MORGAN SINDALL GROUP

The Construction and Regeneration Group

ANNUAL REPORT 2018

Contents

STRATEGIC REPORT

Who we are	01
Chair's statement	02
Chief Executive's statement	03
Market overview	05
Business model	07
Engaging with our stakeholders	10
Our strategy	11
Key performance indicators	12
Operating review	14
Financial review	20
Principal risks	22
Viability statement	32
Non-financial reporting statement	33

GOVERNANCE

Board of directors	36
Group management team	37
Directors' and corporate governance report	38
Remuneration report	59

FINANCIAL STATEMENTS

Independent auditor's report	76
Consolidated financial statements	84
Company financial statements	119
Shareholder information	129

Performance highlights

Sustainable growth

ORDER BOOK
£3.6bn
2017: £3.8bn
-7%

REGENERATION AND DEVELOPMENT PIPELINE
£3.1bn
2017: £3.2bn
-4%

REVENUE
£2,972m
2017: £2,793m
+6%

YEAR END NET CASH
£207m
2017: £193m
+7%

Shareholder returns

PROFIT BEFORE TAX (ADJUSTED*)
£81.6m
2017: £66.1m
+23%

PROFIT BEFORE TAX
£80.6m
2017: £64.9m
+24%

BASIC EARNINGS PER SHARE (ADJUSTED*)
151.8p
2017: 121.1p
+25%

BASIC EARNINGS PER SHARE
149.8p
2017: 118.8p
+26%

TOTAL DIVIDEND
53.0p
2017: 45.0p
+18%

Social responsibility

ACCIDENT FREQUENCY RATE[1]
0.08
2017: 0.09
-11%

CARBON INTENSITY[2]
9.9
2017: 10.2
-3%

APPRENTICES AND NEW GRADUATES
265
2017: 217
+22%

Note: the Group adopted IFRS 15, IFRS 9 and IFRS 16 in the period. Refer to the significant accounting policies on pages 89 to 91 for further detail.

* See note 2 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

1 The number of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) reportable accidents multiplied by 100,000 and divided by the number of hours worked.

2 Carbon intensity is total carbon emissions per £m of revenue.

Who we are

Morgan Sindall Group is a leading UK construction and regeneration group, operating through six divisions:

Construction

Construction & Infrastructure
Morgan Sindall Construction & Infrastructure Ltd provides infrastructure services in the highways, rail, aviation, energy, water and nuclear markets, including tunnel design; and construction services in education, healthcare, defence, commercial, industrial, leisure and retail. BakerHicks Limited offers a multidisciplinary design and engineering consultancy.

Fit Out
Overbury plc specialises in fit out and refurbishment in commercial, central and local government offices, retail banking and further education. Morgan Lovell plc provides office interior design and build services direct to occupiers.

Property Services
Morgan Sindall Property Services Limited provides response and planned maintenance for social housing and the wider public sector.

Regeneration

Partnership Housing
Lovell Partnerships Limited delivers housing through mixed-tenure and contracting activities. Mixed tenure includes building and developing homes for open market sale, affordable rent, private renting or shared ownership in partnership with local authorities and housing associations. Contracting includes the design and build of new homes and planned maintenance and refurbishment for clients who are mainly local authorities, housing associations and the Defence Infrastructure Organisation.

Urban Regeneration
Muse Developments Limited works with landowners and public sector partners to transform the urban landscape through the development of multi-phase sites and mixed-use regeneration, including residential, commercial, retail and leisure.

Investments

Morgan Sindall Investments Limited provides the Group with construction and regeneration opportunities through long-term strategic partnerships to develop under-utilised public land across multiple sites, and generates development profits from such partnerships.

Our reporting suite
This annual report is simpler and more streamlined than our previous reports. We are launching our new website in the second quarter of 2019, which displays news of our projects and other information that complements the regulatory disclosures contained in this report.

In addition, the new style will help us prepare for the ESMA European Single Electronic Format required from 2020.

The annual report and our 2018 responsible business report can be downloaded from our website at morgansindall.com.

Chair's statement

Morgan Sindall Group is well positioned in the industry due to our established capabilities in construction and regeneration. We have a balanced business that fits the increasing demand in the UK for affordable housing, urban regeneration and investment in infrastructure. We also have a strong balance sheet, a talented workforce and a high-quality supply chain, all underpinned by our culture.

The government's Brexit negotiations have had a limited impact in our markets, although longer-term effects on consumer confidence remain hard to predict and we must avoid complacency. Our divisions are alert to changes in their markets and are careful in managing their exposure to risk. Construction & Infrastructure has continued to improve the quality of its earnings through careful selection of contracts. Fit Out is focusing on exceptional project delivery and repeat business, as well as growing opportunities in frameworks. In regeneration, Partnership Housing has new leadership and a new strategic plan focused on cultivating public sector land partnerships. In respect of its residential activity, Urban Regeneration has increased its emphasis on the private rented sector, developing forward-funded schemes alongside open-market units. Investments continues to create joint venture development programmes with councils that generate returns for local authorities while serving the long-term needs of their communities.

Our culture

Our culture is founded on our core values, which are an important source of strength and consistency for the Group:

- the customer comes first
- talented people are key to our success
- we must challenge the status quo
- consistent achievement is key to our future
- we operate a decentralised philosophy

We work closely with our clients and partners to understand and deliver their objectives and develop mutually reinforcing relationships that result in strategic alliances, framework opportunities and repeat business. The quality of our delivery is down to the knowledge and expertise of our employees, and we are committed to developing and motivating them to achieve a high standard of performance, and to providing a supportive work environment for them to thrive in. Our decentralised approach empowers our divisions to meet the specific needs of their markets, and to challenge the status quo so that we can drive innovation and progress.

Board changes

Having served on the Board for nine years, Patrick De Smedt decided to step down as senior independent director and non-executive director of the Company on 31 December 2018. I would like to thank Patrick for his counsel and commitment over the past nine years, and wish him the very best for the future.

We welcome David Lowden to the Board, who joined us in September as a non-executive director. David is currently chair of FTSE 250 PageGroup plc and non-executive director of Huntsworth plc, becoming chair on 6 March. His extensive commercial experience in senior leadership positions, and as both executive and non-executive director of several successful companies, will bring valuable knowledge and insight to Board discussions. David took over from Patrick De Smedt as senior independent director from 1 January 2019, and is a member of our audit, nomination and remuneration committees.

Malcolm Cooper became chair of the health, safety and environment committee, replacing Simon Gulliford, and Tracey Killen became chair of the remuneration committee, replacing Patrick. Both appointments took effect on 4 May 2018.

Our performance

2018 has been another successful year for the Group, our strong trading performance showing the benefit of our strategic focus on construction and regeneration activities. Revenue was up 6% at £2,972m (2017: £2,793m), with adjusted* profit before tax up 23% to £81.6m (2017: £66.1m). Balance sheet strength and cash generation have remained high priorities and 2018 has again seen a positive operating cash flow and a net cash position throughout the year. This provides significant financial security for our customers, our supply chain partners and our employees, giving us the flexibility to be highly selective with bidding in construction activities while allowing us to invest in regeneration activities.

Dividend

The total dividend for the year has been increased by 18% to 53.0p per share (2017: 45.0p), which includes a proposed increase in the final dividend of 17% to 34.0p per share (2017: 29.0p). The increase reflects the improved result in the year and the Board's confidence in the Group's future prospects. The total dividend per share is 2.9 times covered by adjusted earnings per share.

Looking ahead

We have the right culture and strategy in place for serving the interests of our stakeholders, and I am confident that due to the quality of our workforce, senior leadership and Board we can continue to deliver sustainable growth for the Group.

Michael Findlay
Chair
21 February 2019

Governance principles

Leadership (pages 39 to 41)

Board members challenge each other on strategy, performance, responsibility and accountability to ensure that we make high-quality decisions.

Effectiveness (pages 42 to 43 and 44 to 46)

The Board's performance was assessed in our annual evaluation and the actions arising from the results are set out in our directors' and corporate governance report on page 43. Succession planning and the composition of the Board and its committees have remained a key focus.

Accountability (pages 49 to 54)

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

Shareholder engagement (page 43)

We hold various events throughout the year to keep an open dialogue with investors. See page 10 for how we engage with our other stakeholders.

Remuneration (pages 59 to 74)

The Board ensures a clear link between remuneration and delivery of the Group's strategy.

Chief Executive's statement

I am delighted to report that 2018 has been another year of strong growth for the Group, and these excellent results reflect the high quality of our operations and our people. Our strong balance sheet, with average daily net cash* of £98.8m, and a business which continues to generate positive operating cash flow, is a significant differentiator for us.

Revenue from construction activities was up 6% from £2,133m in 2017 to £2,260m in 2018, while adjusted* operating profit was up 25% from £58.2m in 2017 to £72.8m in 2018. In regeneration, revenue increased by 9% from £659m in 2017 to £713m in 2018, and adjusted* operating profit increased by 20% from £24.6m in 2017 to £29.4m in 2018.

Construction & Infrastructure's ongoing focus on contract selectivity and risk management enabled it to achieve an operating margin of 2.0%, up 50bps on the prior year, and an operating profit of £27.0m, up 32%. Fit Out had another excellent year, with revenue growth of 13% and an operating profit of £43.8m at a margin of 5.3%. Property Services benefited from successful contract mobilisation and operational improvements, delivering an operating profit* of £2.0m.

Partnership Housing was impacted by operational issues in its contracting activities which resulted in operating profit* being lower at £12.2m (2017: £14.1m), although the division is well-positioned for future growth with a strong and visible pipeline. A very strong contribution was made by Urban Regeneration, with operating profit* up 96% to £19.6m (2017: £10.0m). Investments saw slippage in some of its existing schemes which led to a loss of £2.4m in the year. However, the division has made further progress with developing its portfolio of property partnerships.

* See note 2 for alternative performance measure definitions and reconciliations.

Our clients and partners

Our divisions continue to build on long-term relationships with their clients and partners. For example, Partnership Housing and Urban Regeneration reported having worked with more than half of their clients in 2018 for 10 years or more, while Construction & Infrastructure entered its 25th consecutive year of working with Welsh Water. I am pleased to report that Urban Regeneration's joint venture, the English Cities Fund (ECf) with Homes England and Legal & General, announced in March 2018 that it was doubling its investment to £200m. This will generate further opportunities for development in 2019 with local authority partners and landowners.

Our Total Commitments

Our strategy for being a responsible business is based on five Total Commitments, designed to address the needs of our stakeholders and support the delivery of our strategic objectives:

- protecting people
- developing people
- improving the environment
- working together with our supply chain
- enhancing communities

In 2018, following the results of our biennial stakeholder survey to identify sustainability issues they consider material to our business, we carried out a thorough review of our Total Commitments and have set new key performance indicators and targets to drive improvement over the next 10 years. We also reviewed the sustainable development goals ('the Goals') set by the UN in 2015 'to end poverty, protect the planet and ensure prosperity for all'. We fully support the Goals and are focusing our efforts on those that align closely with our Total Commitments and where we can have the biggest impact.

For information on how we performed this year against our Total Commitments targets and our new targets from 2019, please see our 2018 responsible business report on our website.

Our people

Developing people is one of our strategic objectives, and we aim to provide an inclusive and empowering culture that enables our people to perform highly and progress their careers.

Training and development

During the year we provided an average of 3.2 training days per employee and we are working to increase this figure. We sponsored 720 people on NVQs and professional qualifications, a 32% increase on last year. Our divisions work with industry bodies and initiatives to encourage people into a career in construction. These include Women into Construction and the 5% Club, a national campaign that focuses on getting more graduates and apprentices into the UK workforce. The table below shows the percentage of Group employees making up the 5% Club.

	2018	2017
Apprentices	**186**	161
New graduates recruited	**79**	56
Sponsored students	**13**	21
Total structured trainees	**278**	238
Percentage of total workforce[1]	**4.5%**	3.8%

1 Based on number of employees at 31 December.

The increase in percentage of structured trainees in the year is due to an increase in the number of graduates recruited and apprentices directly employed.

Diversity and inclusion

We are committed to treating all our employees fairly and equally, without discrimination. A diverse workforce provides us with a deeper insight into different markets and the needs of our clients. In 2018 the Board agreed a range of initiatives for our divisions to help improve diversity. From 2019 we will look at how we can attract more people from underrepresented groups and will start to track their progression throughout their employment. We will also capture data on informal and formal flexible working arrangements. Further details of our approach to inclusion and a gender breakdown of our workforce can be found in the nomination committee report on pages 45 to 46.

Health, safety and wellbeing

Over the past three years we have seen a significant improvement in our overall health and safety performance. In 2018 the number of RIDDOR[1] incidents fell from 43 to 39, a reduction of 10%, and our accident frequency rate[2] reduced from 0.09 to 0.08. We want to reduce our RIDDOR incidents still further and have introduced a new methodology for analysing high potential incidents (RIDDOR reportable, RIDDOR recordable or non-RIDDOR incidents or near misses with the potential for work- or life-changing outcomes). We can then use the data we capture through this process to identify any trends, which will help us continue to improve our risk management and safety performance.

In 2018, we reviewed our health and safety policy and will focus this year on three strategic themes: occupational health and wellbeing, including mental wellbeing; high potential incidents; and innovation to drive further improvements in our safety performance, particularly in managing our biggest health and safety risks.

