Capital employed at the year end was £68.9m. Average capital employed for the last 12-month period was £80.0m, with an overall return on capital employed of 15.0%. The average capital employed for the year was lower than previously anticipated due to a combination of earlier than expected completions, the revised phasing of construction in the ordinary course, and alternative funding structures used on certain regeneration schemes. Based on the current forecasts of phasing of schemes, average capital employed is expected to increase up to in excess of £90m in 2017.

During the year, the division made good progress on its development portfolio to enhance town centres around the UK. There were a number of contributors to the division's overall performance, which included a total of 566 (2015: 745) residential sales completions. The regeneration at Lewisham Gateway was the largest contributor to profit in the year, where two residential buildings were completed with all 193 units pre-sold (see [page 20](#)).



ABOVE:  
 Phases one and two of the Rathbone Market regeneration.

RIGHT:  
 Lumire, the third and final phase of the scheme.



<sup>1</sup> Return on capital employed equals (adjusted operating profit less interest on non-recourse debt less unwind of discount on deferred consideration) divided by the average capital employed over the last 12 months. Interest and fees on non-recourse debt was £1.1m (2015: £1.4m) and the unwind of discount on deferred consideration was £0.3m (2015: £0.4m).



# Working in partnership

**652** new homes

in three phases for Canning Town

**42,000** sq ft

of civic and retail space



Project  
**Rathbone Market,  
 Canning Town, east London**

The third and final phase of the Rathbone Market development drew to a close in 2016 with the completion of Lumire, a new residential building. Rathbone Market is a mixed-use community which has been established as part of the Canning Town and Custom House Regeneration Area programme. Through the English Cities Fund (ECf) joint venture and in partnership with Newham Council, Urban Regeneration has delivered new homes, retail space, a public library and community space, two new public squares and a new location for the local market. The scheme has been a catalyst

for regeneration with other developers now investing in the area.

Lumire has provided 162 privately-owned and 54 affordable new homes with a shared communal garden. The apartments were built to 'Lifetime Home' standards which cater for the changing needs of individuals and families at different stages of their lives, enabling residents to put down long-term roots in Canning Town.

"Working with Muse Developments across the three phases of the ECf Rathbone Market scheme has been a positive example of working in partnership with a professional delivery partner... the scheme is a genuine exemplar in terms of mixed-tenure regeneration."  
 James MacPherson, Notting Hill Housing.



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



**Capital employed at year end £m**



<sup>1</sup> Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts). At the period end, non-recourse debt was £4.8m (2015: £12.8m) and deferred consideration was £7.5m (2015: £14.0m). Over the last 12 months average non-recourse debt was £14.7m (2015: £18.6m) and average deferred consideration was £11.4m (2015: £13.8m).

Other highlights in the year included: the completion of the second phase at the £145m regeneration scheme Stockport Exchange, which comprised a new 50,000 sq ft office building, 115-bed Holiday Inn Express, public space and highways improvements; the first phase of development at the £100m South Shields 365 regeneration project, including a new library and digital media centre; and in Warrington, as part of the Bridge Street Quarter regeneration, a temporary market hall built to accommodate the town's market while the original building is refurbished, and the start of construction on a new multi-storey car park. Additionally, in Manchester, the completion and letting of the Grade II listed Mackie Mayor building marked the seventh and final phase of the regeneration of Smithfield (see below); while a new customer delivery hub was handed over to John Lewis at the flagship £100m manufacturing and distribution development Logic Leeds. In London, legal agreements were completed with Lambeth Council and construction commenced (by sister division Construction & Infrastructure) on a £160m regeneration project in Brixton including the refurbishment of the Grade II listed Town Hall and construction of new civic offices.

Through the English Cities Fund (ECf) – a joint venture with Legal & General and the Homes and Communities Agency – work continued to transform five regional towns and cities, with the

major office development at One New Bailey, Salford and phase three of Canning Town in London completed during the year (see [page 37](#)).

The division's regeneration and development pipeline increased 2% to £2.2bn and has a broad and balanced geographic and sector split:

- by value, 38% of the pipeline is in the South East and London, 30% in the North West, 16% in Yorkshire and the North East, 13% in the South West and 3% in Scotland;
- by sector, 46% by value relates to residential, 32% to offices, and the remainder is broadly split between retail, leisure, and industrial.

Looking ahead to 2017, there will be a significant amount of activity across Urban Regeneration's development portfolio with c.£380m of construction work currently on site and a further c.£380m of construction work expected to be awarded by the division over the next 12 months. However, despite the high level of construction activity, a lower level of actual scheme completions is expected in 2017 which will result in lower profits and returns in the year. Instead the benefits of the current activity across the portfolio are expected to be reflected in a significant increase in profits in 2018 and beyond. The medium-term target for Urban Regeneration is to increase the return on capital employed up towards 20%.



**Mackie Mayor, Smithfield, Manchester**

In partnership with Manchester City Council, Urban Regeneration completed a 14-year, mixed-use development scheme on the former site of Smithfield, the City's historic fish and produce market, which had been in decline since the 1970s. The regeneration has delivered close to 400 apartments, the Crowne Plaza and Holiday Inn Express hotels and over 30,000 sq ft of ground floor space accommodating shops, bars, restaurants, cafés and hairdressers. Modern architecture has been integrated with older buildings to retain Smithfield's heritage and character.

The seventh and final phase was the restoration of Mackie Mayor, a Grade II listed building on Swan Street, and the last from the original market that remains fully intact. Urban Regeneration has agreed a deal with an award-winning restaurant operator to bring Mackie Mayor back into public use.



Employee  
**Catherine Beaumont,**  
**Communications Manager**

Catherine joined Urban Regeneration in 2014 and implemented a coordinated communications strategy that has significantly raised the profile of the business. The division has won several prestigious national industry awards, including Estate Gazette's Property Company of the Year and Property Week's Developer of the Year. Catherine is a Chartered Institute of Public Relations (CIPR) accredited PR practitioner.

**Progress against 2016 strategic priorities**  
**Identify opportunities to enhance forward development pipeline**

Urban Regeneration entered 2016 with a healthy forward development pipeline and, despite developing £250m during the year succeeded in replenishing it to a value of £2.2bn by the year end. This pipeline will generate development work for the next five years, and the division continues to focus on new opportunities for the longer term.

**Maintain the momentum of project delivery in line with critical path programmes**

The division maintained progress on all its projects in terms of planning, site preparation, project delivery and sales.

**Increase residential sales**

The vast majority of homes under construction in 2016 had been forward sold. As at the end of the year the division was on site with 533 residential units which will lead to a significant increase in sales from 2018.

**Secure high-quality occupiers for commercial schemes**

International law firm, Freshfields Bruckhaus Deringer, took 80,000 sqft of office space at One New Bailey in Salford, while luxury restaurant, Menagerie, moved into the ground floor. Other new occupiers include the Co-operative in Chapel Street, Salford and the Holiday Inn Express in Stockport. Amazon took 80,000 sqft at the Logic Leeds wholesale and distribution centre and 100,000 sqft at the Eurocentral distribution park in Scotland.

**Strategic priorities for 2017**

- Maintain forward pipeline
- Release and reinvest inefficient capital
- Maintain programme for schemes delivering profit in 2018 and beyond



**People at work**  
 Urban Regeneration's employees take a tour around the division's recently completed One New Bailey office development in Salford, as part of their annual strategy awayday.



# Investments

Through its established track record of working with local authorities, Investments continues to unlock opportunities to provide high quality work for the rest of the Group.

## Operating (loss) — adjusted £m



- Significant progress on joint venture programmes
- New strategic partnership with an institutional investor
- Created several opportunities for other parts of the Group

The strategic rationale for Investments is to secure prime long-term construction and regeneration opportunities for other divisions and to create additional value for the Group from capital employed in these schemes. During the year, c.£130m of construction and regeneration work on schemes sourced by Investments was delivered across the Group (primarily by Construction & Infrastructure). A further c.£50m of work was secured for future delivery.

The loss of £2.0m in the year reflected the timing of developments and deferred income from them. Project completions in the year include The Curve building at Slough containing an £18m library and community centre which was delivered through the division's joint venture property partnership with Slough Borough Council (see [page 10](#)). Other activity undertaken by the joint venture included, work on the £12m Arbour Park community sports facility and progress on construction and sales at the residential site at Milestone

(in conjunction with Partnership Housing). Additionally, in Bournemouth, through a joint venture property partnership with Bournemouth Borough Council, progress was made with the potential private rental sector-funded residential development at Berry Court and with planning permission now secured on a second residential development at St Stephen's Road.

In education, seven primary schools and one secondary school were handed over on the Priority Schools Building Programme, North West Batch (see [page 41](#)), with a further two delivered through the division's hub West Scotland joint venture: Lenzie Meadow Primary School phase one and Bellsmyre Primary School, each involving the merger of two schools. In health, hub West Scotland also delivered the £14m Eastwood and £11m Maryhill Health and Care Centres, providing the local communities with access to a wide range of services under one roof.

Following the year end, Investments secured a new source of funding for its HB Villages joint venture, a specialist developer of purpose-built, supported independent living apartments. The funding is through a strategic joint venture partnership with the Universities Superannuation Scheme (USS), one of the largest private pension schemes in the UK. USS has provided a capital fund in advance of new programmes being developed, which can be drawn on to finance projects as they arise.

It will commit £100m to the joint venture which will be used to finance and invest in supported living developments throughout the UK. Investments will act as asset, property and portfolio manager to the joint venture through an asset management agreement. To date, the HB Villages joint venture has successfully delivered almost £70m of apartments in over 30 towns across England, a substantial proportion of which were built by either Construction & Infrastructure or Partnership Housing. It currently has a pipeline of a further £100m either in construction or planning.

### Progress against 2016 strategic priorities Focus on creating prime long-term construction opportunities for sister divisions

The Slough, Bournemouth, hub West Scotland and HB Villages programmes generated opportunities for Construction & Infrastructure and Partnership Housing in 2016. At the year end, Investments had a pipeline of £896m of work that sister divisions will have the opportunity to secure.

### Progress projects within development pipeline

Three schools and two residential developments went under construction in Slough in 2016. Pre-construction work was progressed on four commercial developments and 10 further projects were secured under preconstruction agreements including schools and community housing.

### Develop new offers for existing markets

Investments is working to expand its offering in the healthcare market to produce long-term, stable income attractive to institutional investors. A £15m development of 'Extra Care', technology-assisted homes for the elderly, has started on site in Northampton.

### Take offer to new regions across the country

Investments is working to expand its supported independent living in Scotland and is developing supported care facilities with a number of local authorities in the south of England.

### Strategic priorities for 2017

- Create long-term capital platforms with investors
- Progress projects within the development pipeline
- Develop a second institutional investor fund

# Improving school facilities



**12**  
schools in the North West Batch  
**8,144** pupils  
accommodated

LEFT: The new schools provide bright, open spaces and natural ventilation.



ABOVE: Blacon High School's new building opened in September 2016.

Project  
**Priority Schools Building Programme,  
North West Batch, north west England**

In 2016, eight new state-of-the-art schools were completed as part of the Priority Schools Building Programme, North West Batch. The schools had been identified by the Education Funding Agency as among a number of schools in the country most in need of urgent repair. The remaining four schools in the Batch are due for completion in 2017.

The schools were designed and built by Construction & Infrastructure, using a standardised design that can be adapted to different school sizes and site constraints. Teachers in the newly completed schools have commented on the positive impacts in the classroom of improvements made to lighting and acoustics.

# People

A talented, motivated workforce and a committed supply chain aligned to our values and standards will help us deliver our strategic objectives. We regard the benefits we bring to the communities where we work as a measure of success in our regeneration schemes.



## Our employees

We aim to create a working environment where people feel valued, respected, empowered and inspired. We help our employees learn new skills and gain new experiences to support their personal ambitions and drive the business forward.

## Engagement

We believe we can create value by engaging our employees in the business. By using regular newsletters, email notifications and briefing sessions, we make our employees aware of all significant events, economic factors and financial updates, and how these impact on the Group's performance. In addition, the divisions use a variety of ways to communicate with their people on Group performance, as well as their

divisional progress, and make sure that they are aware of key business priorities. Employees are also involved in the process of driving continuous improvement using local publications, briefing groups, and consultative meetings where open dialogue and feedback is encouraged. To reinforce this two-way approach, the results of our employee surveys are reviewed, played back to staff and acted on. We hold sessions for new recruits on our core values and how they are at the heart of everything that we do.

In 2016 over 3,800 employees, 65% of our people, took part in our employee survey. The survey was undertaken on a divisional basis and provided valuable feedback to help us become a better employer.

## Talent and leadership

We provide employees at all levels with the skills they need to advance their careers and put particular emphasis on leadership development to support succession planning for the business. In 2016, 101 employees completed our leadership development programme. As well as providing individuals with tools that will help develop their leadership skills, the programme provides an opportunity for them to network with colleagues from different divisions within the Group.

We are working with industry bodies and initiatives such as Construction United, Women into Construction and the 5% Club to help attract and retain new talent. The 5% Club is a national campaign to get more graduates and apprentices into the UK workforce. The table below shows the percentage of Group employees making up the 5% Club.

	2016	2015
Apprentices	108	100
Graduates	101	81
Sponsored students	116	108
Total employees at 31 December 2016	6,122	5,828
Percentage of structured trainees	5.3%	4.95%

We will continue to create more opportunities for employees and apprenticeships through activities such as our 'labour desk' that we set up in 2015. The labour desk enables people to register for temporary work in the confidence that they will receive the same rights and benefits as other employees across the Group. By the end of 2016, 88 apprentices were registered.

Property Services further developed its 'Passport to lead' management training programme in 2016 and adapted it for first line managers. It secured funding

for 15 managers to pursue Level 6 qualifications and launched an engineers' talent programme.

All new positions were advertised internally as the division focuses on growing and developing its people.

In 2016, 23% of Investments' employees were either promoted, changed roles or took on larger projects. Mentoring was further embedded into Investments' culture, with 19 employees registered as mentors by the end of the year. Formal discussions were held with employees about their development needs, resulting in a more structured approach to personal development.

### Health and safety

We continue to support the health and wellbeing of our employees and, in particular, how we can help them to recognise and manage stress.

The divisions introduced new initiatives to improve health and safety performance such as Human Factors (see [page 25](#)), PAVES (Pedestrians and Vehicles Effectively Segregated), designed by Partnership Housing to prevent accidents on sites and an innovative method of removing concrete adopted by Fit Out that avoids injury from vibration.

Construction is working with its supply chain to raise awareness of occupational health and arranged a demonstration of electronic hand-arm vibration monitoring equipment at the CNC Training Centre project at Sellafield. The equipment is now being used by ground workers and steel erectors and is expected to result in the selection of safer tools that can be used for longer periods.

See the health, safety and environmental committee report on [pages 73 to 74](#) for further information.

### Diversity and inclusion

We are committed to treating all our employees fairly and equally, without discrimination. A diverse workforce will provide us with a deeper insight into different markets and the needs of our clients. We operate in sectors where skills are scarce and the market is highly competitive. A balanced business, which makes the most of the full range of talent and experience available to us, will ensure that we have the agility and resilience to deliver future growth.

We strive to make the Group more accessible to people with disabilities by raising disability awareness across

our business, removing barriers, increasing understanding and ensuring that those with disabilities have the right opportunities. Our policy is that recruitment, training, career development and promotion of disabled people should, as far as possible, be identical to that of other applicants and employees. Diversity will continue to be an area of focus in the year ahead, reflecting its importance to our business and to our clients.

We are committed to encouraging more women into the construction industry. At 31 December 2016, 21% of our employees were women, almost double the industry average of 12%. Partnership Housing provided a free careers advice seminar at the site of its housing redevelopment in Woolwich, being delivered in partnership with the Royal Borough of Greenwich and asra Housing Group. The event was part of the division's ongoing campaign to encourage more women into the industry and gave local women the chance to hear about the experiences of other women working in the industry. Investments supports careers events at local schools on its Slough regeneration programme. In 2016 this included a Women in Construction session aimed at encouraging young women to consider careers in the construction industry.

A breakdown by gender of the number of directors of the Company, senior managers and other employees as at 31 December 2016 is set out below.

### Conduct

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.

We are committed to protecting and respecting the human rights of our employees and those who work in our supply chain. As a company operating within the UK, the key human rights issue we face is equality, which we address with training for employees and by promoting a culture of inclusion.

In 2015, the UK Government published the Modern Slavery Act, which places a duty on companies to make a public statement on the steps they have taken to minimise the possibility of slavery or human trafficking happening in their own business or in their supply chain. We believe that this risk can be effectively managed and are making a number of phased improvements to our supply chain pre-qualification and audit processes to make them as robust as possible (see [page 76](#) for further information).

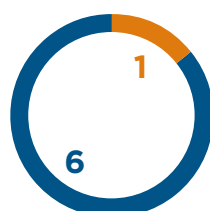
In 2016, we launched an online training programme completed by all Group employees that covered competition, data protection, modern slavery and bribery and corruption. Further modules will be added in 2017.

### Our supply chain

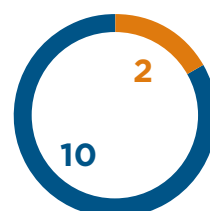
As a Group, we seek to develop long-term partnerships with high-quality suppliers and subcontractors. The Morgan Sindall Supply Chain Family, consisting of manufacturers and suppliers, grew from 300 registered suppliers in 2015 to 330 in 2016. Around 80% of materials used by the Group can now be traced back to members of the Supply Chain Family, which guarantees that they are responsibly sourced. 71% (2015: 71%) of the Group's total spend is covered by Group-wide agreements with the supply chain.

## Gender diversity

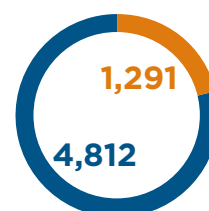
Board



Senior managers:  
Group management  
team



Other employees:  
total workforce



■ Female  
■ Male



Employee

**Dan Heron,  
Development Manager**

Dan joined Investments as an assistant development coordinator in 2013 to work on Slough Urban Renewal (see page 10). In 2015 he achieved Royal Institute of Chartered Surveyors accreditation and represented the division on the 'Next Generation' stakeholder panel. In 2016 Dan was promoted to development manager on the Slough project. He is now responsible for managing two large residential developments, working with the Council, Partnership Housing and the professional team to deliver over 170 new homes.

We subscribe to the Prompt Payment Code as we recognise that prompt payment can make a significant difference to our suppliers and subcontractors, boosting their cash flow and allowing them to invest in growth for the future.

The Group remained on the board of the Supply Chain Sustainability School, which has grown considerably over the past year, and chaired the School's infrastructure and materials groups. The School assists our supply chain in developing their responsible business activities and in ensuring that they can help us to achieve our Total Commitments. In 2016 608 companies in our supply chain undertook training at the School, with a total of 2,048 (2015: 2,130) of our suppliers and subcontractors participating in the School during the year.

#### **Society and community Local Multiplier 3 (LM3) tool**

We use the LM3 tool to measure the contribution of our activities towards the local economy. In 2016, we developed the tool further to enable predictions of the local economic benefits prior to the start of a project. We have set ourselves a long-term target to deliver £1.5bn of social value. In order to measure delivery of this target as accurately as possible, we have set short- and medium-term targets to significantly increase the number of projects on which LM3 is used.

Over the last 12 months, we have been further developing the LM3 tool and rolling it out to more projects. The new version of LM3 enables us to monitor social as well as the economic impact of our projects. Unfortunately, as a result of this development work, we have only used LM3 on 39 projects in 2016 (2015: 38). However, we are seeking a significant increase in the level of usage in 2017 onwards. As we learn more about the economic and social benefits of our projects, this will enable us to identify more opportunities to increase our local contribution.

In 2016, Urban Regeneration's multi-award-winning development in Salford, delivered through the English Cities Fund partnership, attracted four large businesses, bringing more than 730 new jobs to the city.

#### **Considerate Constructors Scheme**

To measure how successfully we operate in local communities, we use the Considerate Constructors Scheme - an independent scheme that benchmarks companies against a code of best practice. In 2016 we registered 209 sites in 2016 (2015: 201) and won 64 national awards (2015: 49). Across all assessed schemes, we averaged a score of 37.6/50 (2015: 38/50), ahead of the national average of 35.56/50.

#### **Using local suppliers**

Construction & Infrastructure aims to appoint local suppliers on all its projects where possible. During the construction of the University of Huddersfield's Oastler Building, 26% of project spend was on suppliers within a 10-mile radius of the site, 40% within 25 miles and 70% within 40 miles. 100% of unskilled labour and 30% of skilled labour was sourced from Huddersfield.

Partnership Housing has adopted a 25-mile policy whereby it aims to appoint suppliers within a 25-mile radius of its developments. The division hosts 'meet the buyer' events, providing local firms with a chance to learn about an upcoming development and how to get involved. It also works with local job centres, colleges and community groups to advertise employment opportunities and apprenticeships. Currently, 14 staff are volunteer mentors to the West Midlands Construction Universal Technical College, of which Partnership Housing is a founding partner.

#### **Training and career opportunities for local residents**

We endeavour to generate local work opportunities on our projects wherever possible. Property Services' social enterprise, BasWorx, provides training and work experience for people in and around Basildon (see page 31). Under its Priority Schools Building Programme contract (see page 41), Investments committed to its partner, the Education Funding Agency, to create work placements, apprenticeships and jobs on each of the school sites. To date the division has created 75 jobs on the project which exceeds the target of 40 listed at contract close, and 54 apprenticeship placements, well above the 13 listed.

# Environment

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.

Efficient management of our materials, energy, water and other resources reduces our operational costs and benefits the environment. We manage our environmental impact at all stages of our projects through our ISO 14001 certified management system. The ISO 14001 Environmental Management standard was updated to help businesses improve their processes, save money and deal with future environmental challenges. Overbury was the first UK business to be certified by BSI (the British Standards Institution) to ISO 14001:2015.

In 2016, we reduced our carbon emissions by 10%, giving a total reduction of 52% in carbon emissions since 2010, which is a significant achievement. We diverted 96.2% of our waste from landfill which is a significant improvement on our performance in 2015 (90% diverted).

We have set up a carbon action group to develop science-based targets that will be implemented in 2018, which includes representatives from all divisions. A carbon target is science-based if it is in line with the level of decarbonisation required to keep the increase in global temperature below 2°C compared to pre-industrial temperatures.

We achieved a carbon disclosure score of A- with CDP - an organisation that encourages companies to measure environmental impact - under their new grading structure (2015: achieved 94 for disclosure and B for performance). We were the only company in the UK index to score so highly. Our priorities for 2017 are to use technology solutions to reduce our travel-related emissions, along with our ongoing commitment to reducing material waste.

The Royal Institution of Chartered Surveyors launched SKA HE, an environmental assessment tool for fit out in the higher education sector, to provide benchmarks for sustainable best practice. One of the 'Good Practice Measures' of the tool requires every project to have a social, economic and environmental plan, in line with the Social Value Act 2012. SKA HE provides universities with the opportunity to improve their sustainability credentials, increase the life cycle of their buildings and attract students.

Fit Out was a lead sponsor and development partner of SKA HE. In 2016, Fit Out was also invited to become a member of the SKA technical committee. Since the launch of the tool, Fit Out has achieved a bronze and a silver rating on two of its higher education projects.

### Greenhouse gas emissions

Our greenhouse gas emissions have been calculated based on the ISO 14064-1:2006 Standard. Emissions reported correspond with our 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 recertification audit of the Group's energy data by supply chain risk management company, 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. 2015 data has been rebased using Defra's 2013 factors. All data has been verified by Achilles.

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

Greenhouse gas emissions			
	Tonnes of CO <sub>2</sub> equivalent 2016	Tonnes of CO <sub>2</sub> equivalent 2015	2010 baseline
Scope 1 - Operation of facilities	17,201	23,506	33,357
Scope 2 - Indirect emissions (purchased energy)	6,935	8,081	25,288
Scope 3 - Indirect emissions (related activities)	6,634	2,631	5,097
<b>Total emissions</b>	<b>30,770</b>	<b>34,218</b>	<b>63,742</b>
	2016	2015	2010 baseline
Greenhouse gas emissions intensity ratio	12.0	14.4	30.3
Revenue	£2,562m	£2,386m	£2,102m



## Principal risks

Overall the Group’s risk profile has improved with focused contract selectivity, a strong balance sheet and no noticeable impact following the EU referendum.



### Our approach to risk management

Risk is inherent in our business and cannot be completely eliminated if we are to achieve growth. However we view risk management as a fundamental part of our business planning process. Each year objectives and strategies are set that align with the risk appetite defined by the Board.

The Board is responsible for risk management and assesses the principal risks to the Group that threaten our business model and performance. For detailed information on our risk management and internal control governance, see [page 78](#).

In accordance with our decentralised philosophy, each division identifies the risks facing its business and takes measures to mitigate the impacts. Twice a year every division carries out a detailed risk review, recording significant matters in its risk register. Senior managers take ownership of specific risks and ensure that tolerance levels are not exceeded. Each risk is evaluated, both before and after the effect of mitigation, on its likelihood of occurrence and severity of impact on strategy. The risk registers record the activities needed to manage each risk, with mitigating activities embedded in day-to-day operations for which every employee has some responsibility.

It is critical that we have rigorous reporting procedures in place to ensure that significant risks throughout the divisions are effectively managed at Group level. The divisional risk registers are reviewed and collated by the Group’s head of audit and assurance, who refers to them when preparing the Group risk register. The Group register also contains matters identified by the heads of key Group functions, including legal, regulatory, finance, tax, treasury and sustainability. Both the divisional and Group registers are reviewed by the



## Our diversity of offering through our construction and regeneration activities protects the business from cyclical changes in individual markets.



risk committee before being presented to the Board and audit committee. This approach ensures that principal risks and controls throughout the Group are under regular review at all levels.

With regard to decision-making, the Group's finance director and head of audit and assurance have produced a formal document which delegates approval for material decisions to appropriate levels of management. The document applies particularly to project selection, the pricing and submitting of tenders, and capital requirements. Board approval is required before undertaking the largest and most complex projects. This approval system is implemented throughout the Group and regularly reviewed.

### Overview of the Group's risk profile

Overall the Group's risk profile has improved due to a continued focus on contract selectivity, bolstered by a strong balance sheet. The result of the EU referendum introduced some uncertainty into our markets with a corresponding rise in risk at the half year point of 2016. However, we have not witnessed any noticeable impacts to the business since then and do not foresee any in the short term. Based on current trading patterns, our high-quality secured order book and a visible pipeline of opportunities, the outlook for 2017 looks positive. It is still too early to predict the medium- to long-term effects of the UK's decision to withdraw from the EU, and we will continue to monitor Government and commercial reactions in light of the uncertainty still affecting our markets.