The Group has been supporting external programmes in the UK such as the mental health charity, Mind; CIRIA, the construction industry research and information association, in its project 'Delivering wellbeing at site level'; and Loughborough University, in its report on the costs of occupational ill-health in the construction industry. We have also introduced a range of measures to address respiratory health, and resilience training (helping people respond to pressure and the demands of daily life).

More information on our approach to health, safety and wellbeing can be found in the health, safety and environment committee report on pages 46 to 49 and in our 2018 responsible business report.

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

2 The number of RIDDOR reportable accidents multiplied by 100,000 and divided by the number of hours worked.

Our suppliers

The input of our suppliers and subcontractors is a vital resource for the Group. We subscribe to the Prompt Payment Code, and comply with payment practice reporting regulations, while our divisions have endeavoured during the year to reduce their payment days wherever possible. We do not use any supplier finance arrangements.

Local communities

We currently run two social enterprises to provide training and work opportunities to people who live in the vicinity of our projects. One of these is BasWorx, set up two years ago in partnership with Basildon Council, and which in 2018 welcomed its fifth cohort of trainees. See our 2018 responsible business report for more information.

Environment

We maintained our A- position in the CDP[3] index in 2018, and are one of three contractors to achieve this score which is within the CDP's 'Leadership' band. We achieved a 3% reduction in our carbon intensity ratio for 2018, giving a total reduction of 18% against our 2016 baseline, and a total reduction of 67% against our 2010 results, which is a significant achievement. Details of our carbon emissions are set out in the health, safety and environment committee report on pages 48 and 49. In 2019, we will report against our science-based targets, which were approved during the year by the Science Based Targets initiative.

3 Formerly the Carbon Disclosure Project, which runs a global disclosure system for managing environmental impacts.

Looking to the future

We have focused on maintaining an appropriate risk balance in our order book and contract selectivity remains a key discipline across all divisions. As a result, while our secured order book at the year end was £3,567m, down 7% from the previous year and down 1% from the half year, the quality of work across the order book has continued to improve, setting the Group up well for the future. Our regeneration and development pipeline, which provides longer-term visibility of activity for the regeneration divisions, was £3,107m at the year end, down 4%. Our strategic investment in regeneration is scheduled to continue in 2019, with the precise timing and amount depending on the phasing and timing of individual schemes.

In the year ahead, we expect continued margin improvement in Construction & Infrastructure; and Fit Out to deliver within its target profit range, having significantly exceeded it in 2018. Partnership Housing's progress towards its medium-term target is expected to be limited, and Investments is expected to make a loss in 2019 based on current scheme completions. However, we expect Property Services and Urban Regeneration to make progress towards their medium-term targets. There is significant positive momentum across the Group and this provides the platform for future strategic and operational progress. We are in a strong position to deliver on our expectations and look forward to another positive year ahead.

John Morgan

Chief Executive
21 February 2019

Market overview

There are four fundamental long-term trends that will support growth in the Group over the next 10 to 20 years. We target sectors that are forecast to grow and our diverse portfolio of activities mitigates the impact of fluctuations within each market.

HOUSING SHORTAGES

4m

shortfall of homes in England

In May 2018, the National Housing Federation published the results of research by Heriot-Watt University showing that England has a shortfall of four million homes and that to meet the backlog, the country needs to build 340,000 homes a year until 2031, of which 145,000 need to be affordable. In October, Theresa May announced that the government will remove the cap on how much councils can borrow to build new homes. By the end of that month, 60 local councils had vowed to borrow more money, leading to hopes of the biggest council housebuilding programme since the 1970s (source: The Guardian). In its 2017 Autumn budget, the government had announced £15.3bn of new financial support for housebuilding over the next five years.

A report published in July 2018 by the House of Lords Science and Technology Committee proposed the increased use of off-site manufacture ('OSM') to meet the need for housing and infrastructure, citing evidence that OSM can increase productivity in construction by up to 70%.

The London School of Economics and Political Science reported in January 2018 that the proportion of homeownership is shrinking significantly while nearly 20% of all households rely on the private rented sector.

Opportunities for the Group

- To deliver mixed-tenure, including social and affordable, homes in partnerships with local authorities and housing associations.
- To provide accelerated housebuilding through Partnership Housing's continued investment in modern methods of construction.
- To build homes for sale and private rent which can be forward sold to investors.

INVESTMENT IN INFRASTRUCTURE

£37bn

expanded National Productivity Investment Fund

Investment in infrastructure remains a government priority to boost UK productivity and growth. The government announced in its 2018 Autumn budget that it will extend the National Productivity Investment Fund by an extra year to 2023-2024 and expand it to £37bn. It also announced the largest ever road investments package, with £25.3bn to be spent on England's strategic roads between 2020-2025; £20.5bn of funding for the NHS over the next five years; and £1bn of investment in defence across 2018-2020 (source: gov.uk).

Opportunities for the Group

- To deliver for the transport, energy, education, health and defence sectors through Construction & Infrastructure and for the housing sector through Partnership Housing.
- To regenerate areas around transport hubs.

POPULATION GROWTH

69.2m

projected UK population in 2026

In June 2018 the ONS reported that the UK population had reached 66 million in mid-2017, representing a growth rate of 0.6% on the previous year. While this was the lowest annual growth rate since 2004, due to a fall in net migration following the EU referendum, fewer births and more deaths, the ONS stated that the population is still growing faster than at any time since the post war 'baby boom' and the expansion of the EU in 2004.

The ONS has forecast the UK population to increase by 3.6 million (5.5%) over the next 10 years, hit 69.2 million in 2026 and pass 70 million by mid-2029. It has projected that the proportion of people aged 85 and over will double over the next 25 years, and that the number of five to 19-year-olds will increase from 11.5 million in 2017 to 12.4 million in 2027.

Opportunities for the Group

- To develop and regenerate urban areas.
- To deliver, upgrade and maintain social infrastructure, particularly in housing, education, transport and healthcare.
- To deliver extra care housing for the elderly, through Investments.

CONSTRAINED PUBLIC EXPENDITURE

Cost efficiencies

required in the public sector

The government confirmed in its Autumn budget that the deficit has been reduced by four fifths since 2010 and debt is falling. However, it stated that debt is still too high, leaving public finances vulnerable to economic shocks and significant debt interest costs, and that it is important to continue to reduce borrowing and debt. The public sector therefore requires services that help it reduce its expenditure.

Opportunities for the Group

- To deliver increased efficiencies in public sector assets and services through all divisions, via standalone projects or positions on local and national public sector frameworks (see pages 14 to 19 for further details).
- To regenerate areas related to public sector land disposals and property consolidation.
- To provide funding solutions for local authority and NHS Trust development schemes through Investments' strategic partnerships.

General construction industry conditions

According to the IHS Markit/CIPS UK construction purchasing managers' index (PMI), the construction industry suffered a slowdown in December. This largely reflected reduced activity in the commercial sector owing to rising business uncertainty in the run up to Brexit. However, there remained a strong demand for residential property among first-time buyers and civil engineering activity rose at the quickest rate since May 2017. Companies in the PMI survey reported improved confidence in their outlook for construction activity for the year ahead.

The Board has reviewed the potential impact on the Group of the UK leaving the EU, under the scenario of a controlled departure under the terms of a withdrawal agreement and under the scenario of leaving without a deal. Being UK-focused, no changes have been required to the Group's model, with any obvious effects already factored into forecasting. Clearly, given the number of permutations associated with Brexit, a 'risk free' situation is difficult to completely mitigate, but can be limited. The majority of our construction activities and regeneration schemes are with public sector and regulated clients, underpinned via long-term frameworks and joint-venture style arrangements. We consider that the strength of this client base, together with the quality and volume of our order book and pipeline, provide some insulation against any specific adverse consequences arising from the UK's departure from the EU.

Specific risks include the potential for increased material costs as a result of exchange differences arising from materials imported from EU countries, potential delays to construction programmes in importing materials and potential skills deficiencies arising from difficulties in obtaining EU workers within the supply chain.

We have reviewed these potential impacts and consider that there are sufficient mitigations in place via contract terms or allowances that offset increased costs, including: normal hedging arrangements for significant imported purchases; specific project-related arrangements that secure 'leave date' materials and labour; and arrangements with our key suppliers to deal with any initial shortages. We continue to closely monitor the potential impacts that leaving the EU may have on the business.

Our markets

In December 2018 the government published its roadmap to delivering Dame Judith Hackitt's recommendations in her review of building regulations and fire safety following the Grenfell Tower tragedy. The government has committed to consulting on a new regulatory framework, clearer safety guidance for builders and manufacturers, and a stronger voice for residents. We have reviewed the Hackitt report and made the necessary changes to our processes. We will continue to monitor and review any future changes to the regulatory framework.

The Construction Products Association ('the CPA'), in its Autumn 2018 construction industry forecasts, estimates the overall UK construction market at £162.7bn in 2018 (2017: £162.4bn), up 0.1%. The CPA forecasts growth of 0.6% in 2019 and 1.9% in 2020. This includes growth in infrastructure of 8.7% in 2019 and 7.7% in 2020; growth in private housing of 2.0% in 2019 and 1.0% in 2020; and decline in retail construction of 2.0% in 2019 with a rise of 2.0% in 2020. New office construction output is forecast to decline by 20% in 2019 and 2.0% in 2020. The CPA attributes much of this decline to the uncertainty surrounding Brexit, and suggests that clarity following Brexit and the implementation period would be expected to boost business confidence and incentivise new long-term major investment. Output in publicly-funded education construction is forecast to remain flat in 2019 and rise by 3.0% in 2020.

The chart below shows our key targeted markets that contributed more than 5% to the Group's revenue in 2018.

Commercial	26%
Community and other public sector excluding education and social housing	14%
Education	13%
Social housing	13%
Transport	12%
Mixed-tenure housing	10%

Business model

Our business model is founded on a talented workforce and supply chain; long-term relationships with clients and partners; and our financial strength as a Group. We use these resources to deliver high-quality construction projects and complex, long-term regeneration schemes that create sustainable growth for the Group while leaving lasting legacies for local communities.

Why we're different

Our specialism in the complementary activities of construction and regeneration makes us competitive in the industry. The diversity of our offering mitigates the impact of fluctuations in individual markets and our geographical spread provides us with local knowledge and access to a local supply network. Our decentralised structure enables our divisions to tailor their resources and respond quickly to the needs of their clients and partners. As a Group, we achieve synergies by our divisions sharing opportunities and collaborating on schemes.

How our business model works

Construction is cash generative while regeneration requires significant initial investment and projects can take several years to complete. We therefore use the cash from our construction activities to invest in regeneration schemes that will generate additional profits over the long term. Our progress in construction is measured by margin and working capital, while performance in regeneration is measured using return on capital employed.

Our Investments business acts mainly as a facilitator and provides opportunities in construction and regeneration. The division has built up a portfolio of property partnerships with local authorities and government bodies which generate a stream of development profits.

See page 1 for more information on the activities of each division, and pages 14 to 19 for their financial contributions.

Our resources

A talented workforce

We employ over 6,600 people with a broad range of expertise to support our clients through all stages of the project life cycle, from development to design, build, maintenance and refurbishment. Of our employees, 34% have been with the Group for six years or more, and developed a bank of knowledge and experience that they can pass on to newer recruits.

High-quality supply chain

We have a trusted, national network of suppliers and subcontractors who are aligned to our values and Perfect Delivery[1] philosophy, and can help us deliver projects efficiently and to a high standard. We use a variety of large and small local suppliers and occasionally source specialist products overseas.

Strong client and partner relationships

We have formed long-term relationships and strategic alliances with clients and partners. Of our current order book, 22% is in frameworks.

Technology as an enabler

We use technology to create faster, more efficient processes, manage risk, improve our methods of construction, install better health and safety measures, and enable our employees and subcontractors to increase their productivity and perform at higher levels. This enhances the experience of our clients and partners.

Financial strength

The Group's balance sheet remains strong. In 2018 shareholder equity was £346.6m (2017: £316.6m) with average daily net cash* of £98.8m (2017: £118.0m).

* See note 2 for alternative performance measure definitions and reconciliations.

1 Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

Our business model

Maintaining and enhancing our resources

Helping our employees to succeed

We recruit talented people, from apprentices and graduates to specialists in their field. We create a safe working environment by applying rigorous health and safety standards and through initiatives to support occupational health and wellbeing (see our 2018 responsible business for more information). We develop our people through training and mentoring to increase the skills and knowledge they require to maximise their potential and meet the needs of our markets. Our decentralised approach, together with our core value of challenging the status quo, empowers our people to think differently and find the best solutions for our clients.

Partnering with our supply chain

We build long-term relationships with our suppliers and subcontractors based on fairness and respect. We support their development through the Supply Chain Sustainability School and suppliers' events (see our 2018 responsible business report for more information). We operate schemes that motivate our subcontractors to achieve preferred status and give feedback on their performance. Our scale enables us to procure goods and services efficiently, and through our Group-wide agreements we can also provide our subcontractors with access to better pricing. By aligning our supply chain to our values and quality criteria, we reduce the likelihood of errors on projects and increase efficiency and client satisfaction.

Meeting our clients' and partners' needs

Using our talented workforce, high-quality supply chain and enabling technology we deliver safe, efficiently run, high-quality projects that match our clients' and partners' objectives. Our regional coverage means we can engage at a local level and tailor our services as needed. The relationships we build as a result increase the prospect of repeat business, framework positions and negotiated work, which can have a positive impact on profitability and long-term growth.

Investment in technology

Our divisions continually invest in new technology, such as Construction & Infrastructure's new risk management software and supply chain certification and payment portal. In 2018, the Group invested £3.6m in new technology (2017: £2.0m), which includes moving existing systems to the Cloud to make them accessible to employees while they are on the move. We have continued to invest in information security controls and have engaged an external security partner who advises on strategy. Our IT team achieved ISO 27001 accreditation in 2018.

Disciplined financial management

We monitor our cash levels on a daily basis and foster good relationships with financial institutions to provide access to competitively priced debt facilities. We minimise the use of our funds wherever possible by working collaboratively with landowners to avoid the need to purchase land on the open market, and by forward selling the properties we build.

Our culture

Underpinning our business model, our core values and Total Commitments create a culture that is focused on developing and empowering our employees, delivering high-quality projects for clients, enhancing the environment, creating value for all our stakeholders, including local communities where we work, and maintaining a disciplined use of capital (see pages 2 and 3 for more information). These principles are driven by the Board and embedded in the culture and operations of all divisions. Information on our performance against our Total Commitments can be found in our 2018 responsible business report.

Value created

See our key performance indicators on pages 12 to 13 for further information.

Shareholders

151.8p
EPS adjusted*

22%
annual dividend growth over three years

Clients and partners

83%
of projects achieved Perfect Delivery[1]

58%
of order book and pipeline is in frameworks and partnerships

* See note 2 for alternative performance measure definitions and reconciliations.

1 Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

Our people

720
trained in NVQs and professional qualifications

12%
voluntary employee turnover

Local communities

113
new apprentices drawn from local communities

39.8/50
Considerate Constructors Scheme average score

Supply chain

392
members of the Morgan Sindall Supply Chain Family

2,343
preferred subcontractors

Environment

54%
reduction in carbon emissions against 2010 baseline

A-
CDP score

Engaging with our stakeholders

Engaging with our key stakeholders is critical to our business. Regular dialogue and feedback helps us to ensure that our goals and strategies remain relevant and that our approach to being a responsible business is effective.

Our shareholders

Our executive directors communicate with institutional shareholders and analysts on a regular basis to keep them updated on the Group's activities, performance and strategy. This includes presentations to analysts, with Q&A sessions, at our preliminary and half year results announcements, and individual meetings with our institutional investors. All shareholders are invited to the Company's annual general meeting (AGM) and the non-executive directors are available to meet with shareholders at any time. Additional information on the Board's engagement with shareholders can be found in the directors' and corporate governance report on page 43.

Our people

We keep our employees informed of our financial performance through regular newsletters, email notifications and briefing sessions, and make them aware of any external factors and significant events that might have an impact. We offer a savings-related share option plan to encourage employee engagement with business performance and progress.

Each division communicates with its teams through a variety of channels on market conditions and divisional performance, and ensures they are kept aware of key business priorities. Employees take part in forums and consultative meetings where open dialogue and feedback is encouraged, and annual conferences give people a chance to network across different roles and regions. All new employees receive a formal induction which includes a presentation on the important role played by our core values and Total Commitments in our culture and operations.

Our divisions undertake regular employee surveys. The results are reviewed, shared with employees and acted on. In 2018, Construction & Infrastructure, Fit Out, Partnership Housing and Urban Regeneration all carried out surveys. Property Services carried out a limited survey and once this has been reviewed and updated, will conduct a full survey in 2019.

Each year two divisional senior teams meet less formally with the Board. In 2018 the Board met with Partnership Housing and Investments, allowing the non-executive directors the opportunity to meet senior managers and their wider teams to gain a deeper understanding of these divisions. In 2019, the chair and non-executive directors will each attend a divisional employee conference or forum and feed their findings back to two designated Board discussions on employee engagement. This will enable the Board to consider issues that have been raised by employees around the Group.

Our suppliers and subcontractors

We are committed to nurturing long-term relationships with high-quality suppliers and subcontractors, and work collaboratively with them to achieve the best outcome for our clients. Of the Group's total spend on materials and plant, 69% (2017: 77%) is covered by Group-wide agreements with our supply chain. Our policy is to treat our supply chain fairly, with agreed payment terms and procedures in place to minimise late payments. We hold an annual supplier event and provide learning and support through the Supply Chain Sustainability School. The Morgan Sindall Supply Chain Family consists of 392 (2017: 379) manufacturers and suppliers, and around 69% (2017: 80%) of materials used by the Group can be traced back to members of the Supply Chain Family, which guarantees that they are responsibly sourced. Further information can be found in our 2018 responsible business report.

Our divisions operate preferred partner status programmes for their subcontractors, which involves setting standards and managing performance, including assessment and reward. Preferred status is awarded to subcontractors who meet our high standards, who then benefit from long-term relationships and repeat work.

Our clients and partners

We aim to develop long-term relationships with our clients and partners by gaining an in-depth understanding of their priorities and objectives. Our decentralised approach means that each division can focus on the specific needs of its markets, regions and clients. Our objective is wherever possible to secure a steady stream of work through framework arrangements or repeat business. Our Perfect Delivery[1] programme helps to ensure that we deliver our projects to the standard our clients and partners expect as well as driving continuous improvement. On completion of each project, clients are asked to provide feedback on their experience. The results are shared across the different teams within the division and analysed by the divisional managing directors, in order to drive further improvements.

Local communities

Our divisions have dedicated engagement teams who are responsible for liaising with local residents and communities before and during our projects, and where appropriate may engage members of the local community in consultation on the project's development. Project teams in all divisions get involved in local events, such as holding school talks or career fairs, or supporting local charities.

Local and national government

We engage regularly with policy makers through our active involvement in industry bodies including the UKGBC (UK Green Building Council) and the CBI (Confederation of British Industry).

Our construction divisions all deliver work for the public sector, including through government frameworks, and our regeneration divisions form partnerships with local authorities on schemes that serve the long-term needs of their communities.

We ensure compliance with legislation and run e-learning programmes for employees on subjects including market abuse and anti-bribery and corruption.

1 Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

Our strategy

The Group's strategy remains focused on our well-established core strengths of construction and regeneration in the UK.

Our recognised expertise and market positions in affordable housing (through Partnership Housing) and mixed-use regeneration development (through Urban Regeneration) reflect our deep understanding of the built environment which we have developed over many years, and our ability to provide solutions for complex regeneration projects. 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 and which support the UK's current and future affordable housing and regeneration needs.

To achieve long-term sustainable growth, we use the cash generated by our fit out, construction and infrastructure operations to support investment in our affordable housing and mixed-use development activities.

Our strategic objectives

We focus on five strategic objectives which we believe are fundamental to delivering our strategy:

Win in targeted markets

We target markets where there is growth (see page 6) and pursue opportunities that suit our experience and expertise. We take a long-term approach to relationships with our clients, aiming to deliver exceptional quality and service that encourages them to choose us on their next project and recommend us to others. In 2018, 83% of our projects achieved Perfect Delivery[1] (2017: 82%).

To deliver consistently high quality, we employ talented people and work closely with our supply chain to align them to our values and standards.

Develop and retain talented people

We invest in developing and motivating our people to help them achieve their potential. Personal development plans are designed bespoke to the individual and we promote internally wherever possible. In 2018, 9% of employees were promoted internally across the Group. Our decentralised approach empowers our employees to think of the best solutions and take responsibility for their decisions.

Disciplined use of capital

We rigorously manage our cash, working capital and overheads. By working in partnership with local authorities and landowners we avoid the need to purchase land on the open market for development. We also use alternative sources of funding where the conditions are favourable.

Maximise efficiency of resources

We achieve operational efficiencies by securing Group-wide procurement agreements, continuously improving our systems and processes and developing new technology. By working closely with our clients and subcontractors, we can ensure projects run as smoothly as possible and changes are well managed.

Our drive to reduce carbon emissions results in energy savings and we regularly monitor and measure our waste reduction and recycling to ensure that we save both resources and landfill tax.

Pursue innovation

Employees are encouraged to think differently and given the opportunity to share and test their ideas. As the divisions are run independently they are able to pursue or adopt innovations that best suit their markets and operations. Examples include Construction & Infrastructure's new plastic reduction campaign and Fit Out's adaptation of a project site to promote safe behaviours and wellbeing (see our 2018 responsible business report for more information).

Performance against strategic objectives

The key performance indicators set out on pages 12 to 13 have been selected to monitor and measure our progress against our strategic objectives. In 2018 our gross margin in construction activities was 10.5% (2017: 9.7%) and return on capital employed in regeneration activities was 13.1% (2017: 11.6%). Pages 22 to 31 show the principal risks to our strategic objectives and how we manage and mitigate them.

1 Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

Key performance indicators

We use financial and non-financial key performance indicators (KPIs) to measure progress in delivering our strategic objectives.

Win in targeted markets

COMMITTED ORDER BOOK
(£m)

See page 20 for a definition of committed order book.

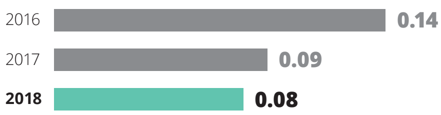
Our order book decreased 7% on 2017, owing to a continued focus on quality, with a similar proportion of work secured through negotiated, framework or two-stage bidding processes. We will continue to be selective in the work for which we bid in 2019.

REGENERATION AND DEVELOPMENT PIPELINE
(£m)

See page 20 for a definition of regeneration and development pipeline.

Our pipeline was down 4% on 2017. The pipeline is long term with 65% relating to 2021 onwards. We continue to pursue regeneration opportunities which will contribute to the pipeline in future years.

ACCIDENT FREQUENCY RATE



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

Our health and safety performance has continued to improve. We are encouraged to see an 11% reduction in the AFR, and over the last 12 months our accident incident rate has also fallen from 199 to 180, a reduction of 10%. We continue to review causation of incidents to develop our approach.

Develop and retain talented people

VOLUNTARY EMPLOYEE TURNOVER
(%)

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

We recognise that a certain level of turnover among employees is essential to ensure a regular injection of new ideas and approach. Our long-term target is to reduce employee turnover to 10%. During 2018, our rate increased primarily due to increases within Fit Out and Partnership Housing. However, a new senior management team has been appointed to Partnership Housing to drive operational improvements.

NUMBER OF APPRENTICES AND NEW GRADUATES

We are committed to developing a succession pool of talent across the Group. Offering employment opportunities to graduates and apprentices helps us to create and further develop these pools. In 2018 we sponsored 13 undergraduates and supported 720 people through NVQs and professional qualifications.

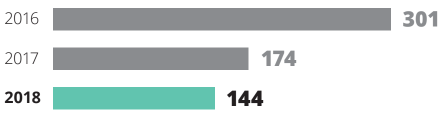
AVERAGE NUMBER OF TRAINING DAYS PER EMPLOYEE

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

We provide employees at all levels with the skills they need to advance their careers. In 2018, 82 (2017: 94) 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.

Disciplined use of capital

OPERATING CASH CONVERSION
(adjusted for investment in regeneration)
(%)



Operating cash conversion is statutory cash flow from operating activities (excluding increases in inventory) as a percentage of adjusted* operating profit.

Cash conversion was strong due to a continued focus on working capital management. However, as expected, the percentage was lower than in the previous year, as we have improved our supply chain payment practices. We 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.

* See note 2 for alternative performance measure definitions and reconciliations.

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.

The increase in return on capital employed was in line with our expectations, as schemes started to deliver higher profits in 2018 following the previous year's investment.

* See note 2 for alternative performance measure definitions and reconciliations.

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, capitalised arrangement fees and derivative financial assets and liabilities.

Our continuing focus on working capital management has enabled us to maintain this ratio at a similar level to 2017. No material change is expected in 2019 as the Group targets operating cash conversion of 100%.

Maximise efficiency of resources

GROSS MARGIN IN CONSTRUCTION ACTIVITIES
(%)

Gross margin is gross profit as a percentage of revenue.

Our gross margin improved by 80bps, reflecting the higher quality of work secured as well as ongoing 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
(%)

The ratio remained broadly unchanged on 2017 as the overhead base grew in line with revenue. No material change is anticipated in 2019.

CARBON INTENSITY

Carbon intensity is total carbon emissions per £m of revenue.

We continue to effectively manage our environmental impact and in 2019 we will roll out our new science-based targets, which have been validated by the global Science Based Targets initiative and will help us drive further improvements. See pages 48 to 49 for more detail on our management of carbon emissions.

Operating review

Construction & Infrastructure

REVENUE
(£m)

OPERATING PROFIT
(£m)

OPERATING MARGIN
(%)

Construction & Infrastructure delivered a strong set of results in the year, with further significant margin and profit growth generated from its ongoing focus on improved operational delivery and disciplined contract selectivity and risk management. Although revenue was down 4% in the year to £1,343m, profit increased 32% to £27.0m (2017: £20.4m) resulting in an operating margin of 2.0%, up 50bps.

Of the divisional revenue split by type of activity, Construction (which includes Design) was down 17% at £669m (50% of divisional revenue), while Infrastructure increased 15% to £674m (50% of divisional revenue).