Our diversity of offering through our construction and regeneration activities protects the business from cyclical changes in individual markets. All businesses are focusing on long-term partnerships and procurement routes remain favourable. Our regeneration activities are underpinned by a pipeline which is long term and development portfolios that are mostly non-speculative. Residential schemes have shown no short-term impacts since the result of the EU referendum, with sales, reservations and building targets continuing to be met. With low interest rates and Government support for housing, we remain confident that our products will continue to be both in demand and affordable. Should this not be the case the schemes are subject to economic viability measures and robust risk and capital controls which will help mitigate any negative fluctuations that might arise. In Construction & Infrastructure, improvements made in project selectivity have resulted in a strong order book deriving significantly from committed public sector schemes and frameworks. Projects have sensible risk profiles, entry margins and contract terms. Fit Out, while more susceptible to GDP fluctuations, has a particularly strong secured order book for 2017 and beyond, providing higher visibility of future workload than in previous years.

In terms of resourcing our medium- and long-term plans, we have committed banking facilities until 2018, a significantly improved cash profile and robust cash and capital controls in place. Our People Promise, initiated to attract and retain talented people, is gathering momentum. Voluntary staff turnover is falling at various rates across the business and new people are being recruited who will help us achieve our strategic objectives.

This review should be read in conjunction with the viability statement on [page 58](#).

### Principal risks

The principal risks to the business are set out overleaf. It is not an exhaustive list of all the risks the Group faces, but those currently considered most significant in terms of potential impact. The risks are set out as they relate to the Group's strategic priorities, indicating any change in severity and likelihood of impacts compared to 2015 and describing mitigating actions being taken.



## Win in targeted markets

The markets we operate in are affected to varying degrees by global and UK economic conditions which could potentially impact our longer-term strategy.

### Risk and potential impact

#### Changes in the economy

The number of opportunities in our chosen markets could be reduced or become less profitable. Allocation of resources and capital to the pursuit of declining markets or less attractive opportunities would reduce the Group's profitability and cash generation.

#### Exposure to UK housing market

The UK housing sector is strongly influenced by Government stimulus and consumer confidence. If mortgage availability and affordability are reduced this could make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital.

#### Poor contract selection

In a volatile market where competition is high, a division might accept a contract outside its core competencies or for which it has insufficient resources. Failure to understand the project risks may lead to poor delivery and ultimately result in reputational damage and loss of opportunities.

### Risk change in reporting period<sup>1</sup>

#### No change

- While the EU referendum result has not to date had a significant impact, worldwide economic influences (including the triggering of Article 50, outcomes from the elections in the US and Europe and the impact of exchange rate fluctuations) remain difficult to predict and could affect investor confidence.
- Government indicators are encouraging in terms of housing policy and infrastructure spending, as highlighted in the autumn statement.
- Our business model is designed to provide a mix of earnings across different market cycles and is now benefiting from historic investment in regeneration.

#### No change

- There have been encouraging signals from the Government in terms of housing policy and stimulus, which supports our business model.
- Sales volumes, pace and inflation have held up since the EU referendum in both the investor and private markets.

#### Decrease

- The majority of our larger projects continue to be secured with longer-term repeat clients with whom we have good relationships.
- The quality and volume of our order book continues to improve. It includes a high proportion of public sector clients, resulting in a healthier risk profile.
- A strong order book allows the divisions to be more selective when bidding for contracts.

- Opportunities have continued to flow in all our markets and there is high demand for our development schemes. This is partly tempered by competition levels in construction and expected exchange-rate-driven inflation although procurement routes, margins and contract terms remain favourable.
- Infrastructure has been reshaped and resized to handle any short-term delays owing to political uncertainty while taking into account expected growth in regulatory work for the rail, road and airport sectors which constitutes around half of Infrastructure's workload.

- Dialogue is increasing with housing associations and local authorities, which is not yet reflected in our pipeline.
- Demand remains high across our property portfolio given the pressures on housing.

- Improved pipeline and software tools for selecting the right work have de-risked Construction & Infrastructure and provided greater visibility of projects likely to be more successful.
- A greater understanding of medium-term pipeline quality and early indication of longer-term changes enables us to predict trends more accurately and adjust our strategy in response. Market stability has meant continued attractive procurement routes and contract terms.

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



## Win in targeted markets (continued)

### Mitigating activities

- Targeting sectors identified for Government investment, such as infrastructure, housing and urban regeneration.
- Monitoring changes in the global economy, which helps us detect shifts in spending and adapt our strategy if necessary.
- Strategic focus on market spread, geographical capability and diversification to protect against the cyclical effect of individual markets (see 'At a glance' section and [page 4](#)).
- Business planning that focuses on markets and opportunities consistent with our risk appetite.
- Committing only to viable development schemes, allowing us to maximise our residential portfolio while responding quickly to any market changes.
- Selecting opportunities that will provide sustainable margins and repeat business.
- Scale of operations that enables us to compete in areas with higher barriers to entry.
- Divisions working together, which adds value for clients.
- Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities.
- Monitoring key UK statistics, including unemployment, lending and affordability.
- A residential portfolio that supports the Government's demand for affordable housing.
- Rigorous three-stage approval process before committing to development schemes.
- Development vehicles structured to be largely non-speculative, minimising any negative impacts from market fluctuations.
- Where possible, subjecting forward purchase of land to economic viability test before committing.
- When feasible, forward selling sections of large scale residential schemes to institutional investors.
- Regular reporting on work won and pipeline and regular development forecasting.
- Business planning to target optimal markets, sectors and clients.
- Divisions select projects according to pre-agreed types of work, contract size and risk profile.
- A documented approval process of bid selection, including tender review boards.
- Staff planning to ensure appropriate levels of qualified resource.
- Initiatives to select supply chain partners who match our expectations in terms of quality, sustainability and availability.
- Regular reporting on sales, pipeline and order book, using customer relationship management software.
- Communication of feedback from supply chain.

## Strategic report

### Principal risks

— continued



## Win in targeted markets (continued)

### Risk and potential impact

#### Safety or environmental incident

Health, safety and environmental (HSE) impacts will always feature significantly in the risk profile of a construction business. We carry out a significant portion of our work in public areas and complex environments, requiring strict observation of Health and Safety Executive standards.

Incidents that cause harm to an individual or the community could result in legal action, fines, costs and insurance claims as well as project delays and damage to reputation. Poor HSE performance could also affect our ability to secure future work and achieve targets.

### Risk change in reporting period<sup>1</sup>

#### ↑ Increase

- New sentencing guidelines for health and safety have come into force which can impose significant fines. We have no historical material issues that might attract a fine and we continue to focus on managing HSE issues to the standards required to protect individuals, the community and the environment.
- Construction & Infrastructure has embedded its cultural development programme and introduced a new initiative, Human Factors (see [page 25](#)). Human Factors is also being introduced into joint venture projects.

- Partnership Housing set up its PAVES system (see [page 43](#)).
- We held health and safety leadership team meetings during the year to discuss safety matters and trends impacting the business. The meetings were attended by divisional managing directors and health and safety directors.



## Develop and retain talented people

We undertake high profile projects and operate in sectors that are technically complex and require innovative solutions. We recognise that talented, motivated people improve our performance and reputation, and that attracting and retaining them is key to our planned growth.

### Risk and potential impact

#### Failure to attract and retain talented people

Talented people are needed to provide excellence in project delivery and customer service.

Skills shortages in the construction industry remain an issue for the foreseeable future.

### Risk change in reporting period<sup>1</sup>

#### ↓ Decrease

- In divisions where voluntary staff turnover was higher than it should have been, efforts have been made to improve the working environment, for example by developing technology and providing leadership training. Staff turnover rates have fallen as a result, although there is room for further improvement.

- Our investment in graduate, trainee and apprenticeship schemes is gaining momentum with a number of participants now progressing to more senior positions.
- The relatively new leadership development programme launched in 2015 is progressing well in its target to train 400 leaders by 2018.
- We are building our reputation as an attractive employer, with Partnership Housing achieving an 'Investors in People' gold award.

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



## Win in targeted markets (continued)

### Mitigating activities

- Individuals in each division and on the Board with specific responsibility for HSE matters.
- Communication of each division's HSE policy to all staff and senior managers appointed to ensure they are implemented.
- A Group health and safety forum with representatives from all divisions that continues to share best practice and exchange information on emerging risks.
- Established safety systems, site visits, monitoring and reporting procedures including near-miss and potential hazard reporting.
- Investigations and root cause analysis of accidents or incidents and near misses.
- Regular HSE training that includes behavioural change.
- Major incident management plans and business continuity plans that are periodically reviewed and tested.
- HSE report to the Board each month, HSE audits on projects and training schedules and incident investigation reports if necessary.



## Develop and retain talented people (continued)

Voluntary staff turnover rates, while falling, are still high in some divisions and need to be reduced further.




### Mitigating activities

- Continued implementation of the People Promise to help employees fulfill their potential.
- Annual appraisals providing two-way feedback on performance.
- Training and development plans to build skills and experience.
- Remuneration packages benchmarked where possible.
- Monitoring future skills requirements.
- Succession plans in all businesses.
- Debriefs with leavers and joiners to understand the reasons for their decision.
- Divisional 'people boards' that meet twice a year to review talent in the business.
- Monthly HR reports to the Board including a report on leavers and joiners.
- Monitoring recruitment.



## Disciplined use of capital

The long-term success of the business depends not only on disciplined use of capital within the Group, but also on the liquidity of clients, partners and suppliers, which could be affected by overtrading in an increasingly uncertain market.

Risk and potential impact	Risk change in reporting period <sup>1</sup>
<p><b>Insolvency of key client, subcontractor or supplier</b></p> <p>A client's insolvency could result in bad debt and significant financial loss. Insolvency of a supplier could disrupt project works, cause delay and incur the costs of finding a replacement. There is a risk that credit checks undertaken in the past may no longer be valid.</p>	<p> <b>No change</b></p> <ul style="list-style-type: none"> <li>- Disciplined project selectivity has included focusing on sectors and clients with a secure financial outlook.</li> <li>- A high proportion of our current order book is public sector focused.</li> </ul> <ul style="list-style-type: none"> <li>- Construction &amp; Infrastructure continues to develop long-term relationships with financially sound subcontractors.</li> </ul>
<p><b>Inadequate funding</b></p> <p>A lack of liquidity could impact our ability to continue to trade or restrict our ability to achieve market growth or invest in regeneration schemes.</p>	<p> <b>Decrease</b></p> <ul style="list-style-type: none"> <li>- Debt availability and terms continue to be favourable for the Group, our clients and our supply chain.</li> <li>- There has been a significant improvement in average cash in the period, increasing confidence in future investment opportunities.</li> </ul> <ul style="list-style-type: none"> <li>- We have significant headroom due to our bank facilities and strong cash performance.</li> <li>- A strengthened balance sheet gives us the opportunity to explore further investment in new regeneration schemes.</li> </ul>
<p><b>Mismanagement of working capital</b></p> <p>Poor management of working capital leads to inadequate liquidity and funding problems.</p>	<p> <b>Decrease</b></p> <ul style="list-style-type: none"> <li>- Working capital continues to improve as a result of working through the low-margin legacy projects, better contract terms and timing of completions in regeneration schemes together with the continued benefits from cash optimisation and controls.</li> </ul> <ul style="list-style-type: none"> <li>- There has been improved cash management with average net debt significantly down for the period and changed to average net cash.</li> </ul>

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



## Disciplined use of capital (continued)

### Mitigating activities




- |  |   |  |
|--|---|--|
| <ul style="list-style-type: none"> <li>- A business strategy focused on the public sector and commercial clients in sound market sectors.</li> <li>- Rigorous due diligence and credit checks.</li> <li>- Obtaining financial security where necessary, such as specific preferential payment terms or escrow accounts.</li> </ul> | <ul style="list-style-type: none"> <li>- Formal approval process before entering contracts, supported by tender review boards.</li> <li>- Working with preferred or approved suppliers wherever possible, which ensures visibility of both financial and workload commitments.</li> </ul>   | <ul style="list-style-type: none"> <li>- Regular meetings with key supply chain members to exchange feedback and maintain dialogue, resulting in meaningful relationships and a greater certainty of project outcomes.</li> <li>- Monitoring pipeline and order book.</li> <li>- Monitoring work in progress (uninvoiced income), debts and retentions.</li> </ul> |
| <ul style="list-style-type: none"> <li>- Securing medium-term committed banking facilities.</li> <li>- A three-stage process for approving development and investment-related schemes, which gives an early indication of potential long-term balance sheet commitments.</li> </ul>  | <ul style="list-style-type: none"> <li>- A disciplined allocation process for significant project-related capital which considers all future requirements and return on investment.</li> <li>- Daily monitoring of cash levels and regular forecasting of future cash balances and facility headroom.</li> <li>- Regular stress-testing of long-term cash forecasts.</li> </ul> |  |
| <ul style="list-style-type: none"> <li>- Monitoring and management of working capital with acute focus on any overdue work in progress, debtors or retentions.</li> <li>- Ongoing cash management.</li> </ul>  | <ul style="list-style-type: none"> <li>- Cash profiling of key opportunities at an early stage to ensure they meet the Group's expectations.</li> <li>- Daily monitoring of cash levels and weekly cash forecast reports.</li> </ul>  |  |





## Maximise efficiency of resources

Contract terms need to reflect risks arising from the nature and duration of the works. Projects must be properly resourced to ensure successful delivery for clients

Risk and potential impact	Risk change in reporting period <sup>1</sup>
<p><b>Mispricing a contract</b> If a contract is incorrectly costed this could lead to loss of profitability that reduces overall gross margin. It might also damage the relationship with the client and supply chain.</p>	<p> <b>Decrease</b></p> <ul style="list-style-type: none"> <li>- Improved contract procurement routes and terms are reflected in our forward order book and pipeline.</li> <li>- We have maintained our drive to select projects that are right for the business and match our risk appetite.</li> </ul> <ul style="list-style-type: none"> <li>- We are anticipating an increase in some of our supply chain costs due to exchange rate inflation which will need to be carefully managed to avoid surprises.</li> <li>- Good progress made on legacy contracts with lower margin projects largely worked through by year end.</li> </ul>
<p><b>Changes to contracts and contract disputes</b> Changes to contracts and contract disputes could lead to costs being incurred that are not recovered, loss of profitability and delayed receipt of cash. Ultimately we may need to resort to legal action to resolve disputes which can prove costly with uncertain outcomes, as well as damaging relationships.</p>	<p> <b>Decrease</b></p> <ul style="list-style-type: none"> <li>- The high proportion of two-stage and negotiated work in our current order book has reduced the likelihood of unforeseen changes and disputes.</li> <li>- Improved early warning tools and metrics are flagging potential issues in Construction earlier than before.</li> </ul> <ul style="list-style-type: none"> <li>- Development is continuing on electronic project management and commercial controls to improve trend analysis and early warning intervention.</li> </ul>
<p><b>Poor project delivery</b> Failure to meet client expectations could incur costs that erode profit margins and lead to the withholding of interim cash payments which impacts working capital. It may also result in reduction of repeat business and client referrals.</p>	<p> <b>Decrease</b></p> <ul style="list-style-type: none"> <li>- New early warning tools are flagging problems in project delivery, enabling earlier intervention.</li> <li>- Improved project selectivity has de-risked the order book and reduced the probability of poor performance.</li> <li>- Various initiatives in Construction are underway that focus on improvements in product quality, predictability and customer experience.</li> </ul> <ul style="list-style-type: none"> <li>- Fit Out is using a sophisticated initiative to drive customer service and experience.</li> <li>- We have used electronic snagging technology to improve the way we manage project close outs.</li> <li>- Urban Regeneration has established a team specifically engaged to enrich customer experience both pre- and post-occupation.</li> </ul>

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



## Maximise efficiency of resources (continued)

### Mitigating activities

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"> <li>- A well-established bidding process with experienced estimating teams.</li> <li>- Robust review of pipeline at key stages, with rigorous due diligence and risk assessment.</li> </ul>  | <ul style="list-style-type: none"> <li>- Tender reviews at three key stages of pre-qualification, pre-tender and final tender submission, with each stage approved by senior management via tender review boards.</li> </ul>  | <ul style="list-style-type: none"> <li>- Using the tender review process to mitigate any impacts of rising supply chain costs.</li> </ul>   |
| <ul style="list-style-type: none"> <li>- Carrying out work under standard terms wherever possible.</li> <li>- Reviewing contract terms at tender stage and ensuring variations are approved by the appropriate level of management.</li> <li>- Well-established systems of measuring and reporting project progress and estimated outturns that include contract variations.</li> </ul> | <ul style="list-style-type: none"> <li>- Continued use and development of early warning tools.</li> <li>- Building Information Modelling (BIM) to identify any design issues before costs are incurred.</li> <li>- Regular project reviews including feedback from peers, to learn from experience and put procedures in place to prevent or mitigate issues on future projects.</li> </ul> | <ul style="list-style-type: none"> <li>- Where legal action is necessary, taking appropriate advice and making suitable provision for costs.</li> <li>- Monthly monitoring of financial and operational performance on projects.</li> <li>- Electronic dashboards for project management and commercial metrics.</li> </ul> |
| <ul style="list-style-type: none"> <li>- Incentivising project teams on Perfect Delivery outcomes to achieve high levels of client satisfaction.</li> <li>- Strategic supply chain trading arrangements to help ensure consistent quality.</li> <li>- Electronic project management tools which help improve quality and efficiency.</li> </ul>   | <ul style="list-style-type: none"> <li>- Continued application of early warning tools to highlight delivery issues.</li> <li>- An escalation process to ensure senior management intervention at an early stage if necessary.</li> <li>- Formal internal peer reviews that highlight areas of improvement and share best practice and lessons learned exercises.</li> </ul>                 | <ul style="list-style-type: none"> <li>- Collection and analysis of client feedback.</li> <li>- Monthly monitoring of project performance and electronic dashboards for project management and commercial metrics.</li> </ul>   |



## Pursue innovation

Innovation drives quality, efficiency and competitive advantage. Continued developments in technology give us opportunities to improve our delivery and service. Business continuity depends on secure and resilient IT systems and the persistent threat of cyber-risks continues to present a challenge.

### Risk and potential impact

#### Failure to innovate

A failure to produce or embrace new products and techniques could diminish our delivery to clients and reduce our competitive advantage. It could also make us less attractive to existing or prospective employees.

#### Decrease

- The divisions have continued to develop solutions to improve efficiency, customer service and employee satisfaction. Examples range from engineering solutions such as Construction & Infrastructure's uphill excavator (see [page 25](#)) to the social enterprise initiative set up in Basildon (see [page 31](#)).

#### Failure to invest in information technology

Investment in IT is necessary to meet the future needs of the business in terms of expected growth, security and innovation, and enables its long-term success.

#### No change

- We have continued to invest in IT as part of a Group-wide strategy, with a centralised team working to ensure a stable and resilient IT environment. This has allowed us to focus with confidence on delivering new and improved technology into the business.
- New software was introduced to parts of the business where it was needed, including customer relationship management, data analytics, workflow management, business intelligence and project-specific commercial and operational tools. More new technology is in the pipeline.

- We upgraded our Group-wide financial software with the option to add additional construction-specific features as required.
- Security levels and data resilience were improved as a result of Group-wide initiatives that included a new dedicated and accredited information security and compliance team, the rollout of endpoint encryption, initiation of formal threat analysis including active monitoring of external web-based threats, and data protection and information security training.

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



## Pursue innovation (continued)

### Mitigating activities

- One of our core values is to challenge the status quo and innovation is strongly encouraged. New ideas are welcomed from every employee, partner and supplier.
- Business improvement and IT forums review, sponsor and promote new innovations across the business.
- A centralised IT service that improves efficiency, oversight, reporting, security and performance, with localised divisional resource providing business-specific product support.
- A dedicated information security team certified and accredited with key industry bodies in data protection and information security.
- Group-wide and divisional IT forums that discuss and report IT strategy and operations.
- Group-wide risk and security strategies that address creating awareness, threat alert, risk and vulnerability prioritisation and response.
- Continuing investment to improve infrastructure, application service and new technology.
- Government-accredited security installations and certification to hold protectively marked information, including under the Government's Cyber Essentials Scheme.

## Viability statement

As required by provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the prospects and financial viability 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 2017, which is consistent with the Group's budgeting cycle.

The Group is subject to a number of principal risks (as set out on [pages 46 to 57](#)), and 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.

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 for sufficient facilities to meet the Group's funding requirements over the period of assessment.

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.

### Approval of the strategic report

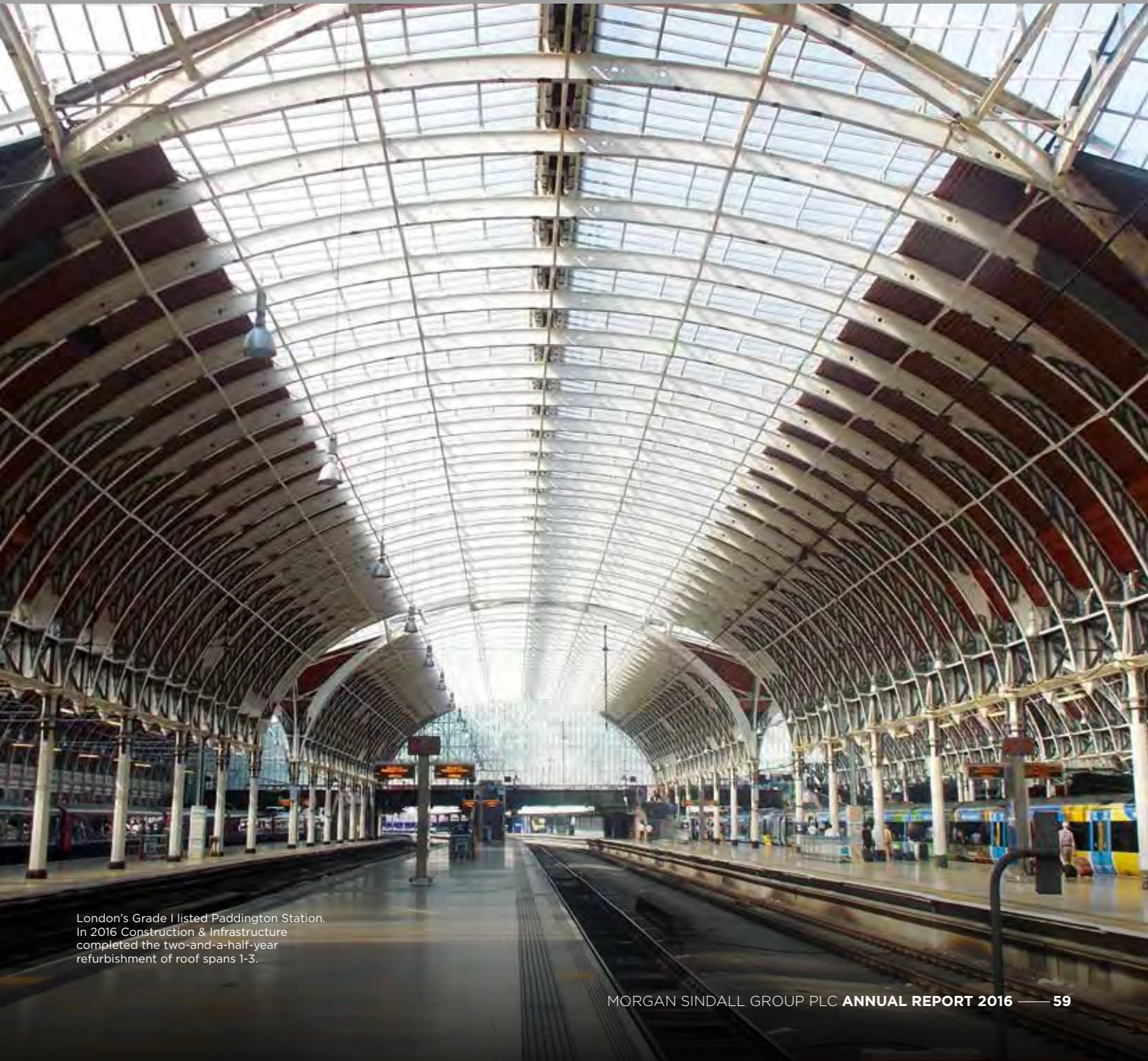
This strategic report was approved by the Board and signed on its behalf by:

**JOHN MORGAN**  
CHIEF EXECUTIVE

23 FEBRUARY 2017

# Governance

● Governance	
Board of directors	60
Group management team	62
Corporate governance report	64
Directors' remuneration report	80
Directors' report	98
Directors' responsibilities statement	102



London's Grade I listed Paddington Station. In 2016 Construction & Infrastructure completed the two-and-a-half-year refurbishment of roof spans 1-3.

## Board of directors

The Group is headed by an effective Board which is responsible to all its stakeholders, including its shareholders, for the long-term success of the Group.



**Michael Findlay**  
Chairman

Appointed: **October 2016**

Committee membership:



**Skills, competencies and experience**

Michael was appointed non-executive chairman in October 2016. He has 27 years of experience in investment banking and has advised the boards of many leading UK public companies on a wide range of strategic, financing and governance matters.

**Other roles**

Michael is chairman of Fin Capital Ltd and a director of The International Exhibition Co-Operative Wine Society Ltd. He was previously the co-head of investment banking for the UK and Ireland at Bank of America Merrill Lynch and the senior independent director at UK Mail Group PLC. Michael is a Fellow of the Chartered Institute for Securities & Investment.



**John Morgan**  
Chief Executive

Appointed: **October 1994**

Committee membership:



**Skills, competencies and 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.

**Other roles**

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 Crummett**  
Finance Director

Appointed: **February 2013**

**Skills, competencies and experience**

Steve brings wide- ranging financial and significant UK public company experience.

**Other roles**

Steve was finance director of Filtrona plc (now Essentra plc) from 2008 to 2012, having previously held senior finance roles with a number of listed companies. Steve is a chartered accountant and has been chair of the audit committee and a non-executive director of Consort Medical plc since June 2012.



**Patrick De Smedt**  
Senior Independent Director

Appointed: **December 2009**

Committee membership:

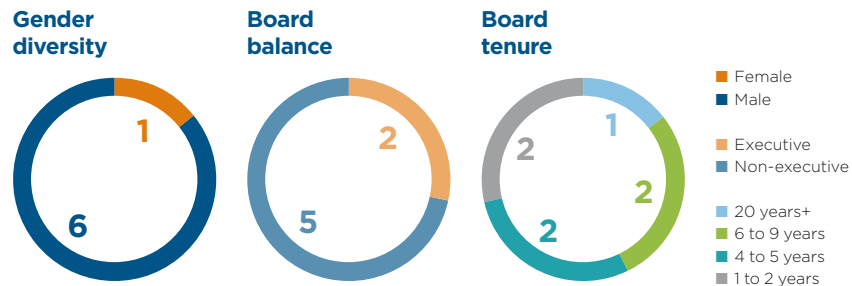


**Skills, competencies and experience**

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

**Other roles**

Patrick's career includes 23 years with Microsoft, during which time he founded the Benelux subsidiaries, led the development of its western European business and served as chairman of Microsoft for Europe, Middle East and Africa. Since leaving Microsoft in 2006, Patrick 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, senior independent director of PageGroup plc, senior independent director of KCOM Group plc, and non-executive director of Nexinto Holding Limited and Kodak Alaris Holdings Limited. He is an investor in several European technology companies.



**Malcolm Cooper**  
Non-executive Director

Appointed: **November 2015**

Committee membership:



**Skills, competencies and experience**

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

**Other roles**

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 and a non-executive director of St William Homes LLP. Prior to National Grid he was director of corporate finance at Lattice Group Plc and BG Group Plc. He has previously acted as president of the Association of Corporate Treasurers and a member of the Financial Conduct Authority's Listing Authority Advisory Panel.



**Simon Gulliford**  
Non-executive Director

Appointed: **March 2010**

Committee membership:



**Skills, competencies and experience**

Simon has substantial executive management and strategic marketing expertise gained through his extensive corporate experience.

**Other roles**

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 plc.



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

Appointed: **November 2012**

Committee membership:



**Skills, competencies and experience**

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.

**Other roles**

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 Agency. She is a member of the board of Peabody, chair of the property industry's charity, LandAid, a trustee of the Churches Conservation Trust, chair of the Architectural Heritage Fund and chair of the Centre for London. She has recently joined the Mayor of London's Homes for Londoners Board. 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).

**Committee membership key:**

- Audit
- Remuneration
- Nomination
- Health, safety and environment
- Chair



## Group management team

The executive directors are supported by the Group management team, which meets regularly to discuss strategic and operational matters affecting the Group as a whole.



**John Morgan**  
Chief Executive

See page 60 for biography.



**Steve Crummett**  
Finance Director

See page 60 for biography.



**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.



**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.



**Jonathan Goring**  
Managing Director,  
Partnership Housing

Jonathan has led some of the UK's most challenging projects and Government partnerships over the past 30 years. He joined Partnership Housing in 2016, with the mandate to create the UK's leading and smartest strategic land developer and to build upon the division's existing reputation as a great partner to Government, local government and housing associations. Before this Jonathan was managing director for Capita Symonds and chief executive officer of Capita's JV with the Defence Infrastructure Organisation.



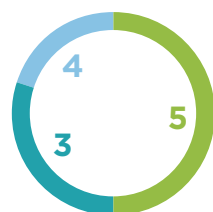
**Matt Crompton**  
Joint Managing Director,  
Urban Regeneration

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.

**Gender diversity**



**Tenure**



- Female
- Male
- 3 years
- 2 years
- 1 year



**Clare Sheridan**  
Company Secretary

Clare has been with the Company for 19 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.



**Pat Boyle**  
Managing Director,  
Construction

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



**Nick Fletcher**  
Managing Director,  
Infrastructure

Nick is a chartered civil engineer with over 25 years' UK and international experience. A Fellow of the Institution of Civil Engineers, Nick holds overall responsibility for the Infrastructure business, which is part of the Construction & Infrastructure division and includes transport, tunnelling and utility services, in addition to divisional board responsibilities for aviation and the Group's in-house plant hire operation.



**Lisa Scenna**  
Managing Director,  
Investments

Lisa joined the Group in June 2013. In her last position before joining the Group, Lisa was managing director of 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.



**Gary Lester**  
Managing Director,  
Property Services

Gary has a history of leading successful repairs and maintenance businesses providing mechanical and electrical, facilities management and energy services on a national basis. He joined the Group in August 2014 and has since led Property Services through transformational change and growth. Gary is recognised in the housing sector for his wealth of operational and market experience, gained from having worked over 30 years in the industry.



**Martin Lubieniecki**  
Managing Director,  
Design

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

## Introduction

Our Board is responsible for ensuring the sound running of the Company in accordance with best practice corporate governance for our stakeholders. The Board ensures appropriate corporate governance structures are in place to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the Company.

The Company has continued to follow the strategy of construction and regeneration with six business divisions operating in different sectors.

Key responsibilities of the Board include setting and overseeing the successful implementation of our strategy and establishing the culture, values and ethics of the Company to ensure that they are embedded throughout the organisation.

This report explains the Company's approach to governance in practice and the work the Board has done throughout the year. It also includes reports from each of the committee chairs which provide further detail on key matters addressed by the committees during the year.

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## UK Corporate Governance Code

As a UK premium-listed company, Morgan Sindall Group has adopted a governance structure based on the principles of the UK Corporate Governance Code 2014 (the 'Code'). Further details of how the Company has applied the Code's principles and complied with its provisions are set out in this report and the directors' remuneration report.

The Board considers that it, and the Company, were compliant throughout the accounting period with the principles and provisions of the Code applicable to premium-listed companies with the exception of the following:

Code provisions B.6.1 and B.6.3: the Company has not fully complied with Code provision B.6.1 as an evaluation of the individual directors and the Company's Board committees was not conducted in 2016. The Company has also not complied with Code provision B.6.3 as it has not carried out a performance evaluation of the chairman.

The reason for the Company's non-compliance is due to the fact that Michael Findlay was only appointed as chairman of the Company on 3 October 2016. Ordinarily, the Board performance evaluation exercise consists of an evaluation by the senior independent director of the performance of the chairman, while the chairman provides feedback to each director on their individual contributions made to the Board and, with each of them, considers their development priorities. Given the limited period of time since Michael Findlay's appointment as chairman, it has not been possible to complete the Company's regular Board evaluation exercise. The Company expects to carry out formal evaluations of its Board committees, the chairman and each individual director in the third quarter of 2017.

The Code is issued by the Financial Reporting Council (FRC) and is available to view on the FRC's website at [frc.org.uk](http://frc.org.uk).



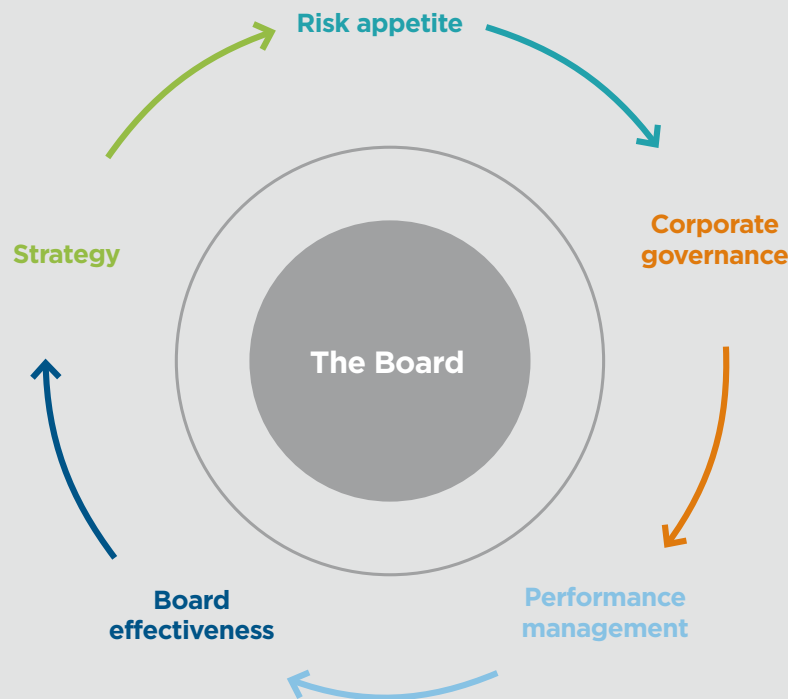
## Board activities during 2016

### Strategy

- Reviewed the Group's five-year strategic plan and each divisional strategic plan and priorities
- Received regular reports from the divisions on progress against agreed strategy including presentations from each divisional managing director on progress made against their divisional plan and priorities
- Reviewed and considered specific projects during the year as required
- Ensured there is a clear link between remuneration and delivery of the Group's strategy. Further information can be found on pages 82 to 86

### Risk appetite

- Reviewed the Group's principal risks twice during the year and received regular updates on risk management and internal controls from the chair of the audit committee. Further details are provided in the audit committee report on page 76
- Received reports from the risk committee, which is responsible for reviewing the Group and divisional risk registers and the effectiveness of the Group's risk management tools
- Received updates on the Group's safety performance at each Board meeting including a verbal report from the health, safety and environmental committee chair on the committee's activities. Measures are in place to ensure that any specific safety or reputational issues are reported to the Board as they occur



### Board effectiveness

- Undertook a review of the effectiveness of Board meetings as part of its 2016 Board evaluation. Further details are provided on page 70
- Succession planning was a focus for the Board in 2016 as well as the recruitment and appointment of a new chairman. Further details are provided in the nomination committee report on page 71

### Performance management

- Reviewed the Group's performance against the agreed key performance indicators at each meeting, with particular reference to the detailed Group management accounts
- Received commentary on the market and current trading at each meeting from the chief executive and finance director, supported by comparative data and customer insight
- Approved all financial results announcements, the annual report and accounts and dividend payments
- Assessed the going concern and longer-term viability of the Group

### Corporate governance

- Received updates on legislation including the new Market Abuse Regulation
- Ensured that the governance structures remained appropriate to support the Group's strategy and business model
- Ensured that the terms of reference of each Board committee were reviewed and updated as necessary
- Reviewed the Company's statement of compliance in accordance with the Modern Slavery Act
- Completed e-learning modules on bribery, competition law, modern slavery and data protection

## Key responsibilities

<b>Chairman</b>	<ul style="list-style-type: none"> <li>– leads our Board and is responsible for its effectiveness;</li> <li>– responsible for setting agendas for Board meetings and for timely dissemination of information to the Board, in consultation with the chief executive, finance director and company secretary;</li> </ul>	<ul style="list-style-type: none"> <li>– facilitates contributions from all directors; and</li> <li>– ensures effective communication with our shareholders and other stakeholders.</li> </ul>
<b>Chief executive</b>	<ul style="list-style-type: none"> <li>– responsible for the overall strategic objectives of the Group;</li> <li>– develops and implements the Group's strategy as approved by the Board; and</li> </ul>	<ul style="list-style-type: none"> <li>– promotes and conducts the affairs of the Company to the highest standards of integrity, probity and corporate governance.</li> </ul>
<b>Finance director</b>	<ul style="list-style-type: none"> <li>– manages the Group's financial affairs; and</li> </ul>	<ul style="list-style-type: none"> <li>– supports the chief executive in the implementation and achievement of the Group's strategy.</li> </ul>
<b>Senior independent director</b>	<p>In addition to his responsibilities as a non-executive director, the senior independent director:</p> <ul style="list-style-type: none"> <li>– supports the chairman in the delivery of his objectives;</li> <li>– is available to shareholders should they have a concern which has not been resolved through the chairman or chief executive or for which contact through those channels is not appropriate;</li> </ul>	<ul style="list-style-type: none"> <li>– together with the nomination committee is responsible for ensuring that an orderly succession planning process is in place for the Board; and</li> <li>– leads the appraisal of the chairman's performance with the non-executive directors.</li> </ul>
<b>Non-executive directors</b>	<ul style="list-style-type: none"> <li>– constructively challenge the executive directors in all areas;</li> <li>– monitor delivery of the strategy within the risk and control framework set by the Board;</li> </ul>	<ul style="list-style-type: none"> <li>– satisfy themselves on the integrity of the financial information and the effectiveness of financial controls and risk management systems; and</li> <li>– responsible for determining appropriate levels of remuneration for the executive directors.</li> </ul>
<b>Company secretary</b>	<ul style="list-style-type: none"> <li>– acts as secretary to the Board and its committees, ensuring sound information flows to the Board and between senior management and the non-executive directors;</li> <li>– responsible for advising the Board on corporate governance matters;</li> </ul>	<ul style="list-style-type: none"> <li>– facilitates a comprehensive induction for newly appointed directors, tailored to individual requirements;</li> <li>– responsible for compliance with Board procedures;</li> <li>– co-ordinates the performance evaluation of the Board; and</li> <li>– provides advice and services to the Board.</li> </ul>

**Governance structure**

The Board is responsible to all stakeholders, including its shareholders, for the approval and delivery of the Group’s strategic objectives to ensure its long-term success. Responsibility for developing and implementing the Group’s strategy and commercial objectives is delegated to the chief executive who is supported by the finance director and Group management team. The Board is the Group’s principal decision-making body. In line with the Code, the Board delegates certain roles and responsibilities to its various committees. The committees assist the Board by fulfilling their delegated responsibilities, focusing on specific activities throughout the year, reporting to the Board on decisions and actions taken, and making any necessary recommendations in line with their terms of reference. The terms of reference of each committee comply with the provisions of the Code.

**Leadership**

**The Board role**

The Group is headed by an effective Board which is collectively 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 and ensuring that the necessary financial, technical and human resources are in place. The Board monitors and reviews all significant aspects of the Group’s activities, including overall internal control and risk management systems and succession planning, and oversees the executive management.

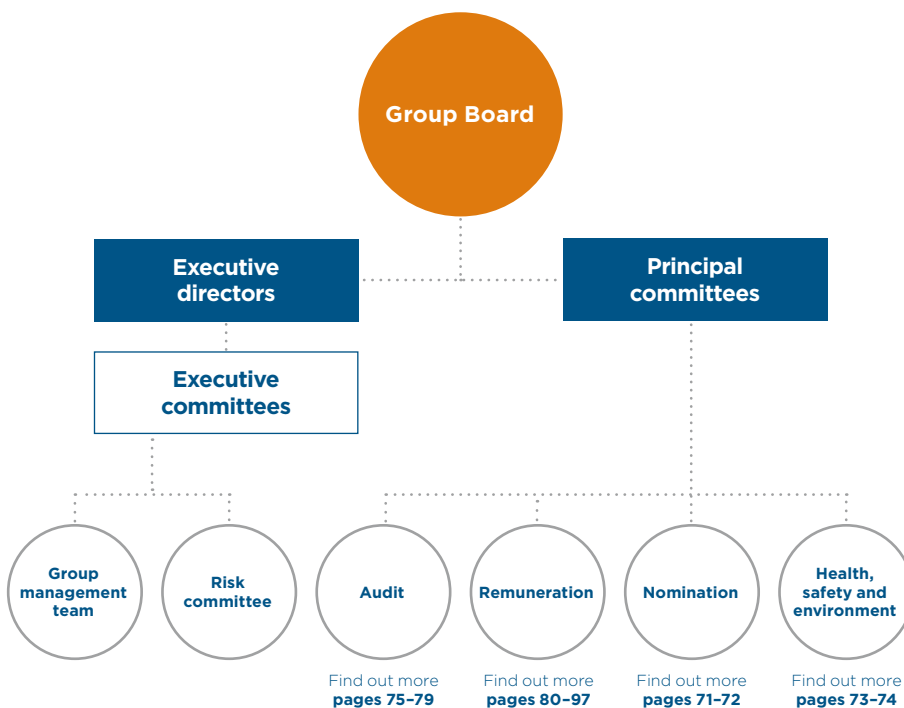
A formal programme of meetings is in place to ensure that the Board is able to allocate sufficient time to each of the matters reserved for its decision-making. The programme allows the Board to plan their meetings while being sufficiently flexible to allow items to be added should they arise. This enables Board members to use their time together more effectively. The Board’s key activities in 2016 can be found in the diagram on [page 65](#).

**Formal schedule of matters reserved for the Board**

There are documented processes in place regarding the Board’s activities; matters specifically reserved for its decision-making; the role of and authority delegated to the chief executive; the accountability of the chief executive for that authority; and guidance on managing the relationship between the Board and the chief executive. These processes are reviewed annually.

The Board has reserved the following matters for its own consideration:

- strategy and management;
- structure and capital;
- financial reporting and internal controls;
- contracts and policies;
- Board membership and other appointments, including the appointment of executive directors and the company secretary;
- remuneration;
- delegation of authority including the delegated authorities process which sets out approval limits; and
- the approval or adoption of documents, including the annual report and accounts, required to be made by the Board, or by the Company’s constitutional documents, statute or external regulation.



### Divisional meetings

The Board held meetings with the directors and senior management teams of Partnership Housing and the Infrastructure business. These meetings allowed the non-executive directors to meet operational managers and discuss a range of topics in a less formal setting. As part of the Infrastructure meeting, two graduates gave presentations to the Board, one on the business case for diversity and one on their experience as a graduate with the Group.

### Senior management team conference

The chairman and three of the non-executive directors attended the Group's senior management conference in October, which gave them an opportunity to meet around 80 managers from across the Group and gain insight into how best practice is shared between the divisions.

### Strategy day

Every year the Board holds a strategy day in October to review the Group's five-year strategic plan and each of the divisional strategic plans and priorities. In 2016, as part of this review, the chairman, chief executive and a non-executive director met with the managing directors of each division to discuss their divisional strategic plans in detail prior to the meeting in October. Each non-executive director then provided a summary to the Board of their findings on the strategy day.

In addition to formal meetings, the Board meets informally several times a year to allow the directors to spend more time together and discuss specific areas of the business with the Group management team and other senior executives. While the Board did not make any site visits as a group during the year, all non-executive directors had the opportunity to visit the divisional teams to gain a better understanding of the Group's operations. Michael Findlay and Malcolm Cooper both visited various divisions as part of their induction to the Group. More information on the informal meetings is set out left.

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. These include health and safety, strategy, the Group budget, the leadership development programme and the Group's responsible business strategy. The Group management team members are listed on pages 62 to 63.

### Attendance

Attendance of individual directors during 2016 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 on one occasion in the year without the executive directors present.

### Effectiveness Composition

As at the date of this report, the Board consists of the chairman, two executive directors and four non-executive directors. Biographical details of each of the directors are given on pages 60 to 61. Michael Findlay will be standing for election at the 2017 AGM as this is the first AGM following his appointment. Liz Peace has advised the Board that she will step down as a non-executive director at that AGM and therefore will not offer herself for re-election. In accordance with the Code, all of the other directors will stand for re-election at the forthcoming AGM.

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, each director acts 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.

See the nomination committee report on pages 71 to 72 for further information.

	Board	Audit	Remuneration	Nomination	Health, safety and environment
<b>Total number of meetings</b>	<b>7</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>3</b>
Michael Findlay <sup>1</sup>	2				
John Morgan	7			4	
Steve Crummett	7				
Patrick De Smedt	7	3	5	4	
Malcolm Cooper	7	3	5	4	
Simon Gulliford	7	3	5	4	3
Liz Peace	7	3	5	4	3
Adrian Martin <sup>2</sup>	5			3	

<sup>1</sup> Michael Findlay was appointed as chairman on 3 October 2016 and attended all Board and committee meetings following his appointment.

<sup>2</sup> Adrian Martin resigned as chairman on 3 October 2016. He attended all Board and nomination committee meetings up to the date of his resignation.

## Development, information and support

Newly appointed directors participate in a comprehensive and tailored induction programme which includes receiving 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 Michael Findlay's and Malcolm Cooper's appointments to the Board in October 2016 and November 2015 respectively, their induction programmes contained each of these elements and are detailed further in the right hand panel.

The regular presentations from management and informal meetings included in the Board programme increase the non-executive directors' understanding of the Group and the construction industry. During the year the non-executive directors met individually with members of the management team and visited projects on site.

The company secretary provided updates to the Board during the year on relevant governance matters, new legislation and its impact on the Company. This included detailed guidance on directors' obligations under the new Market Abuse Regulation that came into force on 3 July 2016 and information on the requirements under the gender pay reporting obligations and the Modern Slavery Act. The audit committee regularly considers new accounting developments through presentations from management and the external auditor. In 2016 this included updates on changes to accounting standards and, in particular, the need to consider the potential impact of IFRS15 and negotiating uncertainties arising from the result of the EU referendum.

The remuneration committee annually considers developments in executive remuneration with presentations from the Company's remuneration advisers. As part of the 2016 review of the Company's remuneration policy, guidance was provided on shareholders' voting policies on remuneration as well as best practice.

All Board members completed the Group's e-learning modules that were rolled out in the third quarter of 2016. Further details can be found on [page 43](#).

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 2015 evaluation provided recommendations in areas of strategy to clarify what sets the Group apart from its competitors and long-term succession planning. In 2016 the Board sought to act on those recommendations.

The Board agreed that following the appointment of the new chairman the evaluation would involve a review of the Board's processes to ensure that it operates as effectively as possible. The Board is satisfied that this process enabled a thorough review and open participation from all directors. The key objective was to ask the Board to consider any changes that they would like made to help improve the efficiency of the Board.

### Induction – Michael Findlay

The induction of Michael Findlay as chairman included the items below.

#### Documentation pack containing information on:

- the Group, including risks, procedures relating to delegation and limits of authority, and banking facilities;
- the Board;
- Group and divisional strategic plans;
- Board committees;
- compliance matters including conflicts of interest, the Market Abuse Regulation and Bribery Act guidance; and
- Group policies.

#### One-to-one meetings with:

- executive directors;
- senior management team;
- company secretary;
- the Company's brokers;
- external auditor;
- PR company; and
- the Company's corporate lawyers.

#### Visits/meetings as follows:

- various meetings with the divisional management teams at their offices;
- attendance at the senior management conference with the opportunity to meet around 80 senior managers from across the Group; and
- attendance at each Board committee meeting.

### Induction – Malcolm Cooper

The induction of Malcolm Cooper, who joined in November 2015, continued during 2016 and included:

- meeting divisional managing directors;
- meeting key individuals at Company level including the general counsel, director of tax and treasury, head of audit and assurance and the financial controller;
- attendance at the senior management conference;
- meeting with the external auditors; and
- making various site visits to our divisional projects.



The chairman, in conjunction with the executive directors and the company secretary, reviewed the proposed Board timetable for 2017, the Board agenda and papers. The results of the review were fed back to the non-executive directors and were discussed by the whole Board at its meeting on 1 December 2016. Following the discussion, it was agreed that:

- where possible Board and Board committee meetings would be consolidated into a single day;
- a set of standing items would be included on the agenda for future Board meetings;
- three additional reports would be added to the Board papers to assist the Board in monitoring performance against strategy more closely and to help the Board assess its performance against the Group's peers;
- the non-executive directors would visit one or two divisions each year on a rolling basis and report back to the rest of the Board. This programme of visits will enable the non-executives to gain a deeper understanding of each division as well as meeting the wider management teams; and
- as part of the annual confirmation of directors' interests, each non-executive director would be asked to complete a summary of training that they have undertaken in the year to support their role as a non-executive and chair of a committee where appropriate.

Ordinarily, the Board performance evaluation exercise consists of an evaluation by the senior independent director of the performance of the chairman. Furthermore, the chairman provides feedback to each director on their individual contributions made to the Board and, with each of them, will consider their development priorities.

However, due to Michael Findlay only joining the Board in October 2016, no formal feedback has been provided to the chairman on his performance, nor by the chairman to each director on their individual contributions. Informal discussions have been held to date in respect of observations over the last few months. In addition, Michael has attended all meetings of the remuneration and audit committees since his appointment to review how they operate and their role within the Board as a whole.

The formal evaluation of the chairman and each individual director will be carried out in 2017. The evaluation of the chairman will be carried out by the non-executive directors, led by the senior independent director, while taking into account the views of executive directors. The company secretary, in conjunction with the chairman, will be reviewing the Board evaluation process in early 2017 to determine which areas the evaluation should focus on for the next three years and the methodology to be used for the 2017 evaluation.

#### **Relations with shareholders**

The executive directors undertake a programme of regular communication with institutional shareholders and analysts covering the Company's activities, 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. In November 2016 the executive directors held a meeting with shareholders, analysts and the divisional managing directors to enable the shareholders and analysts to gain a greater understanding of the Group's operations. In addition, the Company's former chairman, Adrian Martin, met with one of the Company's former shareholders, Old Mutual plc, at their request to discuss the Group's corporate governance. No actions arose from the discussion.

Following the appointment of Michael Findlay as chairman, the senior independent director held a call with Standard Life plc, at their request, to discuss the nomination committee's process for selecting a new chair. Michael Findlay also met with Standard Life plc in January 2017 to discuss his impressions of the Company and its corporate governance. No actions arose from the discussion.

As explained in the remuneration report on [page 80](#), the remuneration committee undertook a consultation with the Group's major shareholders in respect of proposed changes to the remuneration policy. The non-executive directors were also available to meet with shareholders to obtain their views, although no further meetings were requested in addition to those set out above.

Notice of the AGM will be sent to shareholders at least 20 working days before the meeting. The Company encourages all shareholders to use the AGM as an opportunity for effective communication with the Company. The AGM provides a valuable opportunity for the Board to communicate with private shareholders. Shareholders are invited to ask questions related to the business of the meeting at the AGM and will have an opportunity to meet all the directors informally. All directors normally attend the AGM and all serving directors plan to attend the 2017 AGM. Shareholders unable to attend are encouraged to vote using the proxy form mailed to them or sent electronically as detailed in the Notice of Meeting. As last year, at the forthcoming AGM each of the resolutions put to the meeting will be taken by voting on a poll. The directors believe that a poll vote is more representative of shareholders' voting intentions because shareholder votes are counted according to the number of shares held and all votes tendered are taken into account.

The results of voting at general meetings, including proxy directions to withhold votes, are published on the Company's website.

# Nomination committee



## Composition

### Members during the year

**Michael Findlay** (Chair)<sup>1</sup>  
**John Morgan**  
**Patrick De Smedt**  
**Simon Gulliford**  
**Liz Peace**  
**Malcolm Cooper**  
**Adrian Martin**<sup>2</sup>

<sup>1</sup> No meetings of the committee were held following Michael Findlay's appointment on 3 October 2016.  
<sup>2</sup> Adrian Martin stepped down from the Board on 3 October 2016 and attended three meetings of the committee up to that date.

The nomination committee is responsible for establishing a formal, rigorous and transparent procedure for the appointment of new directors to the Board. In addition, the committee has a wider responsibility to keep under review the future leadership needs of the Company, both executive and non-executive. This is to ensure the Group's continued ability to deliver its strategy of developing and retaining talent. Robust succession planning will enable the Group to compete effectively in its markets.

Michael Findlay chairs the committee but is not permitted to chair meetings during sessions regarding his own performance or at which the appointment of his successor is discussed. Patrick De Smedt chaired all meetings at which the successor for the chairman was discussed during the year. For details of the qualifications of all members of the committee, see [pages 60 to 61](#).