Construction and Infrastructure both delivered an operating margin of 2.0%. In achieving this, Construction increased its margin 70bps (from 1.3% in the prior year), whilst Infrastructure was up 30bps (from 1.7% in the prior year). Both reflected a second half weighting to margin, arising from a combination of work mix and ongoing operational improvement, each generating a margin of 2.3% in the second half compared to 1.7% in the first half.

The committed order book at the year end was £1,922m, up 4% compared to the prior year end. Of this, Infrastructure's order book continued to grow, up 8% to £1,485m (77% of the total by value) and has 100% of its revenue secured for 2019.

Consistent with its focus on contract selectivity, Construction's order book reduced 9% to £437m (23% of total value). Importantly, the appropriate risk balance and profile has been maintained within the Construction order book, with 88% of the value derived through negotiated, framework or two-stage bidding procurement processes, and only 12% derived through competitive tenders. In addition, Construction had c£800m of orders at preferred bidder stage at the year end, more than twice the amount compared to the prior year.

Construction

Education remains Construction's largest sector. Projects delivered in the year include a £10m primary school in Bearsden, Scotland for East Dunbartonshire Council, a £13m school for Aberdeen City Council, funded through the council's five-year capital programme and a new £20m Mathematics and Science building for Warwick University. Work also continued on the £45m Arts and Humanities facility for Manchester Metropolitan University and the £35m Tonyrefail education campus in South Wales, while significant wins in the year included an £18m project to deliver new academic offices for the University of Birmingham.

In leisure, three facilities were completed for Investments' Slough Urban Renewal joint venture: the £6.5m Langley Leisure Centre, £5.7m Salt Hill Activity Centre and £10m Slough Ice Arena. In other sectors, work progressed on projects for Liverpool City Council as part of its Paddington Village development, including The Spine, a £35m centre of clinical excellence for the Royal College of Physicians. Significant wins in the period include a £60m contract to build a new motorway services area at junction 45 of the M1 near Leeds, including a food court, 100-bedroom hotel, parking areas and onsite roadways; and a £46m mixed-use development in Leicester which includes two new hotels.

Construction was also appointed to three new frameworks in the year: the £20bn London Development Panel 2, set up to accelerate housing development on surplus, public sector land, on which the division was awarded a place together with Partnership Housing and Urban Regeneration; the £1.1bn Scape Group Regional Construction Framework, which will provide opportunities in the Midlands for public sector projects valued between £1m and £5m; and the £750m Select Property Group framework to deliver new student accommodation facilities across the UK, with the first project awarded under the framework under way, being a £25m development of 357 self-contained studios in Birmingham at the old BBC Pebble Mill site.

Infrastructure

In Infrastructure, the focus remains on the key sectors of aviation, highways, rail, nuclear, energy and water.

In aviation, works are ongoing at Heathrow Airport under the Q6 framework, including the replacement of ground lighting and resurfacing to the Alpha North and other taxiways and a new cargo building with an automated handling system for IAG Cargo and British Airways. The framework runs until the end of December 2019, with an anticipated extension to 2021.

In highways, the division secured a place on the £500m Midlands Highway Alliance Medium Schemes Framework 3 (MSF3) which will deliver major highways and civils works over the next four years. Project completions in the year included the final stage of the A1(M) Leeming to Barton upgrade and the £290m A6 to Manchester Airport relief road, with the new 10km A555 dual carriageway now in full use.

In rail, significant wins in the period included design and enabling works for a £200m project at Werrington Junction near Peterborough, where a new section of track will remove a critical bottleneck on the East Coast Main Line. Additionally, a £196m contract was awarded, in joint venture, by Transport for London to extend the London Overground by 4.5km to Barking Riverside.

In nuclear, the division won a place on the Defence Infrastructure Organisation's £1.3bn, 10-year Clyde Commercial Framework to upgrade infrastructure at the Royal Navy's submarine base in West Scotland. Works also continued for BAE Systems at Barrow-in-Furness, and on the £1.1bn contract at Sellafield as part of the Infrastructure Strategic Alliance.

In energy, new appointments in the year included £115m of projects under National Grid's 'Engineer, Procure, Construct' cable framework and a number of schemes in northern Scotland through the Scottish and Southern Electricity Networks (SSEN) overhead line and cable frameworks; the SSEN overhead line framework has been extended by four years and will now run to 2023.

In water, a total of £100m of works were carried out in 2018 under the two AMP6 frameworks for Yorkshire Water and Welsh Water. Work also continued on the seven-year joint venture project to build the west section of the Thames Tideway Tunnel 'super sewer'; excavation has begun on the launch tunnel in preparation for installing the tunnel boring machine in early 2019.

Divisional outlook

The focus for Construction & Infrastructure will remain on margin improvement, project delivery and securing higher-quality work with the appropriate risk balance. The medium-term target for both Construction and Infrastructure is an operating margin of 2.5% and further progress towards these targets is expected in 2019.

Fit Out

REVENUE
(£m)

OPERATING PROFIT
(£m)

OPERATING MARGIN
(%)

Fit Out delivered another excellent performance, driven by consistently strong project delivery and a continued focus on enhanced customer experience. With revenue increasing 13% to £831m, operating profit increased 12% to £43.8m at an operating margin of 5.3%, level with the prior year.

There was no significant change to the market sectors served, with the commercial office market again being the largest, contributing 86% of revenue (2017: 84%). Higher education accounted for 8% of revenue, while retail banking, government and local authority work made up the remainder.

London remained the division's largest geographical market, accounting for 73% of revenue, with no significant change from 71% in the prior year. Other regions accounted for 27% of revenue.

In terms of type of work delivered in the year, 86% related to traditional fit out work (2017: 84%), while 14% related to design and build (2017: 16%). The proportion of revenue generated from the fit out of new office space increased to 38% (2017: 23%), while the fit out of existing office space reduced to 62% (2017: 77%). This reduction was driven by a small number of larger new office space projects and was not indicative of any longer-term trend. Of the fit out of existing office space, 76% related to refurbishment 'in occupation', which was up from 64% in the prior year and again, this did not reflect any significant long-term trend. The average value of enquiries received through the year remained at around £2m.

New project starts in the year included 220,000 sq ft of space at Royal Dutch Shell's new multi-storey office in York Road, London together with a 27-storey fit out at the neighbouring Shell Centre tower; the fit out of 155,000 sq ft at BBC Cymru Wales headquarters in Cardiff; and the fit out and refurbishment of c100,000 sq ft for the Competition & Markets Authority in London.

Significant project completions in the year included an 88,000 sq ft fit out for ITV in London; the first phase of works for RWE Generation UK in Swindon; 22,000 sq ft for Ocean Network Express (ONE) at Canary Wharf; 30,000 sq ft for global flu vaccine company, Seqirus, in Maidenhead, and 28,000 sq ft for the University of Bristol.

As with previous years, there was a second half weighting to operating margin. Performance in the second half of the year was again strong, with an operating margin of 6.2% (level with the prior year second half margin) compared to a first half margin of 4.4% and was driven by the successful completion of a number of contracts falling into the second half.

At the year end, the committed order book was £470m, a decrease of 6% on the prior year end. This also reflected a reduction of 11% from the position at the half year, however it was level with the committed order book as reported as at 30 September. Of the year end total of £470m, £439m (93%) relates to 2019 and this level of orders for the next 12 months is 6% lower than it was at the same time last year of £468m. The balance of the order book in terms of geographical split and type of work is broadly in line with previous years.

Key framework appointments in the year included the Department for Work and Pensions Estate Contractor Framework for London and the South East, Scotland and the North East, while the division was awarded six projects under the Mayor's Office for Policing and Crime (MOPAC) framework.

Divisional outlook

Fit Out's medium-term target is to deliver annual profit in the range of £30m-£35m through the cycle. 2018 saw a record profit performance for the division and the target range was significantly exceeded. For 2019, based on the current order book and the limited visibility of future workload for later in the year, Fit Out is expected to deliver a more 'normalised' performance which is back within its target range.

Property Services

REVENUE
(£m)

OPERATING PROFIT/(LOSS)[1]
(£m)

OPERATING MARGIN[1]
(%)

Property Services delivered a significantly improved performance, with revenue up 52% to £100m and operating profit[1] of £2.0m, a margin[1] of 2.0%.

Following the streamlining of its activities in 2017, the division has concentrated on delivering repairs maintenance and planned works to public sector housing through long-term integrated contracts with housing associations and local authorities. This focus has helped improve both efficiency and quality of service. The significant revenue growth of 52% up to £100m in the year was largely secured from developing existing contracts, as well as new work awarded by Basildon Council and CityWest Homes. The division now delivers services to 200,000 homes across the UK.

The operating profit[1] of £2.0m reflected additional contribution from the higher revenue together with improved operational efficiency resulting from the previous year's restructuring. In addition, Property Services has continued to invest in its IT platform for managing repairs and maintenance and planned activities. The data collected through the platform helps with the strategic allocation of investment in planned works, thus reducing the need for future repairs and inconvenience for tenants.

At the year end, the committed order book was down 14% to £723m, reflecting the division's focus earlier in the year on successful contract delivery and mobilisation and prioritising this above bidding for new work. However, bidding activity increased later in the year and in January (and therefore not included in the year end order book), the division was awarded three separate housing repair and maintenance contracts with a total value of £313m over a 15-year period.

The three new contracts are: an award with the London Borough of Waltham Forest to provide responsive repairs, refurbishment of void homes (which have been unoccupied) and planned maintenance programmes to their 10,000 properties; a contract with St Albans City and District Council for repairs, void refurbishments and planned maintenance works to over 4,800 properties, with a focus on delivering efficiencies through integrated maintenance services; and property maintenance covering 6,000 homes and 1,200 garages for South Essex Homes, Southend-on-Sea Borough Council's arms-length management organisation.

In addition to the services highlighted for each of these contracts, robust social value commitments have been made to deliver employment and training opportunities to the various communities.

Divisional outlook

The medium-term target for Property Services is to increase its operating margin to at least 3%. Looking ahead to 2019, with the benefit of further operational efficiencies and the expected growth from new and existing contracts, the division is expected to make progress towards this target and beyond.

1 Before intangible amortisation of £1.0m (2017: £0.6m).

Partnership Housing

REVENUE
(£m)

OPERATING PROFIT[1]
(£m)

OPERATING MARGIN[1]
(%)

AVERAGE CAPITAL EMPLOYED[2]
(last 12 months) (£m)

CAPITAL EMPLOYED[2] AT YEAR END
(£m)

ROCE[3]
(last 12 months)
11%

ROCE[3]
(average last three years)
12%

Although Partnership Housing delivered revenue growth of 9% to £519m, profit was adversely impacted in the year by operating issues on the contracting side of the business. Operating profit[1] was down 13% to £12.2m resulting in an operating margin[1] of 2.4%, down 60bps on the prior year.

Revenue growth was driven by the mixed-tenure activities, where revenue was up 21% to £222m (43% of divisional revenue). Contracting revenue (including planned maintenance and refurbishment) was up 2% in the year to £297m (57% of divisional total).

While mixed tenure performed as expected, a number of operating issues in contracting impacted profit. As had been highlighted through the year, the division experienced cost escalation and programme delays on one design and build contract in London, which completed in the second half and with the final account agreed. Contracting was further impacted by underperformance in Scotland arising from cost escalations and poor delivery. The resulting poor performances in the London and Scotland regions more than offset the positive progress made in the other six regional businesses.

A new divisional senior management team was appointed during the year to drive and accelerate the necessary operational and financial improvements and to leverage the strategic position of the division in its markets. The immediate focus is on addressing the basic operational performance of the contracting activities.

The capital employed[2] at year end was £106.6m, with the average capital employed[2] for the last 12-month period of £115.0m, an increase of £15.3m on the prior year. The overall ROCE[3] was 11%. Based on the profile, schedule and type of mixed-tenure development currently anticipated, capital employed[2] is expected to increase towards £150m in 2019.

Mixed tenure

In mixed tenure, 952 units were completed across open market sales and social housing compared to 887 in the prior year. The average sales price of £233,000 compared to the prior year average of £207,000, with the increase reflecting the geographical mix of sales, with more units completed in the London/South East area.

In the year, the mixed-tenure regeneration and development pipeline reduced 17% to a still healthy £708m, supported by the committed order book for the contracting element in mixed tenure which was broadly level at £77m. The division currently has a total of 45 mixed-tenure sites at various stages of construction and sales, with an average of 93 open market units per site. Average site duration is 34 months, providing long-term visibility of activity.

Works commenced on site at several developments during the year, including a £25m development in partnership with Merthyr Tydfil County Borough Council and Merthyr Tydfil Housing Association to deliver 153 new homes on an old colliery site near Merthyr Vale in South Wales. Work also commenced on the £15m development, Keepers Gate, in Weston-super-Mare to deliver 50 new homes; a £41m development for Homes England at Priorslee, Telford, to create 220 affordable and open market homes; and a £45m joint venture project with Homes England at Leyland, Lancashire to build 200 homes through the government's accelerated construction initiative.

Contracting

In contracting, the secured order book reduced by 44% to £250m and reflected a reduced level of bidding while the operational issues noted above were addressed.