## Responsibilities

The committee is responsible for the following:

- reviewing the structure, size and composition of the Board;
- making recommendations to the Board for any changes considered necessary;
- approving the description of the role and capabilities required for a particular appointment;
- satisfying itself with regard to succession planning for the Board and senior management, taking into account the challenges and opportunities facing the Company and future skills and expertise needed on the Board, including development training; and
- ensuring suitable candidates for the Board are identified, giving due regard for the benefits of diversity, including, gender and ethnicity, and recommended for appointment.

The committee's terms of reference, setting out its duties, are available on our website.

## Activities during the year

In 2016 the committee met four times to review the structure, size and composition of the Board. Details of attendance at meetings is disclosed on [page 68](#). More information on the Group's objective in respect of developing and retaining talented people is included in the strategic review on [page 14](#) and the risk review on [page 50](#). A summary of the committee's principal activities in 2016 is as follows:

- considered the overall structure and balance of the Board;
- appointed a sub-committee of the Board to manage the process of appointing a new chairman;
- appointed an executive search consultancy to assist in recruiting the new chairman;
- considered succession planning generally for the Board; and
- reviewed the committee's terms of reference.

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

## Governance

### Nomination committee

— continued

#### Succession planning

The Board takes succession planning for its members seriously. We believe we have good balance and diversity among 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 a sub-committee of the Board led by Patrick De Smedt considered the skills and experience required of a chairman in determining the types of candidate that may best fit the specification of this role, including an assessment of the time commitment expected. The sub-committee identified a shortlist of candidates from a selection of individuals suggested by various Board members. These candidates met with each member of the sub-committee. Executive search consultancy, Norman Broadbent Group, was instructed by the sub-committee to meet with each shortlisted candidate and provide an independent report as to the suitability of each candidate for the role. Norman Broadbent Group does not provide any other services to, or have any connection with, the Company. Following an extensive due diligence process, the Board was delighted to appoint Michael Findlay as a non-executive chairman on 3 October 2016. Michael's considerable strategic and financial experience and governance knowledge will be of great benefit to the Board and the Group.

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

Board tenure non-executive	Number	Percentage
1 to 2 years	2	40
3 to 4 years	0	0
4 to 5 years	1	20
6 to 7 years	2	40

As part of reviewing the overall structure and balance of the Board, including succession planning, the committee also considered the length of tenure of the existing non-executive directors. The committee is satisfied that appropriate succession plans are in place for future appointments to the Board.

The 2015 Board evaluation review recognised that further work was needed in respect of long-term succession planning for the Board and senior management as well as ensuring that the Group focuses on employee development and training at all levels in the organisation. This is essential to secure a future executive pipeline and ensure the development of a succession pool of talent both for the short and longer term.

During the year, the executive directors reviewed the short-term succession arrangements for the Group management team. Following the appointment of Michael Findlay, the committee will review its processes for monitoring succession planning across the Group in early 2017.

#### Diversity

The Board recognises the importance of diversity at Board level and more broadly throughout the Group. Having a diverse workforce reflecting different skills and experience will contribute to the long-term success of the Company (see [page 43](#)). As part of the Board's ongoing commitment to provide leadership on diversity and inclusion, a 'people report' included in the Board meeting papers covers key statistics on Group employees as well as details of activities undertaken by each division to improve diversity and inclusion. These include activities to broaden the range of skills, industry experience, gender, race, disability, age, nationality and other attributes which can enhance the contribution of the divisions and the Group as a whole.

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 in 2016 was 14%.

While 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 resorting to quotas.

# Health, safety and environment committee



## Composition

### Members during the year

**Simon Gulliford** (Chair)  
**Liz Peace**  
**Andy Saul**

The Group has well-established safety systems designed to minimise the risks of health, safety and environmental (HSE) incidents occurring as a result of the Group's activities. These systems include 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, and to make recommendations to the Board for any changes considered necessary. At the end of 2016 the committee's terms of reference were amended to include responsibility for reviewing the Group's responsible business strategy.

## Responsibilities

The committee is responsible for the following:

- assisting the Board in reviewing the Group's strategy with respect to HSE matters;
- receiving reports on any major HSE incidents and ensuring that all actions required by the report are appropriately implemented in a timely manner;
- reporting to the Board on development trends and forthcoming legislation in relation to HSE matters which may be relevant to the Group;
- monitoring 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;
- receiving and reviewing periodic HSE reports of the Group's performance; and
- reviewing the Group's responsible business strategy and performance against the Group's five Total Commitments.

The committee's terms of reference, setting out its duties, are available on our website.

## Activities during the year

The committee has an annual work plan, developed from its terms of reference, which includes standing items considered at each meeting together with any additional matters on which the committee has decided to focus. The divisional managing directors are responsible for HSE issues within their respective divisions and for providing the committee with information for its consideration at each meeting. 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 as well as a verbal report from the HSE committee chair following each meeting. Further details are included in the chief executive's review on [page 12](#) and the risk review on [pages 50 to 51](#).

In 2016 the committee met three times to review the Group's strategy with respect to HSE matters and carried out one separate site visit. Details of attendance at meetings is disclosed on [page 68](#).

## Governance

### Health, safety and environment committee

— continued

A summary of the committee's principal activities in 2016 is as follows:

- reviewed divisional health and safety performance;
- reviewed the Group's approach in respect of occupational health, particularly in respect of assisting employees in identifying and managing mental wellbeing issues;
- carried out a site visit;
- reviewed the Group's environmental reports;
- monitored the Group's performance against HSE targets and KPIs;
- considered changes to health and safety legislation relevant to the Group, in particular the potential impact that the new health and safety fines could have on the Group;
- reviewed the committee's terms of reference to include committee responsibility for monitoring progress of the Group's responsible business activities and strategy; and
- received a presentation on the Group's responsible business strategy.

The principal purpose of the committee is to focus on the health and safety culture of the Group in order to drive better behaviour and performance in this area. It also aims to support the existing Group health and safety forum and divisional health and safety teams.

#### Safety

We are committed to achieving a continuing reduction in the number of incidents on sites and to protecting those who work on and visit our sites. Overall, the committee is pleased with the health and safety performance during 2016 including the improvement in the Group's accident frequency rate (see page 12). The committee will however look for continuing improvement and further initiatives from each of the divisions to manage and reduce the number of safety incidents and will review any actions needed to protect the health and wellbeing of those employed on our sites and in our offices.

#### Site visits

In 2016 the committee made an unannounced visit to a Partnership Housing project to review its safety procedures. The site visited had already had significant demolition work undertaken, with construction of both social housing blocks of flats and the first open market block of flats underway. The site was very busy with different activities being undertaken in different areas at the same time. The committee observed that health and safety were high priorities for the project manager and the site facilities were immaculate, well laid out and easily accessible. It was evident to the committee that efforts had been made to create a good working environment on site.

On 12 January 2017, the committee also made an unannounced visit to a Construction & Infrastructure project in Birmingham. The site was in the early stages of construction, having only started in November 2016. The committee discussed with

the site manager the approach to health and safety on site and again observed that health and safety was a key priority. The site had been well laid out in the planning stage and was kept tidy in order to minimise accidents. The committee is intending to make further unannounced visits to Group projects in 2017.

#### Health and wellbeing

The committee reviewed management plans to improve health and wellbeing across the Group. During the year, the divisions have focused on how to engage more effectively with the workforce and supply chain to improve their knowledge and raise awareness of why managing health risks at work is just as important as managing safety risks. As part of this initiative, one of the divisions participated in the 'Helping Great Britain work well' programme as well as signing up to mental health charity Mind's Workplace Wellbeing Index. Further work with Mind will be undertaken in 2017 with the findings from their survey of Construction & Infrastructure being shared with the other divisions in the Group. In addition we supported Construction United during their fundraising and events week, an initiative to raise awareness of mental health within the construction industry, along with raising funds for Mind, CRASH (the construction industry's homelessness charity) and The Prince's Trust.

#### Environmental matters

We are committed to reducing energy consumption across the entire supply chain. During the year, the committee reviewed the Group's performance including performance against the carbon intensity KPI. As shown on page 45, the Group's carbon intensity measure decreased by 17%, and our waste diverted from landfill rose from 90% in 2015 to 96.2% in 2016, demonstrating our ongoing commitment to being an environmentally responsible business.

#### Looking ahead

In 2017, the committee will continue to engage with divisional management and monitor what each of the divisions is doing to increase the emphasis on health and safety and workplace wellbeing and ensure that HSE issues remain a top priority. The committee has already met in January with the divisional managing directors and has received presentations from each division on the work they are undertaking in order to reduce the risk of health and safety incidents. The presentations were carried out as a peer group review with all divisions present for the purposes of providing constructive feedback and for sharing ideas and best practice. While recognising that each division operates independently and the nature of their work is different, a greater emphasis will be given to shared learning where appropriate to ensure a consistent approach. We believe this will further embed health and safety into the culture of the Group. In terms of our responsible business strategy, the committee will increase its focus during the year on performance against our Total Commitments as described on page 15. It will pay particular regard to the Commitments relating to maximising social economic benefit in communities and ensuring the loyalty and retention of the new generation of employees so that the Group has a sustainable workforce in place.

# Audit committee



## Composition

### Members during the year

**Malcolm Cooper** (Chair)  
**Patrick De Smedt**  
**Simon Gulliford**  
**Liz Peace**

The audit committee was set up by the Board as part of establishing formal and transparent arrangements for considering how it should apply the Code's corporate reporting, risk management and internal controls principles and to maintain an appropriate relationship with the Company's external auditor.

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. Biographies of each member of the committee are set out on [pages 60 to 61](#). In particular Malcolm Cooper, who took over the chair of the committee following the AGM in May 2016, is a qualified accountant and experienced FTSE 250 audit committee chair and is considered to have recent and relevant financial experience for the audit committee of a company in the construction and regeneration sector.

Other regular attendees:

- finance director
- Group financial controller
- Group head of audit and assurance
- representatives from the external auditor

## Responsibilities

The committee is responsible for the following:

- assisting 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;
- monitoring the integrity of the financial statements, including reviewing significant financial reporting judgements contained in them, related information of the Company and, where practicable, any formal announcements relating to the Company's financial performance;
- advising 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;
- reviewing and monitoring the Company's internal financial controls;
- approving the appointment and replacement of the Group head of audit and assurance and monitoring and reviewing the effectiveness of the Company's internal audit function;
- making 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 approving the external auditor's remuneration and terms of engagement;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process;
- applying 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 either independence or objectivity;
- reviewing the Company's procedures for detecting fraud and the adequacy of its systems and controls for the prevention of bribery; and
- reviewing the Company's procedures for raising concerns.

The committee's terms of reference are available on our website.

## Governance

### Audit committee

— continued

#### Activities during the year

The committee held three scheduled meetings during the year. Details of attendance at meetings is disclosed in the corporate governance report on [page 68](#). Senior representatives from the external auditor, the finance director, Group financial controller 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 the FRC's Guidance on Audit Committees.

In compliance with the Code and the accompanying Guidance, the main activities of the committee during the year were as follows:

- reviewed the half- and full-year results including the long-term viability statement;
- reviewed the significant management judgements and estimates reflected in the results as well as other accounting matters;
- discussed with the external auditor its audit plans and reports;
- assessed the Company's internal financial controls;
- reviewed internal audit reports and the effectiveness of the internal audit function, and approved the internal audit plan;
- reviewed the effectiveness of the Group's risk management process;
- monitored risk management and internal control;
- considered the effectiveness of the external audit and the independence and reappointment of the external auditor, including a review of the external auditor's scope of work and reports;
- reviewed fraud and bribery prevention measures and whether any matters arose from the raising concerns phone line;
- reviewed e-learning undertaken in respect of bribery, competition, data protection and modern slavery;
- reviewed the Group's draft statement for compliance with the requirements of the Modern Slavery Act and the Group's processes for ensuring modern slavery activities are not undertaken within the Group and its first tier supply chain;
- reviewed the Group and divisional risk registers and principal risks at both the July and December audit committee meetings;
- reviewed the Committee's terms of reference;
- reviewed the Company's policy for the provision of non-audit services by the external auditors; and
- reported 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 19](#). In line with the Code, the committee considered and approved the key assumptions in the long-term viability statement (see [page 58](#) for further information).

At each meeting, the committee receives a report on the internal controls framework and the internal audit activities. In 2016 it received information on risk management tools being implemented in Construction & Infrastructure, reviews carried out by the internal audit teams, management's response to the reports and any key trends that emerged during the year. The Group head of audit and assurance met separately with the chair of the committee and has direct access to him whenever required.

The Company's whistleblowing procedures are supported by the operation of an external phone line for raising concerns, which enables the Group's employees and other workers on its sites to report concerns anonymously and in confidence. The existence of the external phone line is covered with all employees on induction and is publicised via the Group's and divisions' 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.

During the year, we rolled out four e-learning modules to 4,600 employees across the Group which explained the law and highlighted the responsibilities of employees in relation to four key areas of law: bribery and corruption, including issues such as facilitation payments and gifts and hospitality; competition law; modern slavery; and data protection. At the time of this report's publication more than 4,000 employees had completed each module. Those yet to complete a module are sent a reminder email or called by their line manager to check on their progress. New joiners to the business are invited to complete the modules as part of their induction with the Group. We aim to launch refresher training annually and, in 2017, we will release additional e-learning modules relating to directors' duties and the Market Abuse Regulation.

The committee reviewed a Group policy to address our obligations in respect of the Modern Slavery Act. The policy was approved by the Board and disseminated across the Group. The Group's general counsel, head of audit and assurance, procurement director and company secretary reviewed the Group's own procedures and those in respect of its supply chain to ensure, where we can, that we do not undertake activities or engage suppliers or subcontractors who undertake activities that may be in breach of the Modern Slavery Act. We will release our first modern slavery statement in the first half of 2017 explaining in more detail the actions we have taken.

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 7](#) and [pages 14 to 15](#)). 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.

### **Application of accounting policies, judgements and estimates**

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 judgements and estimates reflected in the financial results. This process involves reviewing relevant papers prepared by management in support of the policies adopted and judgements and estimates 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 on the work it performed and findings from the annual audit.

The matters considered by the committee during the year are listed below:

#### **- Contract revenue, margin, 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 make estimates. 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.

#### **- 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 has been performed in conjunction with the viability statement assessment and covers a 36-month period from the 31 December 2016 balance sheet date.

Additionally, the committee discussed each issue with the external auditor and sought its opinion based on the work it performed during the audit. Based on its review and discussions with both management and the Group's external and internal auditors, the committee is satisfied that, after raising appropriate challenges, the judgements outlined above are reasonable and that the appropriate disclosures have been included in the Group's consolidated financial statements.

### **External auditor's independence and effectiveness**

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 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. The committee noted that, during the year, Fit Out was awarded a contract for the fit out of a new building for Deloitte LLP in London. The committee was satisfied that given the contract was awarded after a competitive procurement process carried out at arm's length, auditor independence is unaffected.

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 2016 and reviewed progress against the audit plan at the meeting held in December 2016, noting at that time the significant accounting 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 adequacy 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.



## Governance

### Audit committee

— continued

#### 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 and Markets authority and the FRC's guidance on Audit Committees relating to the tendering of the external audit contract every 10 years. While not subject to the provisions as set within the 2014 Code for FTSE 350 companies, the committee has taken into account the formal regulatory tender requirements that form part of UK law. The committee ensures that the external auditor remains independent of the Company and receives written confirmation of their independence. In addition, key members of the audit team rotate off the Company's audit after a specific period of time. The current audit engagement partner, Mark Beddy, is due to rotate on completion of the 2016 audit and will be replaced with Makhan Chahal, a senior audit partner with over 20 years' experience, who leads Deloitte LLP's business, infrastructure and professional services audit team. 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 a resolution proposing the reappointment of Deloitte LLP as external auditor be put to shareholders at the forthcoming AGM.

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

The Company's policy on the engagement of the external auditor for non-audit related services was reviewed and updated in the year in compliance with the EU Audit Directive and Regulation, adopted in April 2014 and which applies to the Company's 2017 financial year. The new rules include regulations to determine the type of non-audit services that may be provided by Deloitte LLP and which are prohibited. The Company's policy is designed to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. The policy applies to the Company, and all its wholly-owned subsidiaries and provides guidance on the type of work that is acceptable or prohibited for the external auditor to undertake, and the process to be followed for approval. The categories of services that are prohibited are in line with the legislation. For other services not falling within the prohibited services list, the external auditor is eligible for selection by the Company provided that its skills and experience make it a competitive and the most appropriate supplier of these services. Permitted services can be carried out by the external auditor subject to the advance approval of the finance director or, if the fees for such services exceed a threshold, the advance approval of the audit committee. No non-audit services provided to the Company by Deloitte LLP in 2016 required the approval of the committee.

The fees for non-audit services during the year, which complied with the Company's previous policy on the provision of non-audit services, are set out in [note 3](#) to the consolidated financial statements on [page 124](#) and total £53,000 in respect of tax compliance and disclosure services for one of Investments' joint venture company's assurance services in respect of a funding submission to the Homes and Communities Agency and town planning advice in relation to a planning application on one of the Group's regeneration schemes. 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.

#### Risk management and internal controls

The Board has reserved for itself specific responsibility for formulating the Group's risk management strategy, reviewing the system of internal controls and monitoring their effectiveness. The Board fulfils this obligation by agreeing the strategy, setting the delegated authorities and approving the appropriate policies and procedures which are then cascaded throughout the Group. Certain of these responsibilities have been delegated to the audit committee as outlined below and in the risk review on [page 46](#). The Group also has a risk committee that meets twice a year and assists the Board and audit committee in monitoring risk management and internal control. The risk committee ensures that both inherent and emerging risks across the business are properly identified and managed, approving new standards and processes where any weaknesses are considered to exist.

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

The committee has conducted a review of the effectiveness of the system of internal controls for the year ended 31 December 2016 and for the period to the date of this report. The process included a formal review 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 process

The risk management system is designed to identify principal risks attached to the Group's strategy and objectives as well as the root cause for each risk, and to confirm the internal controls in place to mitigate the risk and any further actions required. This process includes the identification and assessment of the key sustainability risks facing the business, which include environmental, social and corporate governance risks. The executive directors of the Board meet regularly with the divisions throughout the year to discuss matters relating to strategy, financial and operational performance, and risk. Internal control and risk management processes are embedded in the operations of each of the divisions. 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.

Further details of our approach to risk and the principal risks identified as facing the Group are highlighted in the risk review on pages 46 to 57.

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. Overall, the committee considers that the Group's risk profile is improving due to its strong cash performance, strengthened balance sheet and the resolution of legacy contract issues.

### System of 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 consists of six divisions, each with its own management board with authority and responsibility for managing its division. This authority is set 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. While responsibility for managing each division is delegated to its 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 internal control and risk management systems in place in relation to its financial reporting process and the Group's process for preparing the consolidated accounts.

We have 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 annual internal audit plan includes 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

We continually monitor 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. The committee assesses the effectiveness of the internal audit function accordingly:

- 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;
- the audit plan is approved in advance by the audit committee;
- internal audit and assurance work carried out in 2016 included operational, project and financial reviews across the Group and the results of these reviews were recorded in audit reports and presented to the audit committee; and
- the status of agreed management actions to address identified operational weaknesses is actively tracked until implementation.

The committee is responsible for the approval of the plans of the internal audit function, and reviews and confirms annually that the internal audit group is staffed appropriately and operating effectively. The results of the latest assessment were reviewed by the committee in December 2016 and it was satisfied that the internal audit team remained independent, was operating effectively, and that the risk to their independence and objectivity was low.

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 while providing a mechanism for the cross-fertilisation of ideas and dissemination of best practice.

These peer group reviews are overseen by the divisional heads of internal audit and tracking of agreed management actions is included within the overall internal audit process.

**MALCOLM COOPER**  
CHAIR OF THE AUDIT COMMITTEE

23 FEBRUARY 2017

## Directors' remuneration report



### Annual statement Dear Shareholder

I am pleased to introduce our directors' remuneration report for the year ended 31 December 2016. The report is split into three sections, namely: (i) this annual statement; (ii) the remuneration policy (which sets out the director's remuneration policy for which we will be seeking shareholder approval at the forthcoming AGM); and (iii) the annual report on remuneration (explaining payments made in the year under review and how the remuneration policy will be operated for 2017).

2016 was a successful year for the Company, where we made both financial and strategic progress. The increase in underlying revenue growth, profit before tax (adjusted\*) (PBTA\*) and adjusted earnings per share (EPS) shown below, reflect management actions to improve both our commercial performance and operational efficiency.

- Revenue £2,562m up 7%
- PBTA\* of £45.3m, up 32% on 2015
- EPS 84.7p, up 34%

Share price as at 31 December 2016 was £7.45 and has since increased to £8.89 (at 21 February 2017).

### Review of remuneration for 2016

Based on the results set out above, the executive directors will receive a bonus of 100% of salary and 62% of the long-term incentive awards granted in 2014 based on three-year performance to 31 December 2016. The Company's EPS performance (which accounts for 50% of the long-term incentive plan (LTIP) award) warranted 98% of that element vesting and the Company's relative total shareholder return (TSR) (which accounts for the remaining 50% of the award) warranted 26.0% of that element vesting. The committee satisfied itself that the outcome reflected the underlying performance of the business over the relevant assessment periods.

### Remuneration policy review

As we explain in more detail on the following pages, the current remuneration policy was first adopted by shareholders at our AGM in 2014, with some minor revisions to the policy approved at the AGM in 2015. As indicated in last year's report, the committee undertook a full review of the policy in the second half of 2016 to ensure that it continues to align with the Group's strategy, appropriately reflects investor best practice, provides us with the ability to attract, motivate and retain executive talent and gives us sufficient flexibility with which to respond to changing business circumstances.

Following this review, the committee concluded that the existing policy remains broadly appropriate for the Company at this time, save for a couple of changes that are proposed to strengthen alignment with shareholders and the link between pay and performance.

In making the proposals for a revised policy, the committee has taken account of feedback from our major shareholders, the Investment Association and ISS Governance Services, as well as prevailing sentiment on reward and pay for executive directors.

### Summary of proposed remuneration arrangements for 2017 Fixed pay

The base salaries for John Morgan and Steve Crummett have been increased by 3%, which is in line with average salary increases awarded across the rest of the Group. No changes have been made to benefit provision or to pension allowances – which at 10% of salary are consistent with the employee population.

### Annual bonus

It is proposed to introduce the following changes:

- increase the maximum annual bonus opportunity from 100% to 125% of salary;
- defer 30% of any bonus earned into Company shares for three years (so the cash bonus opportunity falls from 100% to 87.5% of salary); and
- require at least 80% of the annual bonus to be linked to financial performance, but allow flexibility to introduce additional financial measures, as well as non-financial, strategic and/or personal measures. For 2017, however, no changes will be made to the bonus measures.

The 25% increase in bonus opportunity is intended to enable us to compete for talent on a level playing field and to rebalance the package more towards variable, performance-related pay. It is also a quid pro quo for the other proposed changes (such as mandatory deferral of 30% of the bonus and 100% deferral for two years of any LTIP that vests). The 125% of salary opportunity aligns with median practice for our TSR sector comparators against whom we compete for talent, and with the median for UK-listed companies of similar revenue and market cap.

The proposed increase was considered in the context of total remuneration, and the committee is satisfied that the resultant market positioning is necessary and not excessive. The impact of the introduction of mandatory deferral is to reduce the maximum cash bonus opportunity to 87.5% of salary, rebalancing the executive director package to the longer term and increasing shareholder alignment. The annual bonus will continue to be subject to challenging financial targets and we will provide details of the 2017 targets in next year's report.

#### Long-term incentive plan (LTIP)

It is proposed to introduce the following changes:

- introduce a two-year holding period on vested LTIP shares for 2017 LTIP grants onwards to executive directors. This results in a five-year combined vesting and holding period; and
- include flexibility to introduce additional performance condition(s) to complement EPS and TSR for up to one third of future awards, albeit the 2017 LTIP will continue to be based two thirds on EPS and one third on relative TSR.

2017 EPS targets will be expressed in cumulative pence terms in order to reduce the sensitivity of vesting to final year performance and incentivise executives to deliver sustained steady growth. For 2017, targets will be equivalent to a growth rate of 6-13% per year over the three-year period. The committee believes these targets represent an appropriately stretching range in the context of internal and external reference points, and are broadly consistent with the growth rates employed across other FTSE long-term incentives. Targets for future cycles will be reviewed in advance of making awards to ensure they remain appropriate in the context of business and broader economic circumstances.

In terms of TSR targets, it is proposed these be expressed as a percentage outperformance of median TSR rather than the current ranking approach to improve the robustness of calibration given our peer group has only seven companies. It is proposed that full vesting for the TSR component requires 10% per annum outperformance of the peer median, a level which is broadly equivalent in difficulty to the approach previously used.

#### Conclusion

The committee remains committed to a remuneration policy and implementation which we feel provides suitable opportunity for our executive directors to be rewarded for their contribution to the business, aligned with the interests of all stakeholders.

We value the support which shareholders have provided, as reflected in the feedback from our engagement and the vote given to our remuneration report at our 2016 AGM of 99%. We hope to continue to receive your support at the forthcoming AGM.

#### PATRICK DE SMEDT

CHAIR OF THE REMUNERATION COMMITTEE

23 FEBRUARY 2017

The table below provides a high level summary of the outcomes for the year and the remuneration arrangements going forward for the executive directors:

		Chief Executive John Morgan	Finance Director Steve Crummett
2017 annual salary		£490,537	£391,142
2017 maximum bonus opportunity (30% deferred into shares for two years)	% of base salary	125%	125%
2017 long term incentive plan award (subject to performance conditions)	% of base salary	150%	150%
2016 annual bonus	% of base salary	100%	100%
		£476,250	£379,750
LTIP awards vesting 19 May 2017	% of maximum award	62%	62%
	Number of vested shares	34,560	26,038

## Remuneration policy

This part of the report sets out the Company's policy for the remuneration of executive and non-executive directors (referred to as either 'the remuneration policy' or 'the policy'). The policy is determined by the remuneration committee and is not subject to audit by the external auditor.

As mentioned in the chairman's statement, the committee has taken the opportunity over the past six months to undertake a thorough and detailed review of the existing policy, and to consult with major shareholders on proposed changes. As a result of that review, the committee is satisfied that, subject to the amendments set out below, the policy remains appropriate.

Should shareholders approve the changes which are being sought at the 2017 AGM, the new policy would be effective from the date of the AGM. The committee considers that the changes strengthen the link between the Group's strategy and executive remuneration and increase alignment between the interests of executives and shareholders over the long term.

### Proposed changes to policy

Pay element	Current Policy	New Policy
<b>Annual bonus</b>	<ul style="list-style-type: none"> <li>- Maximum bonus 100% of salary.</li> <li>- No mandatory bonus deferral.</li> <li>- Bonus measured on a combination of PBTA*, set relative to the Group's budget and non-financial, strategic and/or personal objectives to provide a rounded assessment of Group and management's performance. The majority/all of the bonus may be measured on PBTA*.</li> </ul>	<ul style="list-style-type: none"> <li>- Maximum bonus 125% of salary.</li> <li>- 30% of any bonus earned will be mandatorily deferred into ordinary shares under normal circumstances for three years.</li> <li>- Flexibility to introduce additional financial measures, as well as non-financial, strategic and/or personal measures. At least 80% of the annual bonus will continue to be linked to financial performance.</li> </ul>
<b>Long-term incentive plan</b>	<ul style="list-style-type: none"> <li>- Maximum award of 150% of salary (normal limit) or 200% (exceptional limit, for example in recruitment or retention).</li> <li>- After the three-year performance period, awards vest.</li> <li>- Performance measured based on a combination of EPS and TSR.</li> </ul>	<ul style="list-style-type: none"> <li>- No change to maximum awards.</li> <li>- After the three-year performance period, a two-year holding period will normally apply on net vested LTIP shares.</li> <li>- Performance measure based on a combination of EPS and TSR, with the option to introduce one or more other measures over the course of the policy for up to one third of awards, if deemed appropriate.</li> </ul>

No other changes are proposed to the current remuneration policy.

#### Policy overview

The Company aims to provide a remuneration structure that is aligned with shareholder interests and, as such, is competitive in the marketplace to retain and motivate executive directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term, thereby driving growth in value to our shareholders.

Company policy is that performance-related components should form a significant portion of the overall remuneration opportunity, with maximum total potential rewards being earned through the achievement of appropriately stretching performance targets based on measures that the committee believes also reflect and take account of the interests of shareholders.

#### Consideration of shareholder views

The Company is committed to maintaining good communications with investors. The committee considers the AGM an opportunity to meet and communicate with investors and considers shareholder feedback received in relation to the AGM each year. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy.

In addition, the committee seeks to engage directly with major shareholders and their representative bodies should any material changes be made to the remuneration policy (for example, this has been done in respect of the proposed changes to the policy outlined above). Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year are set out in the annual report on remuneration (see [page 90](#)).

### Consideration of employment conditions elsewhere in the Group

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 2017, 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 remuneration policy, although the committee will keep this under review.

## Remuneration policy table

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
<b>Salary</b>	<p>To provide competitive fixed remuneration.</p> <p>To attract, retain and motivate executive directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term.</p>	<p>Basic 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.</p> <p>The committee will take into account the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role.</p>	<p>There is no prescribed maximum annual increase.</p> <p>Current salary levels are presented on <a href="#">page 91</a>.</p>	Not applicable.
<b>Benefits</b>	<p>To provide market consistent benefits, including insured benefits to support the individual and their family during periods of ill health, accidents or in the event of death.</p> <p>Car or travel allowances to facilitate effective travel.</p>	<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 predetermined.</p>	Not applicable.

**Governance**  
**Remuneration policy**

— continued

**Remuneration policy table**

<b>Element</b>	<b>Purpose and link to strategy</b>	<b>Operation</b>	<b>Maximum opportunity</b>	<b>Performance targets</b>
<b>Pension</b>	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 (for example 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>	Not applicable.
<b>Annual bonus</b>	Rewarding the achievement of demanding annual performance metrics.	<p>Performance measures and targets are reviewed annually by the committee.</p> <p>70% of any bonus earned is payable in cash and 30% is normally deferred for three years and satisfied in Company shares. Dividends accrue during the deferral period and may be paid in cash or shares at the time of release.</p> <p>The committee has discretion: (i) to 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 (ii) to ensure fairness to both shareholders and participants.</p>	<p>The maximum opportunity is 125% of base salary.</p> <p>Financial targets incorporate an appropriate sliding scale range around a challenging target.</p> <p>Target performance will typically deliver up to 50% of maximum bonus, with threshold performance typically paying up to 15% of maximum bonus.</p>	<p>All or a majority of the bonus will be based on PBTA*, set relative to the Group's budget or such other financial measures as the committee deems appropriate.</p> <p>Financial targets will account for not less than 80% of the annual bonus.</p> <p>A minority of the bonus may be based on non-financial, strategic and/or personal objectives linked to the strategic objectives of the Group to provide a rounded assessment of Group and management's performance.</p>

## Remuneration policy table

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
<b>2014 LTIP</b>	<p>To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance.</p> <p>To encourage share ownership and provide further alignment with the interests of shareholders.</p>	<p>Annual awards of conditional shares or nil (or nominal) cost options are granted with vesting dependent on the achievement of performance conditions over a three-year period.</p> <p>For awards granted in 2017 onwards net LTIP shares vesting will typically be subject to a two-year holding period, creating a total of five years between the award being granted, and the first opportunity to sell.</p> <p>Performance targets are reviewed annually by the committee for each new award.</p> <p>Dividends that accrue during the vesting period may, at the committee's discretion, be paid in cash or shares at the time of vesting. The calculation of the dividend equivalent may assume the reinvestment of dividends.</p> <p>The committee has discretion to scale back (potentially to zero), vesting outcomes under the TSR element in the event it 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.</p> <p>Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.</p>	150% of base salary.	<p>Awards are subject to performance conditions based on the Company's EPS and on relative TSR compared to a group of UK-listed peers.</p> <p>The committee has discretion to introduce additional performance condition(s) (to complement EPS and TSR) for up to one third of future awards.</p> <p>For both the EPS and TSR conditions, no more than 25% of the awards will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.</p>
<b>All employee sharesave plan</b>	To encourage share ownership and provide further alignment with shareholders.	<p>This is an HMRC tax-advantaged plan under which regular monthly savings can be made over a period of three years and can be used to fund the exercise of an option to purchase shares. Options are granted at up to a 20% discount.</p> <p>This scheme is open to all employees including executive directors.</p>	Prevailing HMRC limits apply.	Not applicable.



## Governance

### Remuneration policy

— continued

#### Remuneration policy table

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
<b>Non-executive directors' fees</b>	Set to attract, retain and motivate talented individuals	<p>Non-executive directors receive a basic annual fee in respect of their Board duties. Additional fees may be paid to the chairs of the committees and the senior independent director to reflect their additional responsibilities.</p> <p>The chairman receives a fixed annual fee. Fees are normally reviewed annually.</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>Non-executive directors are reimbursed for reasonable expenses and any tax arising on those expenses will be settled directly by the Company. To the extent that these are deemed taxable expenses, they will be included in the annual remuneration report as required.</p>	<p>For the non-executive directors, there is no prescribed maximum annual increase.</p> <p>The Company's Articles of Association provide that the total aggregate remuneration paid to the chairman of the Company and non-executive directors will be determined by the Board within the limits set by shareholders and detailed in the Company's Articles.</p>	Not applicable

#### Notes to the policy table

The committee is satisfied that the above remuneration policy is in the best interests of shareholders and does not promote excessive risk-taking.

For the avoidance of doubt, in approving this directors' remuneration policy, 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).

#### Performance measure selection and approach to target setting

The annual bonus is currently based 100% on PBTA\*, which is the key measure of how successful the Group is in managing its operations. Any additional measures which may be introduced in the future would be aligned to Company strategy and we would provide details at the relevant time. The long-term incentive performance measures, EPS and TSR, reward long-term financial growth and significant long-term returns to shareholders. The TSR performance condition is monitored on the committee's behalf by Kepler, while EPS is derived from the Group's audited financial statements.

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, while remaining realistic enough to motivate and incentivise management.

### Overview of remuneration policy for other employees

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 and employees, for which the maximum opportunity and the performance conditions may vary by organisational level.

#### Use of discretion

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 (for example, 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;
- to determine the release of deferred bonus shares for leavers; and
- retention of LTIP shares subject to a holding period for leavers.

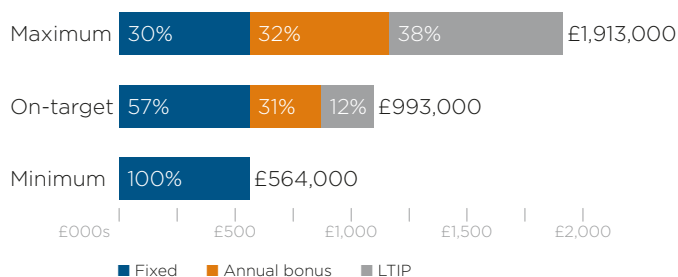
#### Malus and clawback

Awards under the annual bonus, the deferred bonus and the LTIP are subject to malus and clawback provisions which can be applied to both vested and unvested awards. Clawback provisions will apply for a period of three years post vesting. Circumstances in which malus and clawback may be applied include: for overpayments due to material misstatement of the Company's financial accounts; gross misconduct on the part of the award-holder; or an error in calculating the vesting outcomes.

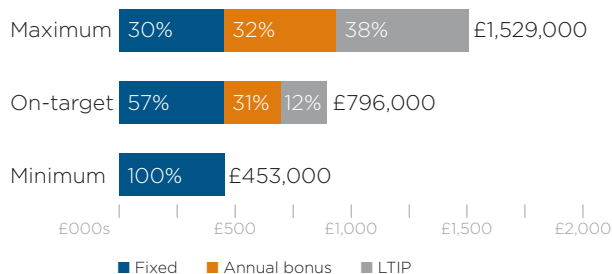
### Remuneration scenarios for the executive directors

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

#### Chief Executive



#### Finance Director



- Base salary levels are as at 1 January 2017.
- The value of benefits has been estimated based on amounts received in respect of 2016.
- 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 the threshold is achieved under the LTIP (16.7%); and maximum performance assumes full vesting under both plans (125% 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.

#### External appointments

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 year.

## Governance

### Remuneration policy

— continued

#### Approach to recruitment remuneration

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

#### External appointment

For external appointments, the committee would seek to align the remuneration package with the remuneration policy approved by shareholders, as follows:

Element of pay	Approach	Maximum annual grant value
<b>Base salary</b>	The base salaries of new executive directors will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. In the event that the committee elects to set the initial basic salary of a new appointee below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role.	
<b>Pension</b>	New executive directors will receive company contributions or cash alternative not greater than the existing policy.	
<b>Benefits</b>		
<b>SAYE</b>	New executive directors will be eligible to receive benefits which may include (but are not limited to) travel allowances, private medical insurance, income protection insurance, life assurance and any necessary relocation and/or incidental expenses. New appointees will also be eligible to participate in all-employee share schemes.	
<b>Annual bonus</b>	The structure described in the policy table will apply to new executive directors, with the maximum opportunity being pro rated to reflect the proportion of the financial year served.	125% of salary
<b>LTIP</b>	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table.	150% of salary

In determining appropriate remuneration, the committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of both the Company and its shareholders. The committee may additionally 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 and, in doing so, will take account of relevant factors including the value of deferred remuneration, the performance conditions and the time over which they would have vested or been paid. Any such arrangements would typically have an aggregate fair value no higher than the awards being forfeited.

#### Internal promotion

In cases of appointing a new executive director by way of internal promotion, the committee will be consistent with the policy for external appointees detailed above. 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.

#### Non-executive directors

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

Current 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 respect of new hires, 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.

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. Leavers would normally retain deferred bonus shares, albeit release would normally be at the end of the deferral period, with committee discretion to treat otherwise.

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). Leavers would normally retain vested LTIP shares subject to a holding period and these would normally be released at the end of the holding period with committee discretion to treat otherwise.

### Service agreements

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	5 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 Companies Act 2006.

	Appointment letter date	Month/year initial three-year term was extended
Michael Findlay	1 October 2016	-
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

The non-executive directors are subject to annual re-election by shareholders.

# Annual report on remuneration

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

## Remuneration committee membership and activities in 2016

### Composition

#### Members during the year

**Patrick De Smedt** (chair)  
**Malcolm Cooper**  
**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 setting of their salaries and remuneration packages. In addition, the committee monitors the structure and level of remuneration for other senior executives in the Group and is aware of pay and conditions in the workforce generally.

The terms of reference of the committee are available on the Company's website.

#### Activities during the year

The committee met on five occasions during the year and attendance at the meetings is disclosed in the corporate governance report on [page 68](#). Following his appointment on 3 October 2016, the chairman of the Board has attended all meetings of the committee. The company secretary acted as secretary to the committee. The chairman of the committee reported to subsequent meetings of the Board on the committee's work.

The committee received assistance in considering executive remuneration from the chairman and chief executive who both attended committee meetings by invitation. No person was present during any discussion relating to their own remuneration.

The meetings covered a review of the remuneration policy, normal business of confirming performance-related pay for the year ended 31 December 2016 and setting bonus and long-term incentive targets for 2017. Additional consultation between committee members and between the chair of the committee and the chief executive took place outside of formal meetings.

#### Advisers

Following a detailed review of its independent advisors, the committee decided to appoint Kepler, a brand of Mercer, with effect from 22 April 2016. New Bridge Street (NBS), part of Aon plc, provided advice to the committee from 1 January 2016 to 22 April 2016. NBS provided advice to the committee on the content for the 2016 annual report and shareholder feedback ahead of the AGM.

Kepler provided feedback to the committee in relation to its consideration of the remuneration policy, the structure of the executive directors' remuneration for 2017 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.

Kepler 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.

The fees paid by the Company to Kepler during the financial year for advice to the committee in relation to the above were £55,576. In addition, fees paid by the Company to NBS during the financial year were £22,403 (2015: £33,485).

Kepler is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at [remunerationconsultantsgroup.com](http://remunerationconsultantsgroup.com).

#### Summary of shareholder voting at the AGM

At last year's AGM held on 5 May 2016, the directors' remuneration report (excluding the remuneration policy) for the year ended 31 December 2015 received the following votes from shareholders:

	Annual statement and annual report on remuneration	
	Total number of votes	% of votes cast
For	35,215,349	99.11
Against	316,805	0.89
<b>Total votes cast (for and against)</b>	<b>35,532,154</b>	<b>100.00</b>
Votes withheld <sup>1</sup>	4,688	-
<b>Total votes cast (including withheld votes)</b>	<b>35,536,842</b>	<b>-</b>

<sup>1</sup> A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'for' and 'against' a resolution.

The remuneration policy was last approved by shareholders at the AGM on 7 May 2015 where 98.46% of votes were registered in favour of the relevant resolution.

## Implementation of the Remuneration Policy for 2017

### Base salaries

In setting the 2017 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%. The committee determined that the base salaries for John Morgan and Steve Crummett would increase by 3% with effect from 1 January 2017. In considering the salary increases, the committee took account of the performance of each executive director, their respective responsibilities as well as benchmarking in respect of both the Company's revenue and market capitalisation. Accordingly, annual base salaries for the executive directors for 2017 will be as follows:

	From 1 January 2017 £	From 1 January 2016 £	Increase
John Morgan	<b>490,537</b>	476,250	3%
Steve Crummett	<b>391,142</b>	379,750	3%

### 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

Subject to shareholder approval of the revised policy at the AGM, the maximum annual bonus potential for 2017 will increase to 125% of base salary with 70% of any bonus earned paid in cash and the remaining 30% deferred in shares for three years. To ensure that management is focused on the financial performance of the Company in 2017, 100% of the bonus will continue to be based on a PBTA\* target range set in relation to the Group's budget.

As described in the committee chair's statement, the 25% increase in bonus opportunity is proposed not only to balance the other changes proposed (such as the introduction of 30% bonus deferral and the two-year LTIP holding period) but also to ensure that the Company is able to compete for talent and to rebalance the package more towards variable, performance-related pay. The 125% of salary opportunity aligns with median practice for our TSR sector comparators against whom we compete for talent, and with the median for UK-listed companies of similar revenue and market cap. The proposed increase was considered in the context of total remuneration, and the committee is satisfied that the resultant market positioning is appropriate for the Company. The impact of the introduction of mandatory deferral is to reduce the maximum cash bonus opportunity to 87.5% of salary with maximum deferral of 37.5%, rebalancing executive director packages to the longer term and increasing shareholder alignment.

The targets for the forthcoming year 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 including the deferred shares will be subject to malus and clawback provisions.

### Long-term incentives

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

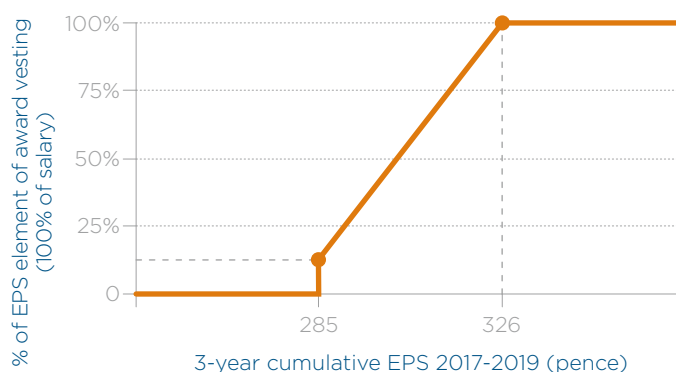
As per the LTIP awards, the awards to be granted in 2017 will be set at 150% of base salary. Two thirds of awards (100% of salary) will be based on an EPS performance target with the remaining one-third of awards (50% of salary) based on the Company's TSR compared with seven of its UK-listed peers, over a three-year period. Further details on these performance conditions are set out below.

Net shares vesting under LTIP awards granted in 2017 will be subject to a mandatory two-year holding period at the end of the vesting period. All awards are subject to malus and clawback provisions.

### EPS performance condition (two thirds of award)

For the awards granted in 2017, EPS targets will be expressed in cumulative pence terms in order to reduce the sensitivity of vesting to final year performance and incentivise executives to deliver sustained steady growth. For 2017, targets will be equivalent to a growth rate of 6-13% per year over the three-year period. The committee believes these targets represent an appropriately stretching range in the context of internal and external reference points, and are broadly consistent with the growth rates employed across other FTSE long-term incentives.

The vesting range for the EPS targets is shown in the graph below:



## Governance

### Annual report on remuneration

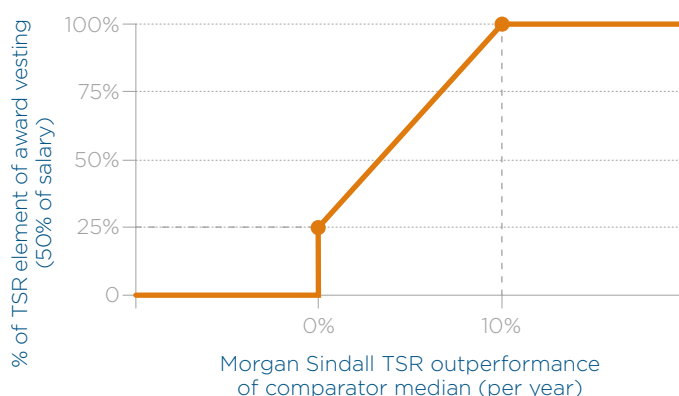
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#### TSR performance condition (one third of award)

TSR targets for 2017 awards will be expressed as an outperformance of median rather than the ranking approach used in previous cycles due to the relative paucity of good comparators. It is proposed that full vesting for the TSR component will require 10% per year outperformance of comparator median, a level which is broadly equivalent in difficulty to the approach previously used.

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 in the graph below:



The committee has discretion to scale back (potentially to zero), vesting outcomes under the TSR element in the event it 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.

#### 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. As Michael Findlay only joined the Board in October 2016, the committee determined that no fee increase should be offered for 2017. Following a review by the Board, it was further agreed that no increase would be made to the fees of the non-executive directors in 2017. Accordingly the annual fees from 1 January are as follows:

	2017 £	2016 £	Increase
Chairman	<b>145,000</b>	143,664 <sup>1</sup>	N/A
Base fee	<b>44,800</b>	44,800	-
Additional fees:			
Audit committee chair	<b>7,500</b>	7,500	-
Remuneration committee chair	<b>6,000</b>	6,000	-
Senior independent director	<b>6,000</b>	6,000	-

<sup>1</sup> Adrian Martin, who stepped down from the Board on 3 October 2016, was paid a fee of £143,220 per year. Michael Findlay, who joined the Board on 3 October 2016, was paid a fee of £145,000 per year.

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

#### 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 Morgan Sindall Employee Benefit Trust ('the Trust') and shares for the Company's other share plans may be satisfied using either new issue shares or market purchased shares. 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 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 5.14% of the current issued ordinary share capital under all employee share plans, of which 0% relates to discretionary share plans.

Separately the Trust currently holds 759,098 shares, which may be used to satisfy awards.

**Directors' remuneration (audited)**  
**Single total figures of remuneration for 2016**

	Fees/basic salary £000	Benefits <sup>1</sup> £000	Pension contributions £000	Annual cash bonuses <sup>2</sup> £000	Value of long-term incentives <sup>3</sup> £000	Total remuneration £000
<b>Executive directors</b>						
John Morgan						
<b>2016</b>	<b>476</b>	<b>24</b>	<b>48</b>	<b>476</b>	<b>249</b>	<b>1,273</b>
2015	462	26	46	371	-	905
Steve Crummett						
<b>2016</b>	<b>380</b>	<b>23</b>	<b>38</b>	<b>380</b>	<b>187</b>	<b>1,008</b>
2015	348	23	35	280	-	686
<b>Non-executive directors</b>						
Michael Findlay <sup>4</sup>						
<b>2016</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36</b>
2015	-	-	-	-	-	-
Patrick De Smedt						
<b>2016</b>	<b>57</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57</b>
2015	49	-	-	-	-	49
Malcolm Cooper <sup>5</sup>						
<b>2016</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>
2015	6	-	-	-	-	6
Simon Gulliford						
<b>2016</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45</b>
2015	43	-	-	-	-	43
Liz Peace						
<b>2016</b>	<b>47</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47</b>
2015	51	-	-	-	-	51
Adrian Martin <sup>6</sup>						
<b>2016</b>	<b>108</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>108</b>
2015	139	-	-	-	-	139

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 2016 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 2016	37.1	39.5	44.2	45.3	100

3 Based on awards granted in 2014 under the 2014 LTIP, which are due to vest on 19 May 2017 subject to EPS and relative TSR performance for the year ended 31 December 2016. As set out in the table below, 62% of the 2014 awards are expected to vest:

Performance condition	Weighting	Threshold target	50% target	Maximum target	Actual performance	Percentage vesting
Adjusted EPS	50%	72.1p	78.4p	85p	84.7p	98
Relative TSR	50%	Median	N/A	Second position	53.41% between 5th and 4th positions	26

**Total vesting**

**62**

As the market price on the date of vesting is currently unknown, the values shown are estimated using the average market value over the last quarter of 2016 of £7.22.

4 Michael Findlay joined the Company on 3 October 2016.

5 Malcolm Cooper joined the Company on 9 November 2015.

6 Adrian Martin stepped down from the Board on 3 October 2016.



**Governance**  
**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	No. of shares over which award was granted	Face value of award <sup>1</sup> £	% vesting at threshold	Performance period
John Morgan	LTIP	2 March 2016	150% of salary	£7.63	93,627	£714,374	16.7%	Three financial years to 31 December 2018
Steve Crummett					74,655	£569,618	(12.5% for EPS element, 25% for TSR element)	

<sup>1</sup> Based on the average share price for the five dealing days preceding the date of grant. The closing share price on 2 March 2016 was £7.94.

**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. 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.

	<b>31 December 2016</b> <b>No. of shares</b>	31 December 2015 No. of shares
Michael Findlay <sup>1</sup>	<b>4,173</b>	N/A
John Morgan	<b>4,504,352</b>	4,004,352
Steve Crummett	<b>14,615</b>	14,615
Patrick De Smedt	<b>2,000</b>	2,000
Malcolm Cooper	<b>10,000</b>	-
Simon Gulliford	<b>11,350</b>	11,350
Liz Peace	<b>1,375</b>	1,375

<sup>1</sup> Michael Findlay joined the Company on 3 October 2016.

There have been no changes in the interests of the directors between 31 December 2016 and 23 February 2017.

## Directors' outstanding share incentives

Details of the executive directors' interests in long-term incentive awards as at 31 December 2016 and movements during the year are as follows:

### Performance shares

	Date of award	No. of awards outstanding as at 1 January 2016	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 2016	End of performance period	Date awards vest
John Morgan	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
	2.3.2016	-	93,627	-	-	-	93,627	31.12.2018	2.3.2019
	<b>Total</b>		<b>235,553</b>	<b>93,627</b>	<b>-</b>	<b>-</b>	<b>(81,186)</b>	<b>247,994</b>	
Steve Crummett	26.2.2013	91,751	-	-	-	(91,751)	-	31.12.2015	26.2.2016
	19.5.2014	41,956	-	-	-	-	41,956	31.12.2016	19.5.2017
	2.3.2015	74,348	-	-	-	-	74,348	31.12.2017	2.3.2018
	2.3.2016	-	74,655	-	-	-	74,655	31.12.2018	2.3.2019
	<b>Total</b>		<b>208,055</b>	<b>74,655</b>	<b>-</b>	<b>-</b>	<b>(91,751)</b>	<b>190,959</b>	

- The awards granted in 2013 under the Executive Remuneration Plan 2005 (ERP) failed to vest with EPS and TSR for the year ended 31 December 2015 falling below the threshold targets.
- 62% of the awards granted in 2014 will vest as a result of the EPS and TSR targets being achieved. Adjusted EPS for the Group as at 31 December 2016 was 84.7p which equated to 98% of the EPS element of the award vesting. The Group achieved a position of 53.41% between the fifth and fourth positions which equated to 26% of the TSR element of the award vesting.
- 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 year, reducing on a sliding scale to 40% vesting for achieving EPS growth of RPI+12% per year and again on a sliding scale down to 12.5% vesting for achieving EPS growth of RPI+4% per year. There is no vesting for this part of an award for EPS growth less than RPI+4% per year. For awards over the remaining 50% of salary, the award is subject to achieving TSR of between median (25% vesting) and upper quartile (100% vesting) against a comparator group of eight companies.
- The awards of performance shares over 150% of salary granted in 2016 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+15% per year, reducing on a sliding scale to 40% vesting for achieving EPS growth of RPI+10% per year and again on a sliding scale down to 12.5% vesting for achieving EPS growth of RPI+5% per year. There is no vesting for this part of an award for EPS growth less than RPI+5% per year. 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 2016	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2016	End of performance period	Exercise price	Date from which exercisable
John Morgan	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
	<b>Total</b>		<b>187,380</b>	<b>-</b>	<b>(81,016)</b>	<b>106,364</b>		

- The options granted in 2006 were not exercised and lapsed on 5 April 2016 at the expiry of the 10-year period.
- The outstanding options granted in 2010 satisfied their performance condition and are exercisable.
- The outstanding options detailed above will, if not exercised, lapse 10 years from the date of grant.