During the year, construction commenced on the £9m first phase of Great Yarmouth Borough Council's major new homes development at Beacon Park in Norfolk, scheduled for completion in mid-2020. The division was also selected by Liverpool City Council to build 105 homes for its new housing company, Foundations, with works due to start on site in 2019. Work continued on the £250m contract for the Defence Infrastructure Organisation at Salisbury Plain to deliver 917 new homes, working to an accelerated handover which will peak at around 26 units per week in Spring 2019. Completions in the year include a £10m regeneration programme of works to 300 homes at Manor Farm in Coventry and £7m of sheltered housing at Reynolds Court in Newport, Essex for Uttlesford District Council.

Divisional outlook

Partnership Housing's medium-term target is to generate a return on capital employed[3] of over 20%. Overall, 2018 was a difficult year for the division, with both returns and profit taking a step backwards. Looking ahead to 2019, it is expected that operational improvements will drive growth in profit; however, with the expected increase in capital employed, progress towards its returns target is likely to be limited.

1 Before intangible amortisation of £nil (2017: £0.4m).

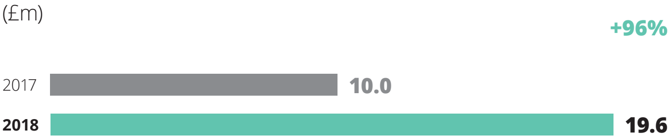
2 Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).

3 Return on average capital employed = adjusted operating profit divided by average capital employed.

Urban Regeneration

REVENUE
(£m)

OPERATING PROFIT[1]
(£m)



AVERAGE CAPITAL EMPLOYED[2]
(last 12 months) (£m)

CAPITAL EMPLOYED[2] AT YEAR END
(£m)

ROCE[3]
(last 12 months)
16%

ROCE[3]
(average last three years)
13%

Urban Regeneration delivered operating profit[1] of £19.6m, up 96% from the prior year. This significant uplift in performance was derived from its diverse and substantial development portfolio and was in line with the timing of scheme completions. Revenue in the year was up 6% to £185m, which was more indicative of the type of development scheme from which the profits were generated than of the level of underlying activity.

Key contributors to overall performance included the division's English Cities Fund (ECf) joint venture with Homes England and Legal & General, through which over £50m of mixed-use development was completed in Salford. This included a 635-space, multi-storey car park pre-let to NCP and 135 apartments at The Slate Yard, where construction commenced on a further 199 apartments for rent in the third phase. In addition, two significant pre-let and forward-funded deals were completed; 180,000 sq ft to Salford City Council and Aviva Investors at Two New Bailey Square, Salford; and 157,000 sq ft to HMRC and Legal & General at Three New Bailey, Salford.

Through the division's Waterside Places joint venture with the Canal & River Trust, progress was made at Islington Wharf, Manchester where a third phase of construction of 101 homes is under way; in London, a second phase of 157 homes was completed at Brentford Lock West, and 108 apartments at Hale Wharf in Tottenham were forward sold for private rental.

At Logic Leeds, the pre-let of a 361,000 sq ft, forward sold distribution hub was followed by the lease of a second 360,000 sq ft unit to an online retail operator. In addition, three speculative units were completed, 'Trilogy @ Logic', totalling 100,000 sq ft, funded and retained by Leeds City Council as a future revenue stream.

Also secured in the year was the sale of 23.5 acres of land in Crewe to Homes England, and several lettings at the Marischal Square development in Aberdeen. Construction also commenced on new phases at several existing developments, including 256 homes at Bristol's Wapping Wharf and 60,000 sq ft of commercial space at Stockport Exchange.

Other significant completions in the year included 100,000 sq ft of civic offices pre-let to Conwy Borough Council at Colwyn Bay in Wales; 120 homes and 120,000 sq ft of council offices in Lambeth, London; and 101 homes at Lewisham Gateway. Projects nearing completion include a £110m leisure development in Warrington with a cinema pre-let to Cineworld, and a £21m transport interchange in South Shields which will merge the local metro and bus stations.

Urban Regeneration's development portfolio remains extremely active, with 13 projects on site at the year end and a further 18 projects expected to start on site in 2019. Further progress was made with its existing town centre developments where planning consent was obtained on six projects with a total development value of £490m, including the final phase of Lewisham Gateway which will comprise 654 homes, a cinema, retail, leisure and offices.

At the year end, the division's combined committed order book and regeneration and development pipeline amounted to £2.1bn and of this, there is a diverse geographic and sector split:
- by value, 46% is in the South East and London, 34% in the North West, 16% in Yorkshire and the North East, and 4% in the rest of the UK; and
- by sector, 52% by value relates to residential, 29% to offices, and the remainder is broadly split between retail, leisure, and industrial.

In addition, the division has been selected as preferred developer on nearly £400m of mixed-use schemes with local authorities in Slough, Gainsborough, Wirral and Rotherham.

Average capital employed[2] for the last 12-month period was £108.8m, an increase of £20.3m on the prior year and an overall ROCE[3] of 16%. Capital employed[2] at the year end was £89.4m and based on the current profile and type of scheme activity across the portfolio, the average capital employed[2] for 2019 is expected to reduce and be within the range of £90m-£95m.

Divisional outlook

The medium-term target for Urban Regeneration is to increase its ROCE[3] towards 20%. For 2019, based on the expected lower amount of capital employed[2], good progress towards its target ROCE[3] is expected.

1 Before intangible amortisation of £nil (2017: £0.2m).

2 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).

3 Return on average capital employed = (adjusted operating profit less interest on non-recourse debt less unwind of discount on deferred consideration) divided by (average capital employed). For 2018, interest and fees on non-recourse debt was £2.4m (2017: £1.5m) and the unwind of discount on deferred consideration was £0.1m (2017: £0.2m).

Investments

OPERATING (LOSS)/PROFIT
(£m)

Investments made an operating loss of £2.4m in the year, impacted by delays in progressing a number of its schemes. This slower progress resulted from a range of factors, including planning delays, challenges with forecast construction costs within its joint venture developments delaying commencements, and general slippage in reaching financial close on a number of developments.

Notwithstanding this, there was much positive progress made within the division's existing partnerships. In Slough Urban Renewal, a joint venture with Slough Borough Council, seven projects were completed, with a value in excess of £50m. In addition, two planning consents were secured: for a mixed-use development on the former site of the town's central library, including 62 private apartments and two hotels, to be delivered by Construction & Infrastructure; and for a private housing development of 24 homes to be built by Partnership Housing. Currently, five projects with a total construction value of £65m are under way in Slough, with six more in the design and planning phase.

In Bournemouth, through its joint venture partnership with Bournemouth Borough Council, 113 new private rental homes at Berry Court were handed over in the year, as well as a 217-space, multi-storey car park; planning approval was obtained for the £150m multi-use redevelopment of Winter Gardens; and construction began on 46 high-quality homes for market rent in St Stephen's Road.

In addition, through its extra care joint venture, Morgan Ashley, work started on site on the Isle of Wight's first purpose-built, extra care housing and retirement living scheme in Ryde, and on a 60-unit development in Grimsby. Morgan Ashley was also appointed preferred bidder on two extra care schemes in Hampshire and four schemes in Leeds, with a combined development value of approximately £60m.

Other key milestones were the completion in the year of a £16m extra care development in Northampton and a 28-unit supported living scheme in Birmingham, both delivered through the HB Villages joint venture; and the £18m Gorbals Health and Care Centre in Glasgow, delivered by Construction & Infrastructure through the hub West Scotland joint venture.

Two new property partnerships were secured in the year. Chalkdene Developments, a joint venture with Hertfordshire County Council, is set to deliver a series of housing-led developments with an estimated gross development value of £2bn. The programme is for an initial period of 15 years, with the option to extend by a further five years. The division also set up a 15-year partnership with Torbay and South Devon NHS Foundation Trust: SDH Innovations Partnership is set to develop over £150m of infrastructure in South Devon, including new clinical buildings and commercial and housing developments.

Later in the year, the division launched an opportunity targeted at institutional capital to finance a build-to-rent vehicle focused on prime commuter locations around London and the South East. The vehicle is aimed at providing investors with access to a portfolio of more than 1,000 purpose-built, residential rental units with a gross development value of c£480m, drawn from the division's strategic joint ventures.

After the year end in January 2019, the division entered into a new residential partnership agreement with Residential Secure Income (ReSI), which will initially target the delivery of 1,500 shared ownership homes with a value of £300m.

Capital employed[1] at the year end was £37.2m (2017: £38.6m), with average capital employed for the last 12-month period of £40.1m (2017: £30.7m). This is expected to increase within the range of £40m-£45m in 2019 spread across a range of its partnerships.

Divisional outlook

Investments is expected to consistently deliver a positive return from its capital employed each year, as well as generating construction and regeneration work for the rest of the Group. Its target is to increase ROCE[2] up towards 20% in the medium term. Based on the current profile of scheme completions, the division is expected to make a loss in the year ahead.

1 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).

2 Return on average capital employed = (adjusted operating profit plus interest received from joint ventures) divided by average capital employed.

Financial review

We continue to achieve growth in profitability, which together with our strong cash performance enables us to invest in regeneration opportunities that will deliver sustainable returns for shareholders.

Performance

Revenue for the year was up 6% at £2,972m (2017: £2,793m), with adjusted* operating profit up 25% to £85.5m (2017: £68.6m). This resulted in an adjusted* operating margin of 2.9%, a significant improvement of 40bps compared to the prior year. The net finance expense increased to £3.9m (2017: £2.5m) due to higher interest charge on some of the Group's non-recourse project financing, together with the inclusion of the notional interest expense on lease liabilities under IFRS 16 for the first time. After deducting this, the adjusted* profit before tax was £81.6m, up 23% (2017: £66.1m).

The tax charge for the year is £13.8m, which equated to an effective tax rate of 17% and was slightly lower than the UK statutory rate of 19% due to adjustments for prior year tax previously provided. 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 up 25% to 151.8p (2017: 121.1p), with the fully diluted adjusted* earnings per share of 144.0p up 25% (2017: 114.8p). Reported basic earnings per share was 149.8p (2017: 118.8p). The total dividend for the year increased 18% to 53.0p per share (2017: 45.0p).

Details on performance by division are shown on pages 14 to 19.

FINANCIAL PERFORMANCE

	2018	2017
Revenue	**£2,972m**	£2,793m
Operating profit – adjusted*	**£85.5m**	£68.6m
Profit before tax – adjusted*	**£81.6m**	£66.1m
Earnings per share – adjusted*	**£151.8p**	121.1p
Year-end net cash*	**£207.0m**	£193.4m
Average daily net cash*	**£98.8m**	£118.0m
Total dividend per share	**53.0p**	45.0p
Operating profit – reported	**£84.5m**	£67.4m
Profit before tax – reported	**£80.6m**	£64.9m
Basic earnings per share – reported	**149.8p**	118.8p

Note: the Group adopted IFRS 15, IFRS 9 and IFRS 16 in the period. Refer to the significant accounting policies on pages 89 to 91 for further detail.

* See note 2 for alternative performance measure definitions and reconciliations.

NET WORKING CAPITAL

Net working capital has increased by £11.0m to (£153.2m) as shown below:

	2018 £m	2017 £m	Change £m
Inventories	**334.2**	295.0	+39.2
Trade and other receivables[1]	**424.0**	400.9	+23.1
Trade and other payables[2]	**(911.4)**	(860.1)	-51.3
Net working capital	**(153.2)**	(164.2)	+11.0

1 Adjusted to include contract assets of £192.0m (2017: £nil) and exclude capitalised arrangement fees of £1.2m (2017: £1.6m) and derivative financial assets of £nil (2017: £1.6m).

2 Adjusted to include contract liabilities of £98.3m (2017: £nil) and exclude accrued interest of £1.3m (2017: £0.4m), deferred consideration payable of £nil (2017: £2.2m) and derivative financial liabilities of £nil (2017: £1m).

COMMITTED ORDER BOOK[3]

	2018 £m	2017 £m	Change %
Construction & Infrastructure	**1,922**	1,855	+4%
Fit Out	**470**	500	-6%
Property Services	**723**	836	-14%
Partnership Housing	**327**	523	-37%
Urban Regeneration	**119**	141	-16%
Investments	**6**	7	-14%
Inter-divisional orders	**–**	(13)	n/a
Total	**3,567**	3,849	-7%

3 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[4]

	2018 £m	2017 £m	Change %
Partnership Housing	**708**	851	-17%
Urban Regeneration	**1,962**	2,063	-5%
Investments	**437**	319	+37%
Total	**3,107**	3,233	-4%

4 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.

Net cash

The Group's cash performance has again been strong, with an operating cash inflow* of £66.4m (2017: £41.0m), equivalent to 78% of operating profit, converted into operating cash*. This was achieved at the same time as increasing the capital employed in regeneration activities by slightly over £20m. The cash inflow for the year was £13.6m, resulting in closing net cash of £207.0m (2017: £193.4m). The average daily net cash* for the year was £98.8m, compared to £118.0m in the prior year.

Financing facilities

The Group has £180m of committed loan facilities maturing in 2022. 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 2018, contract bonds in issue under uncommitted facilities covered £170.8m (2017: £192.0m) of our contract commitments.

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

Pensions

On 23 May 2018, the Trustees of The Morgan Sindall Retirement Savings Plan ('the Retirement Plan') completed a buy-in transaction with Aviva to insure the benefits of the defined benefit members. The buy-in policy is an asset of the Retirement Plan that provides payments that are an exact match to the pension payments made to the defined benefit members covered by the policy. The insurance policy was initially recognised as an asset at an amount equal to its cost. It was then immediately remeasured to its fair value in accordance with IAS 19, giving rise to an actuarial loss of £2.8m.

Tax strategy

The Group's tax strategy is published on our website.

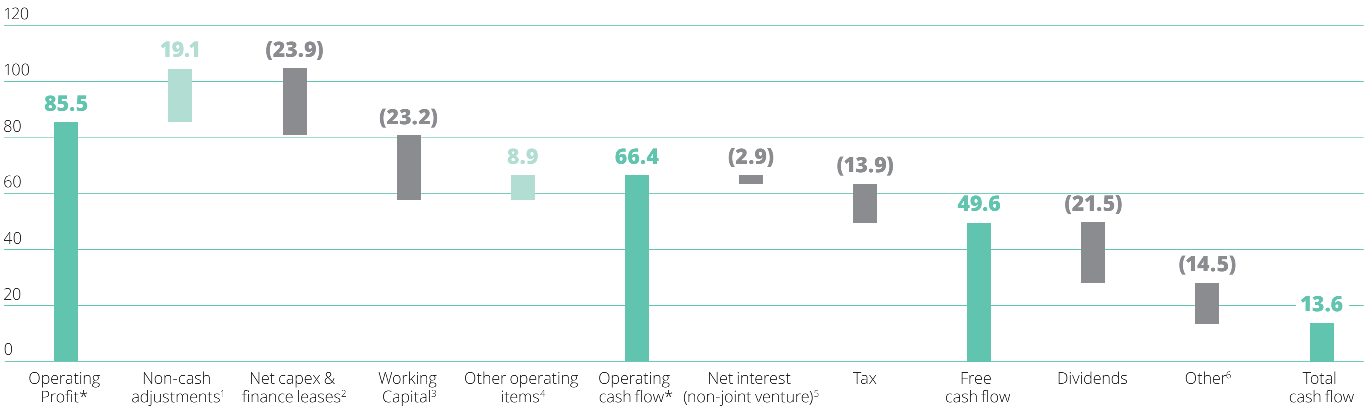
IFRSs 9, 15 and 16

We adopted IFRSs 9, 15 and 16 accounting standards from 1 January 2018. The net effect on opening reserves at 1 January 2018 was £11.7m net of deferred tax. Further detail on the impact of these new standards on the Group is disclosed within the significant accounting policies on pages 89 to 91.

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 2018, the Group had net cash of £207.0m and committed banking facilities of £180m which are in place for more than one year. The Group has no pension funding requirements for its small defined benefits scheme that was closed to future accrual in May 1995. The directors have reviewed the Group's forecasts and projections, which show that we 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 32 for further information on the Group's longer-term viability.

CASH FLOW
(£m)



* See note 2 for alternative performance measure definitions and reconciliations.

1 Includes depreciation (£18.5m), share option expense (£6.3m) and revaluation of investment properties (£0.2m) less share of equity accounted joint ventures (£5.2m), movement of shared equity loans receivable (£0.5m) and gain on disposal of property, plant and equipment (£0.2m).

2 Includes repayment of lease liabilities (£13.5m), purchase of property, plant and equipment (£9.2m) and purchase of intangible fixed assets (£1.6m) less proceeds on disposal of property, plant and equipment (£0.4m).

3 The cash flow due to change in working capital excludes net £12.2m comprising non-cash movement from the change in accounting policy (£11.7m) and the unwind of discounting on land creditors (£0.5m).

4 Includes provision movements (£2.9m), shared equity redemptions (£3.1m), revaluation of investment properties (£0.2m), dividend from joint ventures (£1.5m) and interest from joint ventures (£1.4m (see note 5)) less gain on disposals (£0.2m).

5 Includes interest paid (£3.6m) less interest received excluding interest from joint ventures (£0.7m).

6 Includes net loans advanced to joint ventures (£3.0m), deferred consideration paid to acquire an additional interest in a joint venture (£2.0m), purchase of shares in the Company by the employee benefit trust (£16.1m) and payment to establish an 'other' investment (£0.2m) less proceeds from the issue of new shares (£4.6m) and proceeds from the exercise of share options (£2.2m).

Principal risks

The Group's risk profile continues to be supported by a strong balance sheet and order book, and a continued focus on contract selectivity. There have been no noticeable Brexit impacts, but we remain vigilant.

Our approach

Risk is inherent in our business and cannot be completely eliminated if we are to achieve growth. Our risk governance model ensures that our principal risks and the controls implemented throughout the Group are under regular review at all levels.

Risk governance

Group Board

The Board is responsible for setting the Group's risk appetite and for ongoing risk management, including assessing the principal risks that threaten our strategy and performance. For detailed information on our risk management and internal control governance, see pages 52 to 54.

AUDIT COMMITTEE

The audit committee assists the Board in monitoring risk management and internal control, and formally reviews the Group and divisional risk registers on behalf of the Board.

DIVISIONAL BOARDS

Each division identifies the risks facing its business and takes measures to mitigate the impacts. Senior managers take ownership of specific risks and ensure that tolerance levels are not exceeded.

RISK COMMITTEE

Our risk committee consists of heads of key Group functions, including legal, company secretarial, IT, finance, internal audit, tax, treasury and commercial. The committee identifies risks for entering in the Group risk register. It also reviews the Group and divisional risk registers before they are presented to the Board and audit committee.

RISK REVIEWS

Twice a year each division carries out a detailed risk review, recording significant matters in its risk register. Each risk is evaluated, both before and after the effect of mitigation, on its likelihood of occurrence and severity of impact on strategy. The Group head of audit and assurance follows the same process for identifying and reviewing Group risks, conferring with the risk committee.

STRATEGIC PLANNING

Risk management is part of our business planning process. Each year objectives and strategies are set that align with the risk appetite defined by the Board.

DELEGATED AUTHORITIES

Our finance director and Group head of audit and assurance have produced a formal document which delegates approval for material decisions to appropriate levels of management. Such decisions include project selection, tender pricing, and capital requirements. Board approval is required before undertaking large, complex projects. The approval system is regularly reviewed.

DIVISIONAL REPORTING

The divisional 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. Rigorous reporting procedures are in place to monitor significant risks throughout the divisions and ensure they are communicated to the Group head of audit and assurance.

INTERNAL AUDIT

The Group head of audit and assurance reviews and collates the divisional risk registers and draws from them when compiling the Group risk register. An annual review across the Group is undertaken, focusing on significant projects and trends, and areas of concern.

Overview of the Group's risk profile

During 2018 the Board reviewed the Group's risk appetite (see page 52) and no significant changes were identified. The ongoing negotiations over the UK's exit from the EU continue to generate uncertainty and we are keeping a close watch on developments. However, the economy has continued to perform well in the reporting period and this is reflected in our trading position. We will adjust our strategy in response to any clear indicators, but are reassured that the majority of our regeneration schemes and a sizeable portion of our construction order book and pipeline are supported by public sector or regulated clients, via frameworks and joint venture arrangements secured over the medium to longer term.

Our diversity of offering through construction and regeneration protects the business from cyclical changes in individual markets. Government commitments continue to support our business model and strategy, particularly in housebuilding and regeneration – areas expected to be a primary growth driver – and in infrastructure, where our work in the public and regulated sectors has longer-term visibility.

Based on current trading patterns, a strong balance sheet, our high-quality secured order book and visible pipeline of opportunities, our outlook for 2019 and beyond looks positive. All businesses remain focused on long-term partnerships, our favoured route to market with more predictable outcomes. Our regeneration activities are mostly non-speculative, land option style arrangements, with efficient capital structures, all underpinned by a long-term visible pipeline.

Residential schemes at our price point have continued to be in demand during EU negotiations, meeting our expectations across a broad UK portfolio. With government support for housing, we are confident that the homes we build will continue to be in demand and affordable. Should the market change, the majority of our schemes are subject to economic viability conditions: future phases can be remodelled or deferred, which together with robust risk and capital controls would help mitigate negative fluctuations. Construction's long-term focus on selectivity is reflected in its outturn margin, cash and future order book. Fit Out, while more susceptible to GDP fluctuations, has good visibility of its order book in the earlier part of 2019.

In terms of resourcing our medium- and long-term plans, we have committed banking facilities until 2022, a strong cash profile and robust capital controls in place. Voluntary employee turnover is at optimum levels in most businesses and where we are recruiting we have witnessed a healthy interest in the new positions we require to help us achieve our strategic objectives.

This review should be read in conjunction with the viability statement on page 32.

Principal risks

The principal risks to the business are set out on the following pages, as they relate to our Group strategic objectives.

The list is not exhaustive but includes those risks currently considered most significant in terms of potential impact, together with mitigating actions being taken.

The risks have been extensively reviewed but have not changed significantly in the reporting period. Any changes in severity and likelihood of impacts compared to 2017 have been indicated, and signify the Board's opinion of pre-mitigation risk movement.

Win in targeted markets

Global and UK economic conditions could potentially impact our longer-term strategy in our markets.

Risk and potential impact	Risk change in reporting period	Mitigating activities
Changes in the economy There could be fewer or less profitable opportunities in our chosen markets. Allocating resources and capital to declining markets or less attractive opportunities would reduce our profitability and cash generation.	**Slight increase** • A no-deal Brexit scenario could influence consumer confidence, which in turn could affect the wider housing market and lead to lower sales volumes. EU exit negotiations continue to have limited impact in our markets, but longer-term effects remain difficult to predict and could affect investor and consumer confidence. • Our business operates mainly in the UK, therefore we have not been required to consider any changes to our model. Specific risks include: the potential for increased material costs as a result of exchange differences arising from materials imported from EU countries; potential delays to construction programmes in importing materials; and potential skills deficiencies arising from difficulties in obtaining EU workers within the supply chain. We have reviewed these potential impacts and consider that we have sufficient mitigations in place via contract terms or allowances that offset increased costs. • The industry relies on a pool of EU labour to sustain construction output. To date we have not experienced any major issues, and consider this to be a more long-term challenge. • Opportunities continue to flow in all our markets and there is high demand for our development and regeneration schemes (typically long term in nature) which continue to benefit from historical investment. • Competition in construction remains high against a backdrop of lower growth and rising inflation. However, a large proportion of our work and forward order book continues to be secured via frameworks which typically includes preferential terms. • Elsewhere our strategy continues to be very selective and procurement routes, margins, contract terms and order book remain favourable. • The continued scrutiny of UK construction balance sheets is a differentiator for us and continues to underpin our position in our sector.	• The government and cross-party groups remain committed to investment in areas that complement our strategy, including housing and infrastructure. This supports our business model, which is designed to provide a mix of earnings across different market cycles. • Maintaining a high profile and competency in sectors identified for investment, such as infrastructure, housing and urban regeneration. • Monitoring changes in the 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. • Business planning that focuses on markets and opportunities consistent with our risk appetite. • High proportion of order book secured with public sector and regulated entities, via long-term agreements and with a healthy level of demand. • Construction and regeneration divisions working together, adding value for clients and offering a scale of service that enables us to compete in areas with higher barriers to entry. • Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities.

Win in targeted markets continued

Risk and potential impact	Risk change in reporting period	Mitigating activities
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.	**Slight increase** • Despite Brexit, there continues to be clear government and cross-party support and demand for new housing, which supports our business model and market positioning. • Our regeneration portfolio is geared to offset impacts if they arise and/or share risk, but given our price point and demographics, we believe that our services will still be in demand despite market fluctuations. • Sales volumes, pace and inflation across the regions have held up during the year in both the investor and private markets. There has been some plateauing in the London market but with signs of stabilisation. • Our residential portfolio is geographically spread, affording protection against any regional variation. • We are well positioned to support current and future affordable and regeneration housing, with high demand across our existing property portfolio. • There is high demand for housing on our regeneration schemes, and we work closely with local authorities to provide viable development.	• Monitoring key UK statistics, including unemployment, lending and affordability. • A residential portfolio that targets and supports strategic partnerships and the government's demand for affordable housing supply. • Rigorous three-stage approval process before committing to development schemes. • A constrained land bank, preferring and targeting option-type agreements with owners, that limit and/or defer long-term exposure and boost return on capital employed. • Committing only to viable development schemes, allowing us to maximise our residential portfolio while responding quickly to any market changes. • Largely non-speculative, risk-share development vehicles, subject to viability conditions that minimise any negative impact from market fluctuations. • Regeneration schemes that typically include a mix of assets, such as residential, leisure, hotels, commercial and light industrial, providing some flexibility through economic cycles. • High majority of schemes in partnership with the public sector and in regenerative areas that attract government funding and support. • Targeting forward-selling and funded sections of large-scale residential schemes to institutional investors. • Regular forecasting and monitoring of development pipeline and order book. • Close and trusted working relationships with government agents such as Homes England.
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.	**No change** • The majority of our regeneration schemes and a high proportion of construction activity (order book and pipeline) is supported by public sector and regulated clients via framework and joint venture style arrangements, which we believe are less likely to be affected in the short or medium term by any Brexit economic impacts. • Fit Out is the most vulnerable to any downturn in the office subsector but currently has good visibility and order book into 2019 with potential effects already reflected in current strategy and forecasting. • Our forward order book continues to provide comfort with a high proportion being secured in limited competition via favourable procurement routes. It maintains a high proportion of public sector and framework clients with typically healthier risk profiles. • An enhanced understanding of medium-term pipeline quality, assisted by insights generated from new analytical software, enables us to predict trends more accurately and adjust our strategy in response. • An increasing proportion of construction work is being secured via sister company regeneration schemes, where expertise provided at an early stage can have the greatest influence on the likelihood of project success.	• Clear selectivity, strategy and business plan to target optimal markets, sectors, clients and projects, which have proven to have delivered favourable outcomes. • A strong order book and cash position that allows us to remain selective when bidding for contracts. • Divisions selecting projects according to pre-agreed types of work, contract size and risk profile. • A multi-stage process of bid approval, including tender review boards, risk-profiling and sign off by appropriate levels of management. • Staff planning and profiling to ensure appropriate levels of qualified resource for future work. • 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. • A deliberately large proportion of projects conducted via framework or joint venture arrangements with repeat clients who share our philosophy and values, making predictable outcomes more likely. • In particular, a significant proportion of our larger projects continuing to be secured with long-term clients with whom we have good relationships and sensible terms.