The mid-market price of a share on 31 December 2016 was £7.45 and the range during the year was £5.60 to £8.37.

## Governance

### Annual report on remuneration

— continued

#### 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 26 February 2013 to Paul Whitmore was not met and the awards lapsed on 26 February 2016. No other payments were made to former directors during the year.

#### Percentage change in remuneration levels

The table below shows the movement in salary, benefits and annual bonus for the chief executive between the 2015 and 2016 financial years, compared to that for the average of all employees of the Group:

	Change
<b>Chief executive</b>	
Salary	3.0%
Benefits	-7.7%
Bonus	28.0%
<b>Average employee</b>	
Salary	4.1%
Benefits	-2.9%
Bonus	29.8%

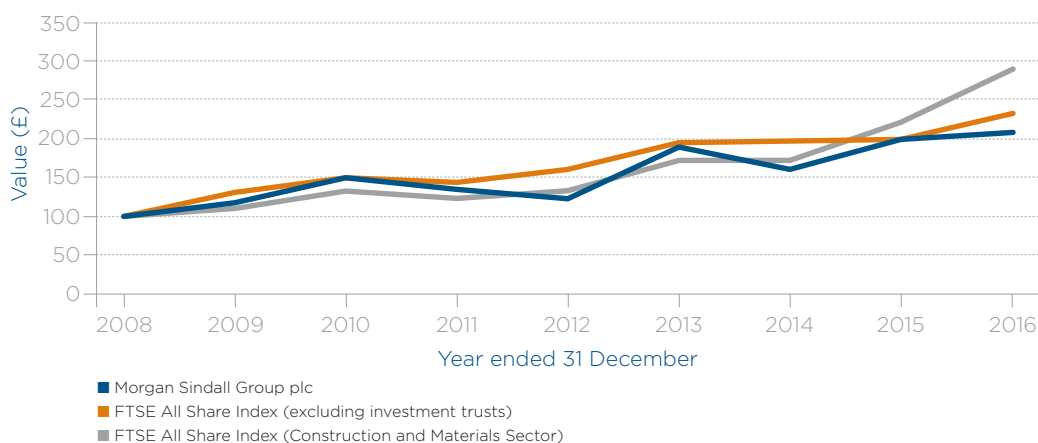
#### Relative importance of spend on pay

The following table sets out the percentage change in profit, dividends and overall spend on pay in 2016 compared to 2015:

	2016	2015	Change
Adjusted EPS (pence)	<b>84.7</b>	63.0	+34%
Dividends paid during the year (£m)	<b>13.2</b>	11.8	+12%
Employee remuneration costs (£m)	<b>404.6</b>	368.9	+10%

#### Performance graph and table

The graph below shows the TSR for the Company's shares over the last nine financial years. It shows the value to 31 December 2016 of £100 invested in the Company on 1 January 2009 compared with the value of £100 invested in the FTSE All Share Index (excluding investment trusts) and the FTSE All Share Index (Construction and Materials Sector). The other points plotted are the values at intervening financial year ends.



The total remuneration figures for the chief executive during each of the last eight 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.

	2016	2015	2014	2013	2012	2012	2011	2010	2009
Chief executive		John Morgan <sup>1</sup>				Paul Smith <sup>2</sup>			
Total remuneration (£000)	<b>1,273</b>	905	519	507	671	1,327	1,025	1,096	796
Annual bonus %	<b>100</b>	80	-	- <sup>3</sup>	30	26	85	100	27
LTIP share awards vesting %	<b>62</b>	-	-	-	-	49	-	-	25
LTIP share options vesting %	<b>-</b>	-	-	-	46	46	-	-	-

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

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

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

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

**PATRICK DE SMEDT**

CHAIR OF THE REMUNERATION COMMITTEE

23 FEBRUARY 2017

## Directors' report

### Other statutory disclosures

The Companies Act 2006 ('the Act') requires the directors to present a fair review of the business during the year to 31 December 2016 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 from the inside front cover of the annual report to [page 58](#). The FCA's Disclosure Guidance and Transparency Rules require certain information to be included which can be found in the corporate governance report on [pages 64 to 70](#).

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 25](#) to the consolidated financial statements.

Pages 1 to 102, 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
<b>Dividends</b>	See <a href="#">note 7</a> of the consolidated financial statements on <a href="#">page 126</a> .
<b>Capital structure</b> (details of the issued share capital)	See the consolidated financial statements on <a href="#">page 134</a> .
<b>Directors</b>	<ul style="list-style-type: none"> <li>- See <a href="#">page 93</a> of the remuneration report detailing the directors who served during the year.</li> <li>- Biographical details of the directors of the Company who are seeking election and re-election at the 2017 AGM are set out on <a href="#">pages 60 to 61</a>.</li> <li>- Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on <a href="#">pages 94 to 95</a>.</li> </ul>
<b>Employment policies</b>	Details of the Group's employment policies may be found in the strategic report on <a href="#">pages 42 to 43</a> .
<b>The Morgan Sindall Employee Benefit Trust ('theTrust')</b>	Details of the shares held by the Trust may be found in the consolidated financial statements on <a href="#">page 134</a> .
<b>Environmental, social and governance (ESG) disclosures</b>	Details of the Group's approach to diversity and ESG disclosures can be found in the strategic report on <a href="#">pages 43 and 45</a> , the risk review on <a href="#">pages 50 to 51</a> and in the corporate governance report on <a href="#">pages 72 to 74</a> .
<b>Morgan Sindall Group plc Long Term Incentive Plan (LTIP)</b>	Details of the Group's LTIP are set out in <a href="#">note 23</a> of the consolidated financial statements on <a href="#">page 135</a> and the annual report on remuneration on <a href="#">pages 91 to 92</a> .
<b>Greenhouse gas emissions</b>	All disclosures on the Group's greenhouse gas emissions, as required to be disclosed under Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (pursuant to the Act, Strategic Report and Directors' Report Regulations 2013), are contained in the strategic report on <a href="#">page 45</a> .

### Power to issue and allot shares

At each AGM the Board seeks authorisation from its shareholders to allot shares. The directors were granted authority at the AGM on 5 May 2016 to allot relevant securities up to a nominal amount of £738,333. 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.

Special resolutions will also be proposed to renew the directors' power to make non-pre-emptive issues for cash, as explained in the notice to the shareholders 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, if at any time the share capital of the Company is divided into different classes of shares, the 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 5 May 2016, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,430,003 shares of 0.5p each 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 the date of this year's AGM or 5 August 2017, whichever is earlier. 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

Butterfield Trust (Guernsey) Limited, as Trustee of the Trust, held 1.7% of the issued share capital of the Company as at 31 December 2016 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 2016 which equated to 1.2% of the total dividend paid.

## Governance

### Directors' report

— continued

#### Powers of directors

Subject to the Articles, the Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular, the Board may exercise all the powers of the Company to borrow money, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

#### Directors' indemnities

The Articles entitle the directors of the Company to be indemnified, to the extent permitted by the Act and any other applicable legislation, out of the assets of the Company in the event that they suffer any loss or incur any liability in connection with the execution of their duties as directors. Neither the indemnity nor any applicable 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' liability 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 insurance 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 at a general meeting of the Company's shareholders and are available on the Company's website.

#### Substantial shareholdings

As at 31 December 2016, the following information has been disclosed to the Company under the FCA's Disclosure Guidance and Transparency Rules (DTR 5), in respect of notifiable interests in the voting rights in the Company's issued share capital:

Name of holder	Total voting rights <sup>1</sup>	% of total voting rights <sup>2</sup>	Direct or indirect holding
Franklin Templeton Institutional, LLC	5,687,393	12.72	Indirect
John Morgan	4,504,352	10.09	Direct
JO Hambro Capital Management Group Ltd	4,481,502	10.04	Indirect
Standard Life	2,679,262	6.05	3.64% Indirect 2.41% Direct
Ameriprise Financial Inc.	2,627,969	5.93	Indirect
JPMorgan Asset Management Holdings Inc	2,310,035	5.17	Indirect
Aberdeen Asset Managers Ltd	2,010,042	4.65	Indirect
John James Clifford Lovell	1,715,273	3.96	Direct

1 Total voting rights attaching to the ordinary shares of the Company at the time of disclosure to the Company.

2 Percentage of total voting rights at the date of disclosure to the Company.

As at 23 February 2017 Standard Life had notified the Company in accordance with DTR 5 that its interest in the total voting rights of the Company was 2,369,090.

#### Related party transactions

There were no related party transactions in the year to 31 December 2016.

#### Change of control

The Group's banking facilities which are described on [page 19](#) in the financial review 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 by the relevant employees, 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 in the event of a takeover bid.

### Political contributions

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

### Disclosures required under UK Listing Rule 9.8.4

Apart from the dividend waiver which has been issued in respect of shares held by Butterfield Trust (Guernsey) Limited (See [note 22](#) of the consolidated financial statements), there are no disclosures required to be made under UK Listing Rule 9.8.4.

### 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 ascertain any relevant audit information and to ensure that the Company's auditor is aware of such 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 International Limited, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ on 4 May 2017 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. Shareholders will also find enclosed with this document a form of proxy for use in connection with the meeting.

The directors' report from [pages 98 to 101](#) inclusive was approved by the Board and signed on its behalf by:

**CLARE SHERIDAN**  
 COMPANY SECRETARY

23 FEBRUARY 2017



## Directors' responsibility statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the 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

23 FEBRUARY 2017

**STEVE CRUMMETT**  
FINANCE DIRECTOR

23 FEBRUARY 2017

# Financial statements

● <b>Financial statements</b>	
Independent auditor's report	<b>104</b>
Consolidated financial statements	<b>111</b>
Company financial statements	<b>140</b>
Shareholder information	<b>146</b>



External façade of The Word, South Shields (see inside front cover).

**The WORD** NATIONAL CENTRE for the WRITTEN WORD

# 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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 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 that we have audited comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and company balance sheets;
- the consolidated cash flow statement;
- the consolidated and company statements of changes in equity;
- the significant accounting policies; and
- the related [notes 1 to 26](#) and Company only [notes 1 to 2](#).

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

## Summary of our audit approach

### Key risks

The key risks that we identified in the current year were:

- Recognition of contract revenue, margin and related receivables and liabilities
- Carrying value of land and work in progress
- Impairment of goodwill
- Valuation of shared equity loan receivables

The risks identified within this report are consistent with those reported on in the prior year.

### Materiality

The materiality that we used in the current year was £2.55m which was determined on the basis of 7.5% of the average profit before tax and exceptional items over the last five years.

### Scoping

We consider the principal business units to reflect the components of the Group as this is how management monitor and control the business. Our full-scope audit of components provided coverage of 95% of the Group's revenue and 94% of the Group's profit before tax.

### 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 within [page 19](#) and the directors' statement on the longer-term viability of the Group on [page 58](#).

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on [page 46](#) 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 46 to 57](#) that describe those risks and explain how they are being managed or mitigated;
- the directors' statement on [page 19](#) 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; and
- the directors' explanation on [page 58](#) 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 confirm that we have nothing material to add or draw attention to in respect of these matters.**

**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 confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

**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.

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## Recognition of contract revenue, margin and related receivables and liabilities

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**Risk description** For construction companies, there is judgement in assessing the appropriate contract revenue and margin to recognise.

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.

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.

Revenue from construction contracts at 31 December 2016 was £1,846.0m (2015: £1,784.9m) as set out in [note 1](#). Amounts due from construction contract customers was £147.9m (2015: £166.1m) and trade receivables were £163.9m (2015: £170.0m) as set out in [note 15](#).

**How the scope of our audit responded to the risk**

- We evaluated the design and implementation of controls over revenue recognition, amounts due from construction contract customers and contract debtors and where practicable the operating effectiveness of such controls. We also carried out site visits for a number of contracts in the year.
- 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.
- 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.
- 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.
- 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.
- 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.

**Key observations** We are satisfied that the judgements applied by management in assessing the appropriate contract revenue and margin to recognise are appropriate.

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## Carrying value of land and work in progress

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**Risk description** The determination of net realisable value is an area of judgement due to the assumptions made by management on future expected sales values and development opportunities.

The carrying value of inventory at 31 December 2016 was £213.9m (2015: £246.7m) as set out in [note 14](#).

**How the scope of our audit responded to the risk**

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;
- tested the future development cost assumptions against detailed site appraisals and to contractual documentation; and
- 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.

**Key observations** Based on our procedures we do not consider there to be any indicator of impairment in the carrying value of land and work in progress (WIP) held as at 31 December 2016.

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## Impairment of goodwill

<b>Risk description</b>	<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 2016 was £213.9m (2015: £213.9m), as set out in <a href="#">note 9</a>.</p>
<b>How the scope of our audit responded to the risk</b>	<ul style="list-style-type: none"> <li>- We challenged the assumptions used in the impairment model which calculates the recoverable amount of goodwill, described in <a href="#">note 9</a> to the financial statements. Our challenge focused on: <ul style="list-style-type: none"> <li>• assessing the appropriateness of the CGUs identified and goodwill allocation during the period;</li> <li>• assessing the appropriateness of cash flow projections relative to previous performance, current order book, and Office for National Statistics guidance on construction growth rate;</li> <li>• benchmarking against the wider peer group;</li> <li>• recalculating the discount rates and perpetuity rates used; and</li> <li>• challenging management's sensitivity analysis on the cash flow projections and discount rates.</li> </ul> </li> <li>- We checked the mechanical accuracy of the models, performed our own sensitivity analysis and utilised our internal valuation experts to assist in the assessment of the appropriateness of the discount rates.</li> </ul>
<b>Key observations</b>	<p>We concluded that management's assumptions around forecast growth and discount rates were within a reasonable range and as a result have not identified that any impairment of goodwill is required.</p>

## Valuation of shared equity loan receivables

<b>Risk description</b>	<p>The determination of the fair value of the loans issued under the shared equity schemes in the Partnership Housing division requires judgement in relation to the discount rate, rate of expected default and forecast house price growth.</p> <p>The carrying value of shared equity loan receivables at 31 December 2016 was £18.4m (2015: £20.3m) as set out in <a href="#">note 13</a>.</p>
<b>How the scope of our audit responded to the risk</b>	<p>We have reviewed, challenged and sensitised the assumptions in accounting for shared equity schemes and assessed the model methodology, as disclosed in <a href="#">note 13</a>. The assumptions have been benchmarked against similar products in the market place, current market data on house price growth, redemption rates, discount rates and performance of the shared equity scheme to date.</p>
<b>Key observations</b>	<p>There have been no significant changes in the valuation model and we consider management's underlying assumptions to be within a reasonable range.</p>

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.

## Financial statements

### Independent auditor's report

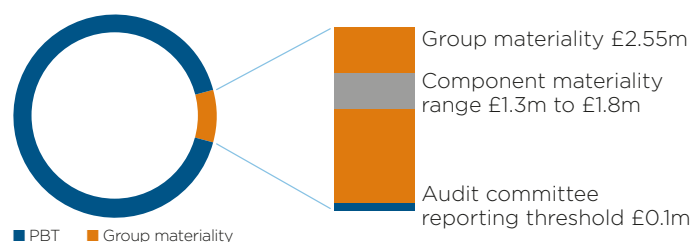
— continued

#### 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Group materiality</b>	£2.55m (2015: £2.57m).
<b>Basis for determining materiality</b>	We determined materiality for the Group to be £2.55m (2015: £2.57m), which is approximately 7.5% (2015: 7.5%) of the five year average profit before tax and exceptional operating items, and approximately 1% (2015: approximately 1%) of net equity.
<b>Rationale for the benchmark applied</b>	We use profit before tax (and exceptional operating items in the years where this is applicable) as it represents a key performance measure for the Group. Profit before tax and exceptional operating items can vary significantly year on year, dependent on factors like key contract performance, while the overall nature and scale of the Group's activities remains broadly unchanged. To reflect this dynamic in determining an appropriate materiality level, we use a five year rolling average profit before tax and exceptional operating items as a benchmark.



We agreed with the audit committee that we would report to the committee all audit differences in excess of £0.1m (2015: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

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

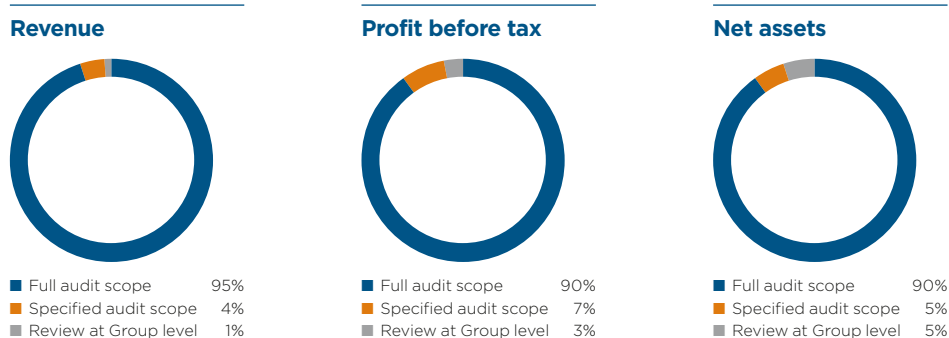
Based on this assessment, our Group audit scope focused primarily on the audit work at the significant components which were selected based on our assessment of the identified risks of material misstatement identified above. These represent the principal business units within the Group's reportable segments. We have performed full audit procedures for the significant components which account for 95% (2015: 96%) of the Group's revenue, 90% (2015: 84%) of the Group's absolute adjusted profit before tax and 90% (2015: 90%) of the Group's absolute 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 individually material 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%-65% of Group materiality (2015: 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.

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 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 or another senior member of the Group audit team carried out a review of the work of the component auditors. The senior statutory auditor is also 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, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the directors' report.



## Financial statements

### Independent auditor's report

— continued

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

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##### 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 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.

**We confirm that we have not identified any such inconsistencies or misleading statements.**

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.

##### 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 2017

# Consolidated income statement

for the year ended 31 December 2016

	Notes	2016	2015		Total £m
		Total £m	Before exceptional items £m	Exceptional operating items £m	
<b>Revenue</b>	1	<b>2,561.6</b>	2,384.7	-	2,384.7
Cost of sales		<b>(2,317.9)</b>	(2,171.5)	(46.9)	(2,218.4)
<b>Gross profit</b>		<b>243.7</b>	213.2	(46.9)	166.3
Administrative expenses		<b>(202.3)</b>	(184.0)	-	(184.0)
Share of net profit of joint ventures	12	<b>7.4</b>	9.6	-	9.6
<b>Operating profit/(loss) before amortisation of intangible assets</b>		<b>48.8</b>	38.8	(46.9)	(8.1)
Amortisation of intangible assets	9	<b>(1.4)</b>	(2.2)	-	(2.2)
<b>Operating profit/(loss)</b>		<b>47.4</b>	36.6	(46.9)	(10.3)
Finance income	5	<b>1.3</b>	1.2	-	1.2
Finance expense	5	<b>(4.8)</b>	(5.7)	-	(5.7)
<b>Profit/(loss) before tax</b>		<b>43.9</b>	32.1	(46.9)	(14.8)
Tax	6	<b>(7.1)</b>	(4.7)	9.5	4.8
<b>Profit/(loss) for the year</b>	3	<b>36.8</b>	27.4	(37.4)	(10.0)
Attributable to:					
Owners of the Company		<b>36.8</b>	27.5	(37.4)	(9.9)
Non-controlling interests		<b>-</b>	(0.1)	-	(0.1)
<b>Profit/(loss) for the year</b>		<b>36.8</b>	27.4	(37.4)	(10.0)
<b>Earnings/(loss) per share</b>					
Basic	8	<b>83.8p</b>			(22.6p)
Diluted	8	<b>81.4p</b>			(22.3p)

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

# Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
<b>Profit/(loss) for the year</b>		<b>36.8</b>	(10.0)
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Actuarial gain/(loss) arising on retirement benefit obligation	18	<b>0.7</b>	(0.1)
Deferred tax on retirement benefit obligation	6	<b>(0.1)</b>	(0.1)
		<b>0.6</b>	(0.2)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Foreign exchange movement on translation of overseas operation		<b>0.6</b>	(0.4)
Other movement on cash flow hedges		<b>0.8</b>	0.2
Deferred tax relating to items that may be reclassified	6	<b>(0.2)</b>	-
		<b>1.2</b>	(0.2)
<b>Other comprehensive income/(expense)</b>		<b>1.8</b>	(0.4)
<b>Total comprehensive income/(expense)</b>		<b>38.6</b>	(10.4)
Attributable to:			
Owners of the Company		<b>38.6</b>	(10.3)
Non-controlling interests		<b>-</b>	(0.1)
<b>Total comprehensive income/(expense)</b>		<b>38.6</b>	(10.4)

# Consolidated balance sheet

at 31 December 2016

	Notes	2016 £m	2015 £m
<b>Assets</b>			
Goodwill and other intangible assets	9	217.0	217.3
Property, plant and equipment	10	16.6	20.8
Investment property	11	6.6	8.8
Investments in joint ventures	12	56.9	50.3
Shared equity loan receivables	13	18.4	20.3
Retirement benefit asset	18	2.6	1.4
<b>Non-current assets</b>		<b>318.1</b>	318.9
Inventories	14	213.9	246.7
Trade and other receivables	15	332.8	353.6
Cash and cash equivalents	25	228.5	115.7
<b>Current assets</b>		<b>775.2</b>	716.0
<b>Total assets</b>		<b>1,093.3</b>	1,034.9
<b>Liabilities</b>			
Trade and other payables	17	(748.3)	(674.5)
Current tax liabilities		(7.7)	(3.5)
Finance lease liabilities		(0.5)	(1.6)
Borrowings	25	(4.8)	(12.8)
Provisions		-	(0.1)
<b>Current liabilities</b>		<b>(761.3)</b>	(692.5)
<b>Net current assets</b>		<b>13.9</b>	23.5
Trade and other payables	17	(8.6)	(17.8)
Finance lease liabilities		(0.7)	(1.8)
Borrowings	25	(15.0)	(45.0)
Deferred tax liabilities	6	(11.7)	(11.9)
Provisions	19	(18.8)	(16.9)
<b>Non-current liabilities</b>		<b>(54.8)</b>	(93.4)
<b>Total liabilities</b>		<b>(816.1)</b>	(785.9)
<b>Net assets</b>		<b>277.2</b>	249.0
<b>Equity</b>			
Share capital	22	2.2	2.2
Share premium account		33.7	32.0
Other reserves		0.2	(1.0)
Retained earnings		241.1	216.5
<b>Equity attributable to owners of the Company</b>		<b>277.2</b>	249.7
Non-controlling interests		-	(0.7)
<b>Total equity</b>		<b>277.2</b>	249.0

The consolidated financial statements of Morgan Sindall Group plc were approved by the Board on 23 February 2017 and signed on its behalf by:

**JOHN MORGAN**  
CHIEF EXECUTIVE

23 FEBRUARY 2017

**STEVE CRUMMETT**  
FINANCE DIRECTOR

23 FEBRUARY 2017

# Consolidated cash flow statement

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
<b>Operating activities</b>			
Operating profit/(loss)		<b>47.4</b>	(10.3)
Adjusted for:			
Amortisation of intangible assets	9	<b>1.4</b>	2.2
Share of net profit of equity accounted joint ventures	12	<b>(7.4)</b>	(9.6)
Depreciation	10	<b>5.5</b>	5.5
Share option expense	23	<b>4.6</b>	2.0
Gain on disposal of property, plant and equipment		<b>(0.2)</b>	(0.3)
Movement in fair value of shared equity loan receivables	13	<b>(0.6)</b>	(1.4)
Non-cash exceptional operating items	3	<b>-</b>	46.9
Additional pension contributions	18	<b>(0.4)</b>	(0.7)
Disposals of investment properties	11	<b>2.2</b>	0.7
Repayment of shared equity loan receivables	13	<b>2.5</b>	1.5
Increase/(decrease) in provisions	19	<b>1.8</b>	(0.8)
<b>Operating cash inflow before movements in working capital</b>		<b>56.8</b>	35.7
Decrease/(increase) in inventories		<b>32.8</b>	(44.5)
Decrease in receivables		<b>22.6</b>	41.5
Increase/(decrease) in payables		<b>69.8</b>	(20.3)
<b>Movements in working capital</b>		<b>125.2</b>	(23.3)
<b>Cash inflow from operations</b>		<b>182.0</b>	12.4
Income taxes paid		<b>(3.3)</b>	(1.7)
<b>Net cash inflow from operating activities</b>		<b>178.7</b>	10.7
<b>Investing activities</b>			
Interest received		<b>1.3</b>	1.3
Dividend from joint ventures	12	<b>1.2</b>	0.7
Proceeds on disposal of property, plant and equipment		<b>3.6</b>	0.6
Purchases of property, plant and equipment		<b>(4.7)</b>	(6.2)
Purchases of intangible fixed assets		<b>(1.1)</b>	(1.4)
Net (increase)/decrease in loans to joint ventures	12	<b>(0.4)</b>	13.6
Payment for the acquisition of subsidiaries, joint ventures and other businesses		<b>(7.7)</b>	-
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(7.8)</b>	8.6
<b>Financing activities</b>			
Interest paid		<b>(3.1)</b>	(4.7)
Dividends paid	7	<b>(13.2)</b>	(11.8)
Repayments of obligations under finance leases		<b>(2.2)</b>	(1.9)
(Repayment of)/proceeds from borrowings	25	<b>(38.0)</b>	25.9
Proceeds on issue of share capital	22	<b>1.7</b>	1.1
Payments by the employee benefit trust to acquire shares in the Company		<b>(3.3)</b>	-
Proceeds on exercise of share options		<b>-</b>	0.2
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(58.1)</b>	8.8
Net increase in cash and cash equivalents		<b>112.8</b>	28.1
Cash and cash equivalents at the beginning of the year		<b>115.7</b>	87.6
<b>Cash and cash equivalents at the end of the year</b>	25	<b>228.5</b>	115.7

## Consolidated statement of changes in equity

for the year ended 31 December 2016

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
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)
<b>1 January 2016</b>	<b>2.2</b>	<b>32.0</b>	<b>(1.0)</b>	<b>216.5</b>	<b>249.7</b>	<b>(0.7)</b>	<b>249.0</b>
Total comprehensive income	-	-	1.2	37.4	38.6	-	38.6
Share option expense	-	-	-	4.6	4.6	-	4.6
Issue of shares at a premium	-	1.7	-	-	1.7	-	1.7
Purchase of shares in the Company by The Morgan Sindall Employee Benefit Trust	-	-	-	(3.3)	(3.3)	-	(3.3)
Purchase of additional stake in subsidiary undertaking	-	-	-	(0.9)	(0.9)	0.7	(0.2)
Dividends paid	-	-	-	(13.2)	(13.2)	-	(13.2)
<b>31 December 2016</b>	<b>2.2</b>	<b>33.7</b>	<b>0.2</b>	<b>241.1</b>	<b>277.2</b>	<b>-</b>	<b>277.2</b>

### Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2015: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of nil (2015: (£0.6m)) arising under cash flow hedge accounting. Movements on the effective portion of hedges are recognised through the hedging reserve, while any ineffectiveness is taken to the income statement.
- Translation reserve of (£0.4m) (2015: (£1.0m)) arising on the translation of overseas operations into the Group's functional currency.

### Retained earnings

Retained earnings include shares in Morgan Sindall Group plc purchased in the market and held by The Morgan Sindall Employee Benefit Trust to satisfy options under the Group's share incentive schemes. The number of shares held by the Trust at 31 December 2016 was 759,098 (2015: 466,425) with a cost of £5.8m (2015: £3.5m).

# Significant accounting policies

for the year ended 31 December 2016

## Reporting entity

Morgan Sindall Group plc (the 'Group' or 'Company') is domiciled and incorporated in the United Kingdom. The nature of the Group's operations and its principal activities are set out in [note 2](#) and in the 'At a glance' section at the front of the annual report.

## 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 19](#) 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.

- The annual improvements 2012-2014 cycle amends the following standards:
  - **IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations'** - Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held-for-sale to held-for-distribution or vice versa and cases in which held-for-distribution accounting is discontinued;
  - **IFRS 7 'Financial Instruments: Disclosures'** - Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements;
  - **IAS 19 'Employee Benefits'** - Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid;
  - **IAS 34 'Interim Financial Reporting'** - Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.
- **IAS 1 (amended) 'Presentation of Financial Statements'**.  
Clarifies the requirements on the use of aggregation and disaggregation; and provides additional examples of possible ways of ordering the notes to improve understandability and comparability.
- **IAS 27 (amended) 'Separate Financial Statements'**.  
Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.
- **IAS 16 (amended) 'Property, Plant and Equipment'** and **IAS 38 (amended) 'Intangible Assets'**.  
Clarifies where the use of a depreciation or amortisation method that is based on revenue is appropriate; and adds guidance on the impact of expected future reductions in the selling price of an item that was produced using an asset on its carrying value.
- **IFRS 11 (amended) 'Joint Arrangements'**.  
Amends IFRS 11 to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11 and disclose the information required by IFRS 3 and other IFRSs for business combinations.

## Financial statements

### Significant accounting policies

— continued

#### (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 2014-2016 cycle
- IAS 40 (amended) 'Investment Property'
- IFRIC 22 (amended) 'Foreign Currency Transactions and Advanced Consideration'
- IFRS 4 (amended) 'Insurance Contracts'
- IFRS 2 (amended) 'Share-based Payments'
- IAS 7 (amended) 'Statement of Cash Flows'
- IAS 12 (amended) 'Income Taxes'
- IFRS 10 (amended) 'Consolidated Financial Statements'
- IAS 28 (amended) 'Investments in Associates and Joint Ventures'
- IFRS 9 'Financial Instruments'
- 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 undertaking a detailed exercise comparing the Group's current revenue recognition policies against the requirements of IFRS 15 to identify the significant areas of difference, drafting new policies to incorporate these differences and quantifying their effect on a sample of different types of contract.
- The directors are also in the process of assessing the potential impact of IFRS 16 on the Group's accounting for leases.

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.

#### (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.

**(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 is the fair value of construction services carried out in the year. This may be measured through a valuation of the works undertaken by a professional surveyor or may be an allocation of the total value of the contract based on the costs incurred as a proportion of the total estimated cost of the contract.

In estimating the total value of the contract it is necessary to consider the value of unagreed variations, claims, pain and gain share mechanisms, performance bonuses and liquidated damages. Variations are only included in the total value where it is probable that they will be approved by the client. Claims are only included in the total value when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Expected pain share is recognised immediately whilst gain share and performance bonuses are only recognised in the total value at the point that they are agreed by the customer. Where there has been a delay in the programme of works and liquidated damages are contractually due, an estimate is made of the amount that is expected to be deducted after extensions of time are agreed and commercial resolution is achieved.

In estimating the total costs of the contract it is necessary to consider the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any acceleration of or delays to the programme or changes in the scope of works.

Once the outcome of a construction contract can be estimated reliably, margin is recognised in the income statement in line with the stage of completion. Losses expected in bringing a contract to completion are recognised immediately in the income statement as soon as they are forecast.

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.



## Financial statements

### Significant accounting policies

— continued

#### (b) Service contracts

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

#### (c) Sale of development properties

Revenue from the sale of development properties is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, there is no continuing management involvement with the properties and the amount of revenue can be estimated reliably.

The transfer of risks and rewards vary depending on the individual terms of the contract of sale. For properties, transfer usually occurs when the ownership has been legally transferred to the purchaser. Revenue from the sale of properties taken in part exchange is not included in revenue.

#### (d) Pre-contract costs

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

Where pre-contract costs are reimbursable, the amount received is recognised as revenue.

#### (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.

### Goodwill and other intangible assets

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. 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.

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.

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 over their estimated useful lives using the straight-line method on the following basis:

- plant and equipment                      between 8.3% and 33% per year
- freehold property                         2% per year
- freehold land                                not depreciated
- 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.

Gains and losses on disposal are determined by comparing the proceeds from disposal against the carrying amount and are recognised in the income statement.

## Financial statements

### Significant accounting policies

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#### 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.

##### (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**

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

**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.

# Critical accounting judgements and estimates

for the year ended 31 December 2016

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. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

#### – Revenue recognition

The Group acts as developer and/or contractor on a number of mixed use schemes. In some instances judgement is required to determine whether the revenue on a particular element of the scheme should be recognised as work progresses or upon legal completion. A detailed assessment of the contractual agreements with the customer as well as the substance of the transaction is performed to determine the point at which the risks and rewards of ownership are transferred to the customer. Relevant factors that are considered include the point at which legal ownership of the land passes to the customer, the degree to which the customer can specify the major structural elements of the design prior to construction work commencing and the degree to which the customer can specify modifications to the major structural elements of the building during construction.

### Key sources of estimation uncertainty

The Group does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notwithstanding this, as a significant portion of the Group's activities are undertaken through long-term construction contracts, the Group is required to make estimates in accounting for revenue and margin. These estimates may depend upon the outcome of future events and may need to be revised as circumstances change. Further detail is provided in the accounting policies on [page 117](#).

# Notes to the consolidated financial statements

for the year ended 31 December 2016

## 1 Revenue

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

	2016 £m	2015 £m
Construction contracts	1,846.0	1,784.9
Other services	114.4	110.8
<b>Construction revenue</b>	<b>1,960.4</b>	<b>1,895.7</b>
<b>Regeneration revenue</b>	<b>601.2</b>	<b>489.0</b>
<b>Total revenue</b>	<b>2,561.6</b>	<b>2,384.7</b>

Finance income of £1.3m (2015: £1.2m) is excluded from the table above.

## 2 Business segments

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

- **Construction & Infrastructure:** provides specialist construction and infrastructure design and build services on projects, frameworks and strategic alliances of all sizes. Alongside its tunnelling design capability is the newly-named BakerHicks which offers multidisciplinary design and engineering consultancy services;
- **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;
- **Property Services:** provides strategic asset management and responsive, planned and cyclical maintenance to social housing providers, facilities management services to public buildings and claims and reinstatement repairs for insurance providers;
- **Partnership Housing:** specialises in the delivery of mixed-tenure regeneration partnership housing schemes, design and build of new homes and planned maintenance and refurbishment;
- **Urban Regeneration:** works with landowners and public sector partners to unlock value from under-developed assets and bring about sustainable regeneration and urban renewal through the delivery of new mixed-use developments; and
- **Investments:** creates long-term strategic partnerships to realise the potential of under-utilised assets of both public and private sector clients, promotes sustained economic growth through regeneration and drives cost efficiencies through innovative and integrated estate management solutions.

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, information technology services, interest revenue and interest expense. The divisions are the basis on which the Group reports its segmental information as presented below:

2016	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Investments £m	Group activities £m	Eliminations £m	Total £m
External revenue	1,272.0	633.6	54.8	430.1	156.5	14.6	-	-	2,561.6
Inter-segment revenue	49.5	-	-	2.9	-	-	-	(52.4)	-
<b>Total revenue</b>	<b>1,321.5</b>	<b>633.6</b>	<b>54.8</b>	<b>433.0</b>	<b>156.5</b>	<b>14.6</b>	<b>-</b>	<b>(52.4)</b>	<b>2,561.6</b>
<b>Operating profit/(loss) before amortisation of intangible assets</b>	<b>8.9</b>	<b>27.5</b>	<b>0.7</b>	<b>13.4</b>	<b>13.4</b>	<b>(2.0)</b>	<b>(13.1)</b>	<b>-</b>	<b>48.8</b>
Amortisation of intangible assets	-	-	-	(0.6)	(0.8)	-	-	-	(1.4)
<b>Operating profit/(loss)</b>	<b>8.9</b>	<b>27.5</b>	<b>0.7</b>	<b>12.8</b>	<b>12.6</b>	<b>(2.0)</b>	<b>(13.1)</b>	<b>-</b>	<b>47.4</b>
Other information: Average number of employees	3,587	703	560	901	68	96	67		5,982

## Financial statements

### Notes to the consolidated financial statements

— continued

#### 2 Business segments continued

2015	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Investments £m	Group activities £m	Eliminations £m	Total £m
External revenue	1,230.5	606.2	59.5	365.0	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	59.5	366.3	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	(1.0)	9.6	12.9	(1.5)	(9.0)	-	38.8
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Amortisation of intangible assets	-	-	-	(0.6)	(1.6)	-	-	-	(2.2)
Exceptional operating items	(46.9)	-	-	-	-	-	-	-	(46.9)
Operating profit/(loss)	(43.1)	24.0	(1.0)	9.0	11.3	(1.5)	(9.0)	-	(10.3)

Other information:

Average number of employees	3,570	653	496	920	65	93	31		5,828
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In previous periods the Group reported five segments. In order to better reflect the way the business is managed and operated, Affordable Housing has been split into two reporting segments: Property Services and Partnership Housing. All other reporting segments are unchanged. The comparative figures above have been restated to reflect the new reporting structure.

During the year ended to 31 December 2016 and the year ended 31 December 2015, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

#### 3 Profit/(loss) for the year

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

	2016 £m	2015 £m
Exceptional operating items - impairment of trade and other receivables in relation to two old construction contracts	-	46.9
Government grants received	(10.3)	(11.5)

The exceptional operating item related to the impairment of amounts recoverable on two construction contracts. Commercial resolution has now been achieved on both contracts.

Auditor's remuneration:

	2016 £m	2015 £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
<b>Total audit fees</b>	<b>0.7</b>	<b>0.7</b>
Other services	0.1	-
<b>Total non-audit fees</b>	<b>0.1</b>	<b>-</b>
<b>Total fees</b>	<b>0.8</b>	<b>0.7</b>

#### 4 Staff costs

	2016 £m	2015 £m
Wages and salaries	355.4	323.1
Social security costs	39.4	36.1
Other pension costs (note 18)	9.8	9.7
	<b>404.6</b>	368.9

#### 5 Finance income and expense

	2016 £m	2015 £m
Interest receivable from joint ventures	1.1	0.9
Other interest income	0.2	0.3
Finance income	1.3	1.2
Interest payable on bank overdrafts and borrowings	(1.8)	(2.9)
Interest payable on finance leases	(0.1)	(0.2)
Loan arrangement and commitment fees	(2.1)	(2.0)
Unwinding of discount on payables	(0.8)	(0.6)
Finance expense	(4.8)	(5.7)
<b>Net finance expense</b>	<b>(3.5)</b>	(4.5)

#### 6 Tax

Tax expense/(credit) for the year:

	2016 £m	2015 £m
<b>Current tax:</b>		
Current year	8.1	0.3
Adjustment in respect of prior years	(0.5)	(0.4)
	<b>7.6</b>	(0.1)
<b>Deferred tax:</b>		
Current year	0.9	(3.0)
Revaluation of deferred tax balances due to changes in statutory tax rate	(0.7)	(1.7)
Adjustment in respect of prior years	(0.7)	-
	<b>(0.5)</b>	(4.7)
<b>Tax expense/(credit) for the year</b>	<b>7.1</b>	(4.8)

UK corporation tax is calculated at 20.0% (2015: 20.25%) of the estimated taxable profit/(loss) for the year.

In 2015 the Group recognised a net loss for the year after exceptional items, which resulted in tax losses carried forward. A deferred tax asset was recognised in 2015 in respect of those losses. During 2016 the Group recognised profits against which some of the losses could be utilised, and the Group is expected to generate further profits in subsequent years capable of being offset against the remaining carried forward losses. Consequently, a deferred tax asset continues to be recognised in respect of the tax losses.

The table below reconciles the tax charge/(credit) for the year to tax at the UK statutory rate:

	2016 £m	2015 £m
Profit/(loss) before tax	43.9	(14.8)
Less: post tax share of profits from joint ventures	(7.4)	(9.6)
	<b>36.5</b>	(24.4)
UK corporation tax rate	<b>20.00%</b>	20.25%
Income tax expense/(credit) at UK corporation tax rate	7.3	(4.9)
<b>Tax effect of:</b>		
Non-taxable income and expenses	0.4	0.2
Tax liability upon joint venture profits <sup>1</sup>	1.2	1.7
Adjustments in respect of prior years	(1.2)	(0.4)
Expected forthcoming change in tax rates upon deferred tax balance	(0.7)	(1.7)
Other	0.1	0.3
<b>Tax expense/(credit) for the year</b>	<b>7.1</b>	(4.8)

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



## Financial statements

### Notes to the consolidated financial statements

— continued

#### 6 Tax continued

##### Deferred tax liabilities

	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 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:					
Income statement	1.7	-	-	-	1.7
Equity	-	-	-	(0.1)	(0.1)
<b>1 January 2016</b>	<b>(14.7)</b>	<b>2.3</b>	<b>(0.3)</b>	<b>0.8</b>	<b>(11.9)</b>
(Charge)/credit to income statement	(0.3)	(0.2)	(0.1)	0.4	(0.2)
Charge to other comprehensive income	-	(0.2)	(0.1)	-	(0.3)
Effect of change in tax rate:					
Credit to income statement	0.8	(0.1)	-	-	0.7
<b>31 December 2016</b>	<b>(14.2)</b>	<b>1.8</b>	<b>(0.5)</b>	<b>1.2</b>	<b>(11.7)</b>

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

At 31 December 2016, the Group had unused tax losses of £13.4m (2015: £18.3m) available for offset against future profits.

A deferred tax asset has been recognised in respect of £11.2m (2015: £14.6m) of these losses. No deferred tax asset has been recognised in respect of the remaining £2.2m (2015: £3.7m) 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 17% during 2020. All closing deferred tax balances have been calculated using a rate of 17% 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.

#### 7 Dividends

Amounts recognised as distributions to equity holders in the year:

	2016 £m	2015 £m
Final dividend for the year ended 31 December 2015 of 17.0p per share	7.5	-
Final dividend for the year ended 31 December 2014 of 15.0p per share	-	6.5
Interim dividend for the year ended 31 December 2016 of 13.0p per share	5.7	-
Interim dividend for the year ended 31 December 2015 of 12.0p per share	-	5.3
	<b>13.2</b>	11.8

The proposed final dividend for the year ended 31 December 2016 of 22.0p 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

	2016 £m	2015 £m
Profit/(loss) attributable to the owners of the Company	36.8	(9.9)
Adjustments:		
Exceptional operating items net of tax	-	37.4
Amortisation of intangible assets net of tax	1.1	1.8
Deferred tax credit arising due to change in UK corporation tax rates	(0.7)	(1.7)
Adjusted earnings	37.2	27.6
Basic weighted average number of ordinary shares (m)	43.9	43.8
Dilutive effect of share options and conditional shares not vested (m)	1.3	0.6
Diluted weighted average number of ordinary shares (m)	45.2	44.4
Basic earnings/(loss) per share	83.8p	(22.6p)
Diluted earnings/(loss) per share	81.4p	(22.3p)
Adjusted earnings per share	84.7p	63.0p
Diluted adjusted earnings per share	82.3p	62.2p

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. The weighted average share price for the year was £7.33 (31 December 2015: £7.66).

A total of 2.1m 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 2016 (31 December 2015: 1.2m).

## 9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
<b>Cost or valuation</b>			
1 January 2015	213.9	29.9	243.8
Additions	-	1.4	1.4
<b>1 January 2016</b>	<b>213.9</b>	<b>31.3</b>	<b>245.2</b>
Additions	-	1.1	1.1
<b>31 December 2016</b>	<b>213.9</b>	<b>32.4</b>	<b>246.3</b>
<b>Accumulated amortisation</b>			
1 January 2015	-	(25.7)	(25.7)
Amortisation	-	(2.2)	(2.2)
<b>1 January 2016</b>	<b>-</b>	<b>(27.9)</b>	<b>(27.9)</b>
Amortisation	-	(1.4)	(1.4)
<b>31 December 2016</b>	<b>-</b>	<b>(29.3)</b>	<b>(29.3)</b>
<b>Net book value at 31 December 2016</b>	<b>213.9</b>	<b>3.1</b>	<b>217.0</b>
Net book value at 31 December 2015	213.9	3.4	217.3

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 (2015: £151.1m), Partnership Housing £46.8m (2015: £46.8m) and Urban Regeneration £16.0m (2015: £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 estimated 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 2.3% (2015: 2.2%). This growth rate does not exceed the long-term average for the relevant markets.

## Financial statements

### Notes to the consolidated financial statements

— continued

#### 9 Goodwill and other intangible assets continued

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 12.0% (2015: 11.0%) for Construction & Infrastructure, 13.0% (2015: 12.0%) for Partnership Housing and 13.5% (2015: 12.5%) for Urban Regeneration.

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

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
<b>Cost</b>				
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)
<b>1 January 2016</b>	<b>4.8</b>	<b>10.7</b>	<b>46.6</b>	<b>62.1</b>
Additions	–	0.6	4.1	4.7
Transfers	–	0.2	(0.2)	–
Disposals	–	(2.2)	(13.3)	(15.5)
<b>31 December 2016</b>	<b>4.8</b>	<b>9.3</b>	<b>37.2</b>	<b>51.3</b>
<b>Accumulated depreciation</b>				
1 January 2015	–	(5.8)	(31.8)	(37.6)
Depreciation charge	–	(1.2)	(4.3)	(5.5)
Disposals	–	0.7	1.1	1.8
<b>1 January 2016</b>	<b>–</b>	<b>(6.3)</b>	<b>(35.0)</b>	<b>(41.3)</b>
Depreciation charge	–	(1.5)	(4.0)	(5.5)
Transfers	–	(0.1)	0.1	–
Disposals	–	2.0	10.1	12.1
<b>31 December 2016</b>	<b>–</b>	<b>(5.9)</b>	<b>(28.8)</b>	<b>(34.7)</b>
<b>Net book value at 31 December 2016</b>	<b>4.8</b>	<b>3.4</b>	<b>8.4</b>	<b>16.6</b>
Net book value at 31 December 2015	4.8	4.4	11.6	20.8

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 £0.9m (2015: £2.1m). No other assets have been pledged to secure borrowings.

#### 11 Investment property

	2016 £m	2015 £m
<b>Valuation</b>		
1 January	8.8	9.5
Disposals	(2.2)	(0.7)
<b>31 December</b>	<b>6.6</b>	<b>8.8</b>

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

The fair value of the Group's investment property at 31 December 2016 is based on a valuation carried out at that date by the directors. The valuation, which conforms to International Valuation Standards, was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value measurement is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

## 12 Investments in joint ventures

The Group has the following interests in significant joint ventures:

### 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 United Kingdom. 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. Joint control is exercised through the board of directors who are appointed in proportion to the holdings of each class of ordinary shares.

### Waterside Places (General Partner) Limited 50% equity participation

Waterside Places (General Partner) 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 delivering development at a site in Warrington.

### 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 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 Urban Renewal LLP 50% share

Slough Urban Renewal 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 has completed a development of 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 has completed development of the first phase of residential apartments within the Harbourside Regeneration Area of Bristol.

### Wapping Wharf (Beta) LLP 40% partner

Wapping Wharf (Beta) LLP is a joint venture with Umberslade which will develop the second phase of residential apartments within the Harbourside Regeneration Area of Bristol.

## Financial statements

### Notes to the consolidated financial statements

— continued

#### 12 Investments in joint ventures continued

Investments in equity accounted joint ventures are as follows:

	2016 £m	2015 £m
1 January	50.3	55.0
Equity accounted share of net profits	7.4	9.6
Loans advanced to joint ventures	11.8	8.6
Loans repaid by joint ventures	(7.6)	(22.2)
Sale of loan notes	(3.8)	-
Dividends received	(1.2)	(0.7)
<b>31 December</b>	<b>56.9</b>	<b>50.3</b>

Summarised financial information related to equity accounted joint ventures is set out below:

	2016 £m	2015 £m
Non-current assets (100%)	215.8	116.8
Current assets (100%)	300.3	240.3
Current liabilities (100%)	(171.6)	(66.8)
Non-current liabilities (100%)	(255.5)	(164.1)
<b>Net assets reported by equity accounted joint ventures (100%)</b>	<b>89.0</b>	<b>126.2</b>
Revenue (100%)	383.1	162.7
Expenses (100%)	(367.4)	(143.6)
<b>Net profit (100%)</b>	<b>15.7</b>	<b>19.1</b>

Results of equity accounted joint ventures:

	2016 £m	2015 £m
Group share of profit before tax	7.5	9.6
Group share of tax	(0.1)	-
<b>Group share of profit after tax</b>	<b>7.4</b>	<b>9.6</b>

#### 13 Shared equity loan receivables

	2016 £m	2015 £m
<b>1 January</b>	<b>20.3</b>	<b>20.4</b>
Net change in fair value recognised in the income statement	0.6	1.4
Repayments by borrowers	(2.5)	(1.5)
<b>31 December</b>	<b>18.4</b>	<b>20.3</b>

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 (2015: £nil). There were no defaults during the year (2015: two defaults).

#### Basis of valuation and assumptions made

There is no directly observable fair value for individual loans arising from the sale of 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:

	2016	2015
<b>Assumption</b>		
Period over which shared equity loan receivables are discounted:		
First Buy and Home Buy schemes	<b>20 years</b>	20 years
Other schemes	<b>9 years</b>	9 years
Nominal discount rate	<b>5.3%</b>	6.6%
Weighted average nominal annual property price increase	<b>2.3%</b>	2.8%
Forecast default rate	<b>2.0%</b>	2.0%
Number of loans under the shared equity scheme outstanding at the year end	<b>595</b>	669

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 2016, if the nominal discount rate had been 100bps higher at 6.3% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.5m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2016, 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 £0.5m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

#### 14 Inventories

	2016 £m	2015 £m
Work in progress	<b>213.9</b>	246.7

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

#### 15 Trade and other receivables

	2016 £m	2015 £m
Amounts due from construction contract customers (note 16)	<b>147.9</b>	166.1
Trade receivables (note 25)	<b>163.9</b>	170.0
Amounts owed by joint ventures (note 24)	<b>1.5</b>	0.8
Prepayments	<b>10.6</b>	10.1
Other receivables	<b>8.9</b>	6.6
	<b>332.8</b>	353.6

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 £0.5m (2015: £1.2m).

#### 16 Construction contracts

	2016 £m	2015 £m
Amounts due from construction contract customers (note 15)	<b>147.9</b>	166.1
Amounts due to construction contract customers (note 17)	<b>(52.0)</b>	(53.9)
<b>Carrying amount at the end of the year</b>	<b>95.9</b>	112.2
Contract costs incurred plus recognised profits less recognised losses to date	<b>6,290.6</b>	6,637.4
Less: progress billings	<b>(6,194.7)</b>	(6,525.2)
	<b>95.9</b>	112.2

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.

## Financial statements

### Notes to the consolidated financial statements

— continued

#### 17 Trade and other payables

	2016 £m	2015 £m
Trade payables	144.6	161.5
Amounts due to construction contract customers (note 16)	52.0	53.9
Amounts owed to joint ventures (note 24)	0.2	0.2
Other tax and social security	33.2	33.2
Accrued expenses	482.0	396.2
Deferred income	-	4.5
Other payables	36.3	25.0
<b>Current</b>	<b>748.3</b>	<b>674.5</b>
Other payables	8.6	17.8
<b>Non-current</b>	<b>8.6</b>	<b>17.8</b>

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 £1.5m (2015: £1.1m) to reflect the time value of money.

Current and non-current other payables include £7.5m and £nil respectively (2015: £7.0m and £7.0m) related to the discounted deferred consideration due on the acquisition of an additional interest in Waterside Places (General Partner) Limited.

#### 18 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 Trustee of the Retirement Plan. The total cost charged to the income statement of £9.8m (2015: £9.7m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2016, contributions of £1.6m (2015: £1.4m) were due in respect of December's contribution not paid over to the Retirement Plan. The Company, with the consent of the Trustee, 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 expected to be 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 2016. 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 showed that the defined benefit liabilities were partly funded and the value of the assets of £12.2m represented 99% of the value of these liabilities on an ongoing funding basis. The next triennial valuation is due to be undertaken as at 5 April 2019.

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

Key assumptions used:	2016 %	2015 %
Discount rate	2.7	3.8
Expected rate of salary increases	4.5	4.3
Rate of inflation	2.5	2.3
Rate of future pension increases	(a) 3.0-3.5	3.0-3.5
Average life expectancy for pensioner retiring now at age 65 (years)	87.6	87.5
Average life expectancy for pensioner retiring in 20 years at age 65 (years)	89.7	89.4

(a) 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 income. Actuarial gains and losses have been reported in the statement of comprehensive income.