Win in targeted markets continued

Risk and potential impact	Risk change in reporting period	Mitigating activities
Health, safety and environment (HSE) Health and safety 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. In terms of environmental matters, our greatest impacts would be in areas of energy use and waste generated by our activities. 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.	**No change** • The Group health and safety forum has focused on mental health; occupational health; human factors in site safety; supply chain engagement; behavioural safety; and shared learning. • Fit Out successfully trialled new behavioural safety initiatives that significantly reduced health and safety risks, such as working at height and material movement, and is looking to widen their use. • Construction & Infrastructure released an online MIND survey to assess the mental health and wellbeing of employees. The results helped form the division's 2018 mental health strategy and have been shared with other divisions. • Health and safety leadership team meetings were held 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. • We have continued to focus on managing HSE issues to the standards required to protect individuals, the community and the environment. We reduced our carbon intensity by 3% in 2018.	• Board level HSE committee focused on health and safety culture to drive better behaviour and performance. • Quarterly meetings of the Group health and safety forum where representatives from all divisions continue to share best practice and exchange information on emerging risks. • Individuals in each division, and on the Board, with specific responsibility for HSE matters. • Communication of each division's HSE policy to all employees and senior managers appointed to ensure they are implemented. • Established safety systems, site visits, monitoring and reporting procedures including near-miss and potential hazard reporting. Fit Out and Construction & Infrastructure use a health and safety app to improve safety on sites. • Investigations and root cause analysis of accidents or incidents and near misses. Information is shared across the Group. • New system implemented to monitor high potential incidents. • Regular HSE training that includes behavioural change, housekeeping on site and leadership engagement in driving site standards. • Major incident management plans and business continuity plans, periodically reviewed and tested. • HSE report to the Board each month, HSE audits on projects and training schedules and incident investigation reports if necessary. • Maintaining our A- position in the CDP (formerly the Carbon Disclosure Project) index which places us in the CDP's leadership band. We continue to target improvements in carbon emissions and waste production.

Develop and retain talented people

We recognise that talented, motivated people improve our performance and contribute to growth. Employee surveys show that people are happy with their places of work, culture and leadership styles.

Risk and potential impact	Risk change in reporting period	Mitigating activities
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.	**Slight decrease** • Our current success is helping us attract and retain people, reflected in falling voluntary employee turnover rates and high levels of applicants. • In divisions whose voluntary employee turnover is higher, improvements continue to be made to the working environment and investment made in technology and leadership training. • Recent divisional surveys have provided positive reinforcement of our efforts to improve employee satisfaction. • Our investment in graduate, trainee and apprenticeship schemes is well established, with participants progressing to more senior positions. Our leadership development programme continues to be well received. • Construction & Infrastructure won the 'Inspiring Change in the Workplace' award presented by the Civil Engineering Contractors Association, for its drive to promote an inclusive culture. • Initiatives to help improve employees' wellbeing include financial education and digital GP programmes. • We partner with organisations such as Women into Construction and the 5% Club to promote diversity in our workforce.	• Annual appraisals providing two-way feedback on performance. • Training and development plans to build skills and experience. • Attractive remuneration packages benchmarked where possible. • Industry-leading working environments, technology tools and software to enrich people's working experience. • Giving people empowerment and responsibility together with clear leadership and support. • Monitoring future skills requirements and embedding succession plans. • 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. • Employee engagement surveys. • Monthly HR reports to the Board including a report on leavers and joiners. • Monitoring recruitment.

Disciplined use of capital

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

Risk and potential impact	Risk change in reporting period	Mitigating activities
Insolvency of key client, subcontractor, joint venture (JV) partner or supplier An insolvency could disrupt project works, cause delay and incur the costs of finding a replacement, resulting in bad debt and significant financial loss. There is a risk that credit checks undertaken in the past may no longer be valid.	**Slight increase** • A high proportion of our current order book is public sector focused. With commercial clients we obtain, where necessary, relevant securities in the form of guarantees, bonds, escrow and/or favourable payment terms. • Given recent sector-related issues, some supply chain partners could overstretch their finances, leading to underperformance or insolvency. • We do not employ any form of debtor finance when paying our supply chain. With this and our strong balance sheet, our supply chain partners regard us as dependable in an otherwise unsettled sector.	• A business strategy focused on the public sector and commercial clients in sound market sectors. • Rigorous due diligence and credit checks on clients, partners and suppliers. • Formal, staged approval process before entering into contracts, supported by tender review boards. • Formal JV selection due diligence papers and approval at Group executive director level. • JV agreements that contain protection in the event of default by one of the partners. • Working with preferred or approved suppliers wherever possible, which aids visibility of both financial and workload commitments. • Regular meetings with key supply chain members to exchange feedback and maintain dialogue, resulting in meaningful relationships and a greater understanding of their business. • Monitoring supply chain utilisation to ensure we do not overstress either their finances or operational resource. • Monitoring work in progress (uninvoiced income), debts and retentions.
Inadequate funding 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.	**No change** • Our average net daily cash continues to be healthy and clearly indicates the cash-backed nature of the business. • Our balance sheet provides certainty for our clients and supply chain in an increasingly uncertain market. • The strength of our balance sheet provides the opportunity to explore further investment in regeneration schemes and continue to be selective in construction.	• Medium-term committed banking facilities to 2022, which together with our strong cash position provide significant headroom. • A Group-led, disciplined allocation process for significant project-related capital, which considers future requirements and return on investment. • Daily monitoring of cash levels and regular forecasting of future cash balances and facility headroom. • Regular stress-testing of long-term cash forecasts.

Disciplined use of capital continued

Risk and potential impact	Risk change in reporting period	Mitigating activities
Mismanagement of working capital Poor management of working capital leads to insufficient liquidity and funding problems.	**No change** • Overall working capital continues to improve as a result of the phasing of scheme starts and completions in regeneration, plus the continuing benefits from positive cash generation in construction. • Our cash position is not supported by any form of supply chain debtor finance and gives a clear indication of our health. • Cash management maintains its positive momentum in construction due to a combination of improved returns, and cash optimisation and conversion. • Our average net daily cash for the period underlines our disciplined working capital management, but there are still areas for improvement that we are working on.	• Monitoring and management of working capital with acute focus on any overdue work in progress, debtors or retentions. • Reinforcing a culture in the bidding and project teams of focusing on generating positive cash outcomes. • Daily monitoring of cash levels and weekly cash forecast reports. • Cash profiling of key construction opportunities at an early stage to ensure they meet expectations. • Efficient management of capital on regeneration schemes, such as phased scheme delivery, institutional and government funding solutions, and forward funding where possible.

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	Mitigating activities
Mispricing a contract If a contract is incorrectly costed this could lead to a reduction in gross margin. It might also damage the relationship with the client and supply chain.	**No change** • Contract procurement routes and terms have remained favourable, as indicated by our outturn margins and quality of forward order book. • Our continued focus on key sectors means we have relevant experience when pricing a project and are less likely to misprice than if entering new markets or bidding bespoke procurement products. • We have maintained our focus on selecting projects that are right for the business and match our risk appetite, thus offering a higher probability of success. • We continue to secure projects with repeat clients via negotiation, open book and framework style arrangements, with limited, selective open market bids. • A high proportion of our future pipeline is visible via our positions on long-term frameworks.	• A well-established bidding process with experienced estimating teams. • Robust review of pipeline at key stages, with rigorous due diligence and risk assessment, and senior level approval. • Our order book quality and strong cash position mean we can remain selective in our bidding. • A provision, where appropriate, for increases in costs that hedges against supply chain costs exposed to fluctuations in exchange rates or inflation. • Construction strategy and culture in prioritising bid selectivity over volume. • 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. • Using the tender review process to challenge and mitigate any impacts of rising supply chain costs.

Maximise efficiency of resources continued

Risk and potential impact	Risk change in reporting period	Mitigating activities
Changes to contracts and contract disputes 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.	**No change** • We have continued to develop digital tools such as change management, a supply chain portal for facilitating payment, risk management, and field scheduling and management, to improve efficiencies. • Construction's order book maintains a greater proportion of repeat work, meaning we are more likely to achieve sustainable and predictable outcomes via negotiated settlement. • The high proportion of framework related, two-stage and negotiated work in our current order book continues to reduce the likelihood of unforeseen changes and disputes. • Our digital early warning tools and metrics continue to develop, flagging potential issues and enabling intervention much earlier in the construction cycle.	• Carrying out work under standard terms wherever possible. • Reviewing contract terms at tender stage and ensuring variations are approved by the appropriate level of management. • Well-established systems of measuring and reporting project progress and estimated outturns that include contract variations. • Regular project reviews, including feedback from peers, to provide positive challenge around progress and project performance. • Continued use and development of electronic dashboards for project management and commercial metrics designed to highlight areas of focus and provide early warnings. • Regular reporting on all projects with a particular focus on matters likely to impact on programme, cost and quality. • Where legal action is necessary, taking appropriate advice and making suitable provision for costs. • Notifying all material disputes to the Board as they occur. • Monthly monitoring of financial and operational performance on projects. • Use of electronic change control tools to inform clients and project teams of the status of the final account and programme at each stage of construction.
Poor project delivery Failure to meet client expectations could incur costs that erode profit margins, lead to the withholding of cash payments and impact working capital. It may also result in reduction of repeat business and client referrals.	**No change** • Early warning tools that flag problems in project delivery, enabling earlier intervention and provisioning, have been rolled out further across Construction. • Our continued focus on project selectivity reduces risk in the order book and the probability of poor performance. • Various initiatives have been delivered in Construction that focus on improvements in product quality, predictability and client experience. • There is a stretch in the labour market which has been manageable in the short term but would be exacerbated if the government were unable to secure EU skills mobility. • Our Perfect Delivery[1] initiative and culture implemented in the construction divisions is starting to make a significant impact on outcomes. • Digital business intelligence enhancements in Construction continue to develop in our pursuit of early warning indicators and intervention. Further tools are being developed and explored to improve and simplify reporting.	• Incentivising project teams on Perfect Delivery[1] outcomes to achieve high levels of client satisfaction. • Strategic supply chain trading arrangements to help ensure consistent quality. • Electronic project management tools which help improve quality and efficiency. • Fit Out's sophisticated initiative to drive client service continues to differentiate its offering. • Continued application of early warning tools to highlight delivery issues. • An escalation process to ensure senior management intervention at an early stage if necessary. • Formal internal peer reviews that highlight areas of improvement and share best practice and 'lessons learned' exercises. • Collection and analysis of client feedback. • Monthly monitoring of project performance and electronic dashboards for project management and commercial metrics. • Regular formal and informal stakeholder feedback to ensure our performance is meeting expectations. • Regular client satisfaction reviews and feedback, allowing us to intervene when required and hone our offering to provide exceptional outcomes.