	2016			2015		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	11.3	(9.9)	1.4	11.3	(10.5)	0.8
Finance income/(expense)	0.5	(0.4)	0.1	0.3	(0.3)	-
Actuarial gain/(loss)	1.9	(1.2)	0.7	(0.7)	0.6	(0.1)
Contributions from sponsoring company	0.4	-	0.4	0.7	-	0.7
Benefits paid	(0.3)	0.3	-	(0.3)	0.3	-
<b>31 December</b>	<b>13.8</b>	<b>(11.2)</b>	<b>2.6</b>	11.3	(9.9)	1.4

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	0.8
Increase in inflation rate of 50bps	0.1
Increase in average life expectancy of one year	0.4

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

	2016 £m	2015 £m
Actuarial gain/(loss) recognised during the year	0.7	(0.1)
Cumulative actuarial loss recognised	(2.2)	(2.9)

The Retirement Plan assets comprise 55% corporate bonds (2015: 56%), 43% gilts (2015: 43%) and 2% cash (2015: 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:

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Present value of the Retirement Plan liabilities	(11.2)	(9.9)	(10.5)	(9.3)	(10.4)
Fair value of the Retirement Plan assets	13.8	11.3	11.3	9.3	8.9
Surplus/(deficit) in the Retirement Plan	2.6	1.4	0.8	-	(1.5)

The amount of contributions expected to be paid to the defined benefit section of the Retirement Plan during 2017 is £nil (2016: £0.7m).

## 19 Provisions

### Non-current liabilities

	Employee provisions £m	Insurance provisions £m	Other £m	Total £m
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)
<b>1 January 2016</b>	<b>0.4</b>	<b>14.5</b>	<b>2.0</b>	<b>16.9</b>
Utilised	-	(2.0)	(0.7)	(2.7)
Additions	-	4.5	0.1	4.6
<b>31 December 2016</b>	<b>0.4</b>	<b>17.0</b>	<b>1.4</b>	<b>18.8</b>

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



## Financial statements

### Notes to the consolidated financial statements

— continued

#### 19 Provisions continued

Insurance provisions comprise the Group's self-insurance of certain risks and include £5.5m (2015: £3.5m) held in the Group's captive insurance company, Newman Insurance Company Limited.

Other provisions include onerous lease commitments and property dilapidations.

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

#### 20 Operating lease commitments

At 31 December, the Group was committed to making the following future minimum lease payments under non-cancellable operating leases:

	2016			2015		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	5.4	3.5	8.9	6.3	4.3	10.6
Within two to five years	10.1	3.9	14.0	11.3	4.1	15.4
After more than five years	6.8	-	6.8	7.9	-	7.9
<b>31 December</b>	<b>22.3</b>	<b>7.4</b>	<b>29.7</b>	25.5	8.4	33.9

The operating lease expense in the year was £11.8m (2015: £12.3m).

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 (2015: four years) and rentals are fixed for an average of four years (2015: four years).

#### 21 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 2016, contract bonds in issue under uncommitted facilities covered £227.7m (2015: £221.6m) of contract commitments of the Group.

#### 22 Share capital

	2016		2015	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	44,296,003	2.2	44,079,565	2.2
Exercise of share options	412,233	-	216,438	-
<b>31 December</b>	<b>44,708,236</b>	<b>2.2</b>	44,296,003	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

412,233 shares were issued during 2016 in respect of options exercised under The Morgan Sindall Savings Related Share Option Scheme (SAYE) for a total consideration of £1.7m (2015: 216,438 shares were issued for a total consideration of £1.1m). No other shares were issued during the year.

#### Own shares

Own shares at cost represent 759,098 (2015: 466,425) shares in the Company held in the Trust in connection with The Morgan Sindall Employee Share Option Plan 2007 (ESOP2007), The Morgan Sindall Executive Remuneration Plan 2005 (ERP), 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 2016 of £7.45 (2015: £7.40), the market value of the shares was £5.7m (2015: £3.5m).

### 23 Share-based payments

The Group recognised a share option expense of £4.6m (2015: £2.0m) 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 in respect of the ERP 2005 and 2014 LTIP are set out in the directors' remuneration report on pages 91 to 92 and page 95.

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 2014 SOP
	Awards with TSR condition	Awards with EPS condition	
Number of shares/options granted	172,246	344,499	1,136,969
Weighted average fair value at date of grant (per share)	£5.10	£7.94	£1.37
Weighted average share price at date of grant	£7.94	£7.94	£7.94
Weighted average exercise price	n/a	n/a	£7.63
Valuation model	Stochastic	Black-Scholes	Black-Scholes
Expected term (from date of grant)	3.0 years	3.0 years	6.5 years
Expected volatility	(a) 23.5%	n/a	26.6%
Expected dividend yield	(b) 0.0%	0.0%	3.7%
Risk-free rate	0.5%	n/a	1.0%

(a) 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.

(b) 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:

	2016		2015	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	2,841,922	6.62	1,633,613	6.48
Granted during the year	1,136,969	7.63	2,031,249	6.64
Lapsed during the year	(351,968)	8.54	(292,106)	7.22
Exercised during the year	(425,841)	4.43	(530,834)	5.92
<b>Outstanding at 31 December</b>	<b>3,201,082</b>	<b>7.07</b>	<b>2,841,922</b>	<b>6.62</b>
Exercisable at 31 December	377,693	7.32	496,400	8.46
Weighted average remaining contractual life	6.3 years		4.9 years	

The weighted average share price at the date of exercise for share options exercised during the year was £7.59 (2015: £7.74).

The options outstanding at 31 December 2016 had exercise prices ranging from £5.29 to £15.81.

## Financial statements

### Notes to the consolidated financial statements

— continued

#### 24 Related party transactions

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

#### Trading transactions

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

Joint venture	Provision of goods and services		Amounts owed by/(to) related parties	
	2016 £m	2015 £m	2016 £m	2015 £m
Ashton Moss Developments Limited	-	-	(0.2)	(0.2)
Claymore Roads (Holdings) Limited	-	0.1	-	-
ECf (General Partner) Limited	3.1	1.9	-	-
HB Community Solutions Limited	1.3	1.7	-	-
HB Villages Development Limited	0.2	-	0.2	-
HB Villages Limited	2.5	1.2	-	0.4
HB Villages Tranche 3 Limited	0.1	-	0.2	-
hub West Scotland Limited	0.1	-	-	-
hub West Scotland Projectco 1 Limited	0.1	0.2	0.1	-
hub West Scotland Projectco 2 Limited	0.1	-	-	-
Leyton Mount Development LLP	-	1.0	-	-
Morgan-Vinci Limited	0.1	-	-	-
PSBP NW Holdco Limited	-	1.5	-	-
PSBP NW ProjectCo Limited	59.6	26.7	-	-
Slough Urban Renewal Community Projects LLP	27.9	12.1	-	-
Slough LABV LLP	0.2	-	-	-
STRIDE LLP	0.1	-	0.3	0.3
The Bournemouth Development Company LLP	2.5	0.1	0.5	-
The Compendium Group Limited	13.5	5.8	-	-
Wapping Wharf (Alpha) LLP	0.1	0.2	-	-
WellSpring Partnership Limited	1.0	1.3	0.2	0.1
	<b>112.5</b>	<b>53.8</b>	<b>1.3</b>	<b>0.6</b>

	Amounts owed by/(to) related parties	
	2016 £m	2015 £m
Amounts owed by related parties (note 15)	1.5	0.8
Amounts owed to related parties (note 17)	(0.2)	(0.2)
	<b>1.3</b>	<b>0.6</b>

#### 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'.

	2016 £m	2015 £m
Short-term employee benefits	8.8	7.5
Post-employment benefits	0.4	0.3
Termination benefits	0.9	-
Share option expense	2.9	1.2
	<b>13.0</b>	<b>9.0</b>

Details of directors' remuneration are set out in the directors' remuneration report on [page 93](#).

#### Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 23 February 2017.

#### 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 2017.

## 25 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:

	2016 £m	2015 £m
Cash and cash equivalents	228.5	115.7
Non-recourse project financing due in less than one year	(4.8)	(12.8)
Borrowings due between two and five years	(15.0)	(45.0)
<b>Net cash</b>	<b>208.7</b>	<b>57.9</b>

Included within cash and cash equivalents is £35.4m (2015: £28.9m) which is the Group's share of cash held within jointly controlled operations.

The Group has £175m of committed loan facilities maturing more than one year from the balance sheet date, of which £15m mature in May 2018 and £160m in September 2018. Additional project finance borrowings of £4.8m (2015: £12.8m) 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 cash during 2016 was £25.0m (2015: average net debt £53.4m).

### 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; and
- 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 arises primarily in respect of 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 2016 were £61.6m (2015: £59.6m). 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.

## Financial statements

### Notes to the consolidated financial statements

— continued

#### 25 Financial instruments continued

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

	2016		2015	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	121.6	-	120.2	-
Past due 1 to 30 days	21.3	-	21.9	-
Past due 31 to 120 days	7.5	-	8.3	0.1
Past due 121 to 365 days	6.2	0.1	11.7	0.3
Past due greater than one year	7.8	0.4	9.1	0.8
	<b>164.4</b>	<b>0.5</b>	171.2	1.2

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

	2016 £m	2015 £m
1 January	1.2	8.3
Amounts written off during the year	-	(6.3)
Amounts recovered during the year	(0.7)	(0.5)
Other movements in the provision	-	(0.3)
<b>31 December</b>	<b>0.5</b>	1.2

The average credit period on revenue is 23 days (2015: 26 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts.

Included in the Group's trade receivable balance are debtors with a carrying amount of £42.3m (2015: £49.8m) 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 105 days (2015: 111 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 are used 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 while preserving liquidity and credit quality. The Group prepares weekly short-term and monthly medium-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.

Key among 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.

#### (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 have entered 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 £14.0m (2015: £14.3m) and fixed interest payments at an average rate of 5.1% (2015: 5.1%) for periods up until 2033.

The Group's share of the fair value of swaps entered into at 31 December 2016 by joint ventures is estimated at a £0.8m liability (2015: £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 change in 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 a low 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 has entered into foreign exchange forward contracts with third party banks, and has entered into corresponding contracts with the joint arrangement. The cash flows are expected to arise on various dates within three years of the balance sheet date. 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 £2.9m (2015: £0.5m) and the fair value of the contracts with the other joint arrangement partners is a liability of £1.9m (2015: £0.3m). 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 financial review on [pages 18 and 19](#).

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 2018.

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.

#### **26 Subsequent events**

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

# Company balance sheet

at 31 December 2016

	Notes	2016 £m	2015 £m
<b>Assets</b>			
Property, plant and equipment		1.1	1.5
Investments	1	426.3	421.7
Retirement benefit asset		2.6	1.4
<b>Fixed assets</b>		<b>430.0</b>	424.6
Trade receivables		0.1	0.2
Amounts owed by subsidiary undertakings			
– due within one year		52.6	52.6
– due after one year		2.9	4.0
Deferred tax asset		0.8	0.6
Other receivables		3.2	1.5
Prepayments and accrued income		2.0	2.2
Cash at bank and in hand		42.1	22.1
<b>Current assets</b>		<b>103.7</b>	83.2
<b>Liabilities</b>			
Bank overdrafts		(73.9)	(58.2)
Finance lease obligations		(0.3)	(0.5)
Trade payables		(0.9)	(1.4)
Amounts owed to subsidiary undertakings		(307.0)	(280.7)
Corporation tax payable		(6.0)	(1.9)
Other tax and social security		(0.2)	(0.3)
Other payables		(3.4)	(0.6)
Accrued expenses		(7.3)	(4.6)
<b>Creditors: amounts falling due within one year</b>		<b>(399.0)</b>	(348.2)
<b>Net current liabilities</b>		<b>(295.3)</b>	(265.0)
<b>Total assets less current liabilities</b>		<b>134.7</b>	159.6
Bank loans		(15.0)	(45.0)
Finance lease obligations		(0.4)	(0.7)
Provision for liabilities	2	(11.8)	(11.3)
<b>Creditors: amounts falling due after one year</b>		<b>(27.2)</b>	(57.0)
<b>Net assets</b>		<b>107.5</b>	102.6
<b>Capital and reserves</b>			
Share capital		2.2	2.2
Share premium account		33.7	32.0
Capital redemption reserve		0.6	0.6
Special reserve		13.7	13.7
Retained earnings		57.3	54.1
<b>Shareholders' funds</b>		<b>107.5</b>	102.6

The Company reported a profit for the financial year ended 31 December 2016 of £14.5m (2015: £33.7m).

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 23 February 2017 and signed on its behalf by:

**JOHN MORGAN**  
CHIEF EXECUTIVE  
23 FEBRUARY 2017

**STEVE CRUMMETT**  
FINANCE DIRECTOR  
23 FEBRUARY 2017

# Company statement of changes in equity

for the year ended 31 December 2016

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Retained earnings £m	Shareholders' funds £m
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 defined benefit asset	-	-	-	-	(0.1)	(0.1)
Tax arising on actuarial gain	-	-	-	-	(0.1)	(0.1)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33.5</b>	<b>33.5</b>
Share option expense	-	-	-	-	2.0	2.0
Issue of shares at a premium	-	1.1	-	-	-	1.1
Tax relating to share option expense	-	-	-	-	0.2	0.2
Dividends paid	-	-	-	-	(11.8)	(11.8)
<b>1 January 2016</b>	<b>2.2</b>	<b>32.0</b>	<b>0.6</b>	<b>13.7</b>	<b>54.1</b>	<b>102.6</b>
Profit for the year	-	-	-	-	14.5	14.5
Other comprehensive income:						
Actuarial gain arising on defined benefit asset	-	-	-	-	0.7	0.7
Tax arising on actuarial gain	-	-	-	-	(0.1)	(0.1)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15.1</b>	<b>15.1</b>
Share option expense	-	-	-	-	4.6	4.6
Issue of shares at a premium	-	1.7	-	-	-	1.7
Purchase of shares in the Company by the employee benefit trust	-	-	-	-	(3.3)	(3.3)
Dividends paid	-	-	-	-	(13.2)	(13.2)
<b>31 December 2016</b>	<b>2.2</b>	<b>33.7</b>	<b>0.6</b>	<b>13.7</b>	<b>57.3</b>	<b>107.5</b>



## Significant accounting policies

for the year ended 31 December 2016

### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 ('the Act'). The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Company has prepared its financial statements in accordance with FRS 101 (Financial Reporting Standard 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 18](#)), share capital ([note 22](#)) 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 19](#), 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.

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.

### 1 Investments

	Subsidiary undertakings £m
<b>Cost</b>	
1 January 2016	425.2
Additions	4.6
<b>31 December 2016</b>	<b>429.8</b>
<b>Provisions</b>	
<b>1 January 2016 and 31 December 2016</b>	<b>(3.5)</b>
<b>Net book value at 31 December 2016</b>	<b>426.3</b>
Net book value at 31 December 2015	421.7

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

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
<b>Baker Hicks Limited</b>	<b>Direct</b>	<b>100</b>
Morgan Sindall Professional Services (France) Limited	Indirect	100
Morgan Sindall Professional Services (Switzerland) Limited	Indirect	100
Morgan Sindall Professional Services AG <sup>(a)</sup>	Indirect	100
Morgan Sindall Professional Services GmbH <sup>(h)</sup>	Indirect	100
UNPS Limited	Indirect	100
<b>Lovell Partnerships Limited</b>	<b>Direct</b>	<b>100</b>
Lovell Bow Limited	Indirect	100
Lovell Director Limited <sup>(a)</sup>	Indirect	100
Lovell Guf Limited <sup>(a)</sup>	Indirect	100
Lovell Plus Limited	Indirect	97
Lovell Property Rental Limited	Indirect	100
The Compendium Group Limited	Indirect	50
<b>Magnor Plant Hire Limited</b>	<b>Direct</b>	<b>100</b>
<b>Morgan Lovell plc</b>	<b>Direct</b>	<b>100</b>
<b>Morgan Sindall Holdings Limited</b>	<b>Direct</b>	<b>100</b>
Morgan Sindall Construction & Infrastructure Limited	Indirect	100
Bluestone Limited	Indirect	100
MS (MEST) Limited	Indirect	100
Morgan Est Rail Limited	Indirect	100
Morgan Utilities Limited	Indirect	100
UUGM Limited <sup>(b)</sup>	Indirect	20
<b>Morgan Sindall Investments Limited</b>	<b>Direct</b>	<b>100</b>
Claymore Roads (Holdings) Limited <sup>(c)</sup>	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 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 <sup>(1)</sup>	Indirect	50
Community Solutions for Regeneration (Slough) Limited	Indirect	100
Slough Urban Renewal LLP <sup>(1)</sup>	Indirect	50
Towcester Regeneration Limited	Indirect	100
Community Solutions Limited	Indirect	100
Community Solutions Management Services Limited	Indirect	100
Community Solutions Living Limited	Indirect	100
HB Community Solutions Living Limited <sup>(2)</sup>	Indirect	50
Community Solutions Management Services (Hub) Limited	Indirect	100
Hampshire LIFT Management Services Limited <sup>(d)</sup>	Indirect	50
Health Innovation Partners Limited	Indirect	50
Community Solutions Partnership Services Limited	Indirect	100
Hamsard 3134 Limited	Indirect	100
Weymouth Community Sports LLP <sup>(1)</sup>	Indirect	100
Hamsard 3135 Limited	Indirect	100
HB Community Solutions Holdco Limited	Indirect	79
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50
WellSpring Finance Company Limited	Indirect	50
WellSpring SubDebt Limited	Indirect	50
WellSpring Partnership Limited <sup>(e)</sup>	Indirect	90
hub West Scotland Limited <sup>(f)</sup>	Indirect	54

## Financial statements

### Significant accounting policies

— continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
<b>Morgan Sindall Property Services Limited</b>	<b>Direct</b>	<b>100</b>
Lovell Powerminster Limited	Indirect	100
Manchester Energy Company Limited	Indirect	100
<b>Muse Developments Limited</b>	<b>Direct</b>	<b>100</b>
Ashton Moss Developments Limited	Indirect	50
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 <sup>(1) (3)</sup>	Indirect	100
Chatham Square Limited	Indirect	100
Chatham Square Management Company Limited <sup>(1)</sup>	Indirect	100
Cheadle Royal Management Company Limited <sup>(1) (4)</sup>	Indirect	28
ECF (General Partner) Limited <sup>(1)</sup>	Indirect	33
Eurocentral Partnership Limited	Indirect	99
EPL Contractor (Plot B West) Limited	Indirect	99
EPL Contractor (Plot F East) Limited	Indirect	99
EPL Contractor (Plot F West) Limited	Indirect	99
EPL Developer (Plot B West) Limited	Indirect	99
EPL Developer (Plot F East) Limited	Indirect	99
EPL Developer (Plot F West) Limited	Indirect	99
Hulme High Street Limited <sup>(k)</sup>	Indirect	80
Hulme Management Company Limited <sup>(k) (3)</sup>	Indirect	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 <sup>(3)</sup>	Indirect	100
Lewisham Gateway Estate Management Company Limited <sup>(3)</sup>	Indirect	100
Lingley Mere Business Park Development Company Limited <sup>(1)</sup>	Indirect	50
Logic Leeds Management Company Limited <sup>(3)</sup>	Indirect	50
Muse (Brixton) Limited	Indirect	100
Muse (ECF) Partner Limited	Indirect	100
English Cities Fund Limited Partnership <sup>(1) (5)</sup>	Indirect	13
Muse (Warp 4) Partner Limited	Indirect	100
Warp 4 Limited Partnership <sup>(5)</sup>	Indirect	100
Waterside Places Limited Partnership <sup>(m) (5)</sup>	Indirect	50
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 <sup>(3)</sup>	Indirect	100
Rail Link Europe Limited <sup>(k)</sup>	Indirect	80
Smithfield Phase 6 Management Company Limited <sup>(1) (3)</sup>	Indirect	100
Sovereign Leeds Limited	Indirect	100
St Andrews Brae Developments Limited	Indirect	50
Wapping Wharf (Alpha) LLP <sup>(1)</sup>	Indirect	50
Wapping Wharf (Beta) LLP <sup>(1)</sup>	Indirect	40
Warp 4 General Partner Limited	Indirect	100
Waterside Places (General Partner) Limited <sup>(m)</sup>	Indirect	50
Warp 4 General Partner Nominees Limited	Indirect	100
<b>Newman Insurance Company Limited<sup>1 (m)</sup></b>	<b>Direct</b>	<b>100</b>
<b>Overbury plc</b>	<b>Direct</b>	<b>100</b>
Backbone Furniture Limited	Direct	100
Barnes & Elliott Limited	Direct	100
Bluebell Printing Limited	Direct	100
Sindall Eastern Limited	Indirect	100

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
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 <sup>(6)</sup>	Direct	100
Morgan Beton And Monierbau Limited <sup>(6)</sup>	Indirect	50
Morgan Lovell London Limited	Direct	100
Morgan Sindall Trustee Company Limited	Direct	100
Morgan Utilities Group Limited	Direct	100
M S Professional Services Limited	Direct	100
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 Professional Services GmbH, registered and operating in Germany, all undertakings are registered in England and Wales or Scotland and the principal place of business is the UK.

2 Unless otherwise stated the registered office address for each of the above is Kent House, 14-17 Market Place, London W1W 8AJ.

**Registered office classification key:**

- (a) One Eleven, Edmund Street, Birmingham, West Midlands B3 2HJ
- (b) 210 Pentonville Road, London N1 9JY
- (c) Cannon Place, 78 Cannon Street, London EC4N 6AF
- (d) 15th Floor, Colbalt Square, 83-85 Hagley Road, Birmingham B16 8QZ
- (e) C/o, Anderson Strathern, 1 Rutland Court, Edinburgh EH3 8EY
- (f) Suite 7/3, Skypark 1, 8 Elliot Place, Glasgow G3 8EP
- (g) Badenstrasse 3, 4057, Basel, Switzerland
- (h) Engelbergerstrasse 19, DE-79106, Freiburg im Breisgau, Germany
- (i) Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES
- (j) One Coleman Street, London EC2R 5AA
- (k) Booths Park, Chelford Road, Knutsford, Cheshire WA16 8QZ
- (l) Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP
- (m) First Floor North Station House, 500 Elder Gate, Milton Keynes MK9 1BB
- (n) Willis Management (Guernsey) Limited, PO Box 384 The Albany, South Esplanade, St Peter Port, Guernsey GY1 4NF
- (o) 1 Rutland Court, Edinburgh EH3 8EY

3 Unless otherwise stated, the Group's interest is in the ordinary shares issued (or the equivalent of ordinary shares issued in the relevant country of issue).

**Classification key:**

- (1) Limited Liability Partnership.
- (2) Holding of ordinary and preference shares.
- (3) Limited by guarantee.
- (4) Holding of ordinary and special shares.
- (5) Limited Partnership.

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.

## 2 Provisions

	Employee provisions £m	Insurance provisions £m	Total £m
1 January 2015	0.4	11.5	11.9
Utilised	-	(1.9)	(1.9)
Additions	-	2.2	2.2
Released	-	(0.9)	(0.9)
<b>1 January 2016</b>	<b>0.4</b>	<b>10.9</b>	<b>11.3</b>
Utilised	-	(1.2)	(1.2)
Additions	-	1.7	1.7
<b>31 December 2016</b>	<b>0.4</b>	<b>11.4</b>	<b>11.8</b>

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

# Shareholder information

### Financial calendar 2017

The following dates have been announced:

Financial year end	31 December 2016
Preliminary results announcement	23 February 2017
Annual general meeting and trading update	4 May 2017
Final dividend:	
Ex-dividend date	27 April 2017
Record date	28 April 2017
Payment date	22 May 2017
Half year results announcement	August 2017
Interim dividend payable	October 2017
Trading update	November 2017

### 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) 370 870 707 1695.  
Lines are open from 8.30am to 5.30pm  
(UK time), Monday to Friday).

**By email:** [webcorres@computershare.co.uk](mailto:webcorres@computershare.co.uk).

**Online:** [investorcentre.co.uk](http://investorcentre.co.uk).

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 [investorcentre.co.uk](http://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 [investorcentre.co.uk](http://investorcentre.co.uk) within the 'Downloadable Forms' section.

### Group website and electronic communications

The 2016 annual report and other information about the Company are available on its website. 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, 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 [investorcentre.co.uk](http://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 our website including:

- finance information - annual reports and half year results, financial news and events;
- share price information;
- shareholder services information; and
- 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.

### 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 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 [fca.org.uk](http://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 them back.
- Search the list of unauthorised firms and individuals to avoid doing business with at [fca.org.uk/scams](http://fca.org.uk/scams).
- Report a share scam by telling the FCA using the share fraud reporting form in the Consumers section of the FCA website.
- 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 on **020 7291 3310** or visit the website at [mpsonline.org.uk](http://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 **+44 (0) 131 240 0414** and quote the reference 'Morgan Sindall dial and deal service'.

The Company's Registrar also offers an internet and telephone dealing service. Further details can be found at [computershare.com/dealing/uk](http://computershare.com/dealing/uk) or by telephoning **+44 (0) 370 703 0084**.

### Annual general meeting (AGM)

The AGM of the Company will be held at 10.00am on Thursday 4 May 2017 at the offices of **Jefferies International Limited, 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.

### Electronic Voting

Shareholders can submit proxies for the 2017 AGM electronically by logging on to [investorcentre.co.uk/eproxy](http://investorcentre.co.uk/eproxy) and selecting 'Share Activities'. Electronic proxy appointments must be received by the Company's registrar no later than 10.00am on Tuesday 2 May 2017 (or not less than 48 hours before the time fixed for any adjourned meeting).

### Analysis of shareholdings at 31 December 2016

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 1,000	771	51.43	365,989	0.82
1,001 to 5,000	502	33.49	1,069,462	2.39
5,001 to 100,000	168	11.21	4,223,316	9.45
100,001 to 1,000,000	48	3.20	14,850,211	33.21
Over 1,000,000	10	0.67	24,199,258	54.13
	1,499	100.00	44,708,236	100.00

### Shareholder communication

**Email:** [cosec@morgansindall.com](mailto:cosec@morgansindall.com)  
**Telephone:** 020 7307 9200

### Company information

Registered in England and Wales  
 Company number: 00521970

### Registered office

Kent House, 14-17 Market Place, London W1W 8AJ

### Advisers

**Brokers:** Jefferies International Limited  
 Numis Securities Limited

**Solicitors:** Slaughter and May

**Registrars:** Computershare Investor Services PLC

### Independent auditor

Deloitte LLP London

# Forward looking statements

This document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, 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 give the Group's current expectations or forecasts of future events. Forward looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Without limitation, 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. No assurance can be given that any particular expectation will be met and shareholders are cautioned not to place undue reliance on any such statements because, by their very nature, they are subject to 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. All forward looking statements contained in this document are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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, fluctuations in exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Forward looking statements speak only as of the date they are made. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority), the Group, its directors, officers, employees, advisers and associates disclaim any intention or obligation to revise or update any forward looking or other statements contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise, except as required by applicable law.



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Project photography of Rathbone Market, the Centre for Sustainable Chemistry, The Curve and Arbour Park by Darren Carter, Morgan Sindall Construction & Infrastructure Ltd. Board and Group management team photography by Mike Abrahams.



# **MORGAN SINDALL GROUP**

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London W1W 8AJ  
Company number: 00521970

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