1 Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

Pursue innovation

Innovation drives quality, efficiency and competitive advantage and continued investment in technology will 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	Risk change in reporting period	Mitigating activities
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.	**No change** • All divisions have continued to develop solutions to improve efficiency, client service and employee satisfaction. Examples range from safety initiatives, such as dust control campaigns and the promotion of safe behaviours on site, to online site access systems that provide site workers with inductions and training. • In regeneration, we work with leading investment partners to create innovative funding solutions that improve the viability of schemes and facilitate early engagement. • Our work in regeneration requires us to consistently evolve market-leading development structuring that helps unlock underperforming assets, and continues to differentiate our offering. • Our initiatives around quality delivery and exceptional client experience are not just founded on process, but are integral to our cultural approach.	• 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, with an emphasis on efficiency over bureaucracy. • Our employees enjoy working on high profile, innovative projects that provide them with the opportunity to enhance their knowledge and experience. • Infrastructure works with some of the UK's leading companies who encourage innovation and optimised construction techniques and share in the risk and reward. • Business and IT come together via forums that sponsor and promote new innovations across the business. • Our involvement in major infrastructure projects puts us at the forefront of new innovation in construction, management and project control techniques. This allows us to compete in areas with high barrier to entry while sharing new ideas across the Group.
Failure to invest in information technology (IT) 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 completed our data centre migrations during 2018 as part of an ongoing plan to ensure the resilience of our IT network. • All our businesses are investing in significant new technology to enhance our stakeholder experience and improve efficiency. We foresee this trend continuing. Construction & Infrastructure has invested in new risk management software and a supply chain certification and payment portal, with many more initiatives in the pipeline. • We have continued to invest in established information security controls and have engaged an external security partner who advises on strategy. • Our IT team reached an important milestone in 2018 by achieving ISO 27001 accreditation. • We are adding construction-specific features to our recently upgraded financial software. • We have rolled out endpoint encryption, active monitoring and threat analysis of external web-based threats, as well as data protection and information security training. • We have migrated our active directory to Microsoft Azure as part of an estate update that will include Office 365 and Windows 10. This will ensure we have the latest business software and that our data is secure and protected.	• A dedicated team focused on providing a stable and resilient IT environment. • Continued investment in our core infrastructure and application service that has allowed us to introduce new and improved technology into the business with confidence. • A centralised IT service that improves efficiency, oversight, reporting, security and performance, with divisional resource providing business-specific product support. • Group-wide and divisional IT forums that discuss and report IT strategy and operations. • A dedicated information security team certified and accredited by key industry bodies in data protection and information security. • Group-wide financial software that provides a fully integrated construction platform to manage the project life cycle. • Group-wide risk and IT security strategies that address creating awareness, threat alert, risk and vulnerability prioritisation and response. • 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 the potential financial and reputational impact of the principal risks (as set out on pages 22 to 31) on the Group's ability to deliver the Company's business plan. This describes and tests the significant solvency and liquidity risks involved in delivering the strategic objectives within our business model. The assessment has been made using a period of three years commencing on 1 January 2019, which is consistent with the Group's budgeting cycle. Most of the Group's contracts follow a life cycle of three years or less and the majority of the Group's secured and framework order book falls within this time period.

The directors have compiled cash flow projections 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 has secured £180m of committed revolving credit facilities which mature in 2022. Due to the continued strong cash performance of the Group, the facilities were not utilised in the period; however, they provide ongoing funding headroom and financial security for the Group throughout the period reviewed. The Group has no anticipated defined benefit pension funding requirements.

The impact of a number of downside scenarios on the Group's funding headroom (including financial covenants within committed bank facilities) 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 declining revenue, failure to improve gross margin from current levels, a decline in gross margin and deterioration in working capital, in particular 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.

Non-financial reporting statement

We aim to comply with the non-financial reporting regulations contained in sections 414CA and 414CB of the Companies Act 2006, as shown in the table below. In addition, we publish information under the CDP (formerly the Carbon Disclosure Project), the Global Reporting Initiative, and the Financial Reporting Council's guidance on the strategic report.

Our due diligence with regard to 'environmental matters', 'employees' and 'social matters' is driven by our Total Commitments, as outlined on page 3. Our performance against each Total Commitment is set out in our 2018 responsible business report. Further information on these matters can be found in the description of our business model on pages 7 to 9 and our key performance indicators on pages 12 to 13.

	Policies	Due diligence in pursuance of policies	Outcomes of policies and impacts of activities	Related principal risks
Environmental matters	Our environmental policy states our commitment to minimising the impact of our activities on the natural environment and communities in which we work. Each division implements ISO 14001 environmental management systems to ensure that we protect the natural environment; reduce waste and energy consumption; source construction materials responsibly; minimise disturbance; and train our employees and subcontractors on environmental issues and controls. Our supplemental timber policy requires timber to be procured from sustainable sources.	Our carbon emissions data is independently verified by supply chain risk management company, Achilles (see page 48).	See pages 48 to 49 for further detail on environmental matters including our carbon emissions data. A strong performance in environmental matters increases our ability to win work and attract talented employees.	See page 26.
Employees	We aim to be an inclusive employer and have a wide range of policies, including equal opportunities and dignity at work; maternity; paternity and parental leave; adoption; and family emergency.	The Board regularly reviews the diversity statistics in our 'people report', the level of training provided and our employee engagement.	Developing and retaining talented people is one of our strategic objectives (see page 11). A diverse and qualified workforce helps us achieve two further strategic objectives: winning in our target markets and pursuing innovation.	See page 27.
	Our equal opportunities and dignity at work policy sets out our commitment to an open and inclusive culture. Our ethics policy requires employees to maintain the highest standards of integrity and ethics in everything they do. Our health and safety policy commits to providing a safe and healthy working environment.	All policies are communicated to every employee in the Group and regularly reviewed.	See pages 3, 8, 10, 12 and 47 to 48 for further detail on how we protect, develop and engage with our employees.	
	Our whistleblowing policy sets out the process for raising concerns and commits to protecting employees and others who report, in good faith, suspected wrongdoing.	Our whistleblowing procedures are regularly monitored and reviewed by the audit committee.	In 2018, we received 3.64 whistleblowing reports per 1,000 employees against a benchmark of 2.4, which demonstrates our culture of openness and trust in our processes. All concerns were fully investigated.	
Social matters	We are committed to providing a better built environment for all. A large proportion of our work is for the public sector and therefore falls under the Social Value Act 2012.	A core activity of the Group is regenerating urban areas to provide mixed-use development including housing for local communities.	We currently run two social enterprises to provide local residents with training and employment opportunities: BasWorx and All Together Cumbria. See our 2018 responsible business report for more information.	Social matters are not currently regarded as a principal risk to the Group. However, each division carries out regular risk assessments to identify those areas of its business and markets that may be susceptible to risk, and embeds appropriate procedures in day-to-day operations to manage it.
	Our divisions operate corporate volunteering schemes where employees are given a day's paid leave per year to volunteer with a registered charity.	Our divisions support requests for charity donations and offer financial contributions, employee time and goods in kind. For example, project teams are assisted in restoring disused community facilities.	More than £345,000 was donated in the year to charity by the divisions.	

	Policies	Due diligence in pursuance of policies	Outcomes of policies and impacts of activities	Related principal risks
Human rights	We are compliant with UK legislation on human rights, and this is supplemented by our ethics policy. Our equal opportunities and dignity at work policy prohibits harassment, victimisation and bullying, and our grievance policy sets out formal grievance procedures. Our modern slavery statement is published on our website.	Adherence to our ethics and other human rights related policies is regularly monitored. Ultimate oversight belongs to the Board, audit committee and our Group general counsel.	Employees complete an e-learning module on modern slavery. No incidences in the Group of human rights abuse or modern slavery have been identified.	Human rights breaches are not considered a principal risk. However, there is a risk of breach by an overseas supplier and a risk of people working on our sites without the legal right to work in the UK. We require all suppliers to comply with legislation such as the Modern Slavery Act 2015 and to carry out checks on rights to work, and we expect that they require the same of their supply chain.
Anti-corruption and anti-bribery	Our ethics policy states that we will not tolerate any form of bribery or corruption. In addition, we have a gifts and hospitality policy that provides guidance to create transparency and avoid any risk of breaching the Bribery Act 2010.	Divisional senior managers are required to maintain a culture in which bribery and corruption are unacceptable. Each division has its own procedures for applying the Group's policies and managers are required to be conversant with government guidance.	Employees complete e-learning modules on anti-bribery and corruption as well as competition law. No incidences of bribery or corruption in the Group have been identified.	We do not regard corruption and bribery to be a principal risk to the Group.

Approval of strategic report

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

John Morgan
Chief Executive
21 February 2019

Governance

Contents

Board of directors	36
Group management team	37
Directors' and corporate governance report	38
Remuneration report	59

Board of directors

The Board is responsible to all stakeholders for the long-term success of the Group.

Michael Findlay
Chair
Appointed: October 2016
Committee membership: nomination (Chair)

Skills, competencies and experience
Michael has 28 years of experience in investment banking and has advised the boards of many leading UK public companies on a wide range of strategic, finance and governance matters.

Other roles
Michael is chair of Fin Capital Ltd, a non-executive director of The International Exhibition Co-Operative Wine Society Ltd, and was appointed non-executive director of Jarrold & Sons Limited in January 2019. Michael 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.

John Morgan
Chief Executive
Appointed: October 1994

Skills, competencies and experience
John was appointed as chief executive in November 2012. He has in-depth knowledge of both the construction and regeneration markets with significant leadership skills and experience. John champions the Group's decentralised business model that empowers our divisions to challenge the status quo, keep innovating and winning in their respective markets.

Other roles
John co-founded Morgan Lovell in 1977 which then combined with William Sindall plc in 1994 to form Morgan Sindall Group plc. He was formerly chief executive from 1994 to 2000 and executive chair from 2000 to 2012.

Steve Crummett
Finance Director
Appointed: February 2013

Skills, competencies and experience
Steve is a qualified chartered accountant and brings wide-ranging financial, accounting and UK public company experience.

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

Malcolm Cooper
Non-executive Director
Appointed: November 2015
Committee membership: audit (Chair); health, safety and environment; remuneration (Chair from 4 May 2018)

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 currently senior independent director and audit committee chair at CLS Holdings plc and non-executive director of MORhomes plc. His recent executive roles include managing director of National Grid Property, managing the sale of National Grid's gas distribution business, and global tax and treasury director of National Grid. Malcolm was previously a non-executive director of St William Homes LLP, president of the Association of Corporate Treasurers and a member of the Financial Conduct Authority's Listing Authority Advisory Panel.

Tracey Killen
Non-executive Director
Appointed: May 2017
Committee membership: audit; nomination; remuneration (Chair from 4 May 2018)

Skills, competencies and experience
Tracey has wide-ranging expertise in the retail sector and extensive corporate and main board experience, including nominations, remuneration and corporate responsibility board sub-committees, the development of strategy and business planning and corporate governance.

Other roles
Tracey is director of personnel for the John Lewis Partnership. She is a main board director and a member of the executive team and leads on shaping and delivering a distinctive and competitive employment proposition. In addition, as a main board director Tracey has collective responsibility for the performance of the business and the effective operation of the Partnership's unique co-ownership model. Tracey is chair of the Golden Jubilee Trust for the Partnership, providing opportunities for partners and charities alike.

David Lowden
Non-executive Director
Appointed: September 2018
Committee membership: audit; nomination; remuneration

Skills, competencies and experience
David is a highly experienced non-executive director, senior independent director and chair of UK-listed companies. He has experience in the roles of finance director and chief executive, where he supported growth and profitability through the efficient design of business operations and appropriate use of systems and processes.

Other roles
David is chair of the board of FTSE 250 PageGroup plc, having previously chaired the remuneration committee for three years. He was appointed as non-executive director of Huntsworth plc on 1 January 2019 and will become chair on 6 March 2019. David is currently chair of the audit and risk committee at William Hill plc and will be stepping down from this role on 4 March. He was formerly senior independent director of Berendsen, and was chief executive of Taylor Nelson Sofres plc, having joined as group finance director in 1999. David has spent his career working for a number of companies in senior finance roles, including as group finance director at Asprey plc prior to joining Taylor Nelson Sofres.

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 36 for biography.

Steve Crummett
Finance Director
See page 36 for biography.

Clare Sheridan
Company Secretary
Clare has been with the Group for more than 20 years, and was appointed company secretary in 2014 having previously been deputy company secretary. She is a member of the Group's risk, and health, safety and environment committees; director of the captive insurance company; and trustee of the pension scheme. Clare is a qualified chartered secretary.

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

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 O'Rourke, including regional director, group HR director and managing director of Select Plant Hire.

Simon Smith
Managing Director, Infrastructure
Simon is a chartered quantity surveyor with 30 years' multi-sector experience. He joined the Group in 2011 and was appointed as managing director of Construction & Infrastructure's infrastructure business in 2017. Simon holds overall responsibility for the infrastructure business which includes aviation, rail, highways, nuclear, energy and water. In addition, Simon has responsibility for our in-house plant and engineering businesses.

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.

Chris Booth
Managing Director, Fit Out
Chris has overall responsibility for the Fit Out division, including 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.

Alan Hayward
Managing Director, Property Services
Alan joined the Group in August 2017 with over 15 years' experience in the sector. His previous roles included positions both as finance director and managing director in national building, infrastructure and facilities management businesses. Alan has experience across a range of sectors including defence, health, corporate and housing.

Steve Coleby
Managing Director, Partnership Housing
Steve joined the Group in April 2018, bringing with him a wealth of knowledge and experience in construction, and has focused on developing a clear strategy for Partnership Housing. Previously Steve spent 25 years at Laing O'Rourke, including as commercial director of its £2.5bn European hub, managing director of UK infrastructure, and managing director of its UK construction business. Steve holds an RICS fellowship.

Matt Crompton
Managing Director, Urban Regeneration
Matt joined the Group when we acquired Muse Developments 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 Homes England. His earlier career included development positions at both London & Metropolitan and Chestergate Seddon.

Wes Erlam
Managing Director, Investments
Wes joined the Group in May 2008 to work for Urban Regeneration as a development manager. Having spent 10 years with the division and progressing to development director, he moved across to the board of Investments in April 2018, and became managing director in 2019. Wes is responsible for overseeing Investments' development and capital activities. He is a chartered surveyor with over 20 years' experience in land, development and mixed-use regeneration.

Directors' and corporate governance report

This report explains our 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 detail on key matters addressed by the committees during the year.

Governance framework

The Board is responsible to all stakeholders, including our shareholders, for the approval and delivery of our strategic objectives to ensure the Group's long-term success. Responsibility for developing and implementing our strategy and commercial objectives is delegated to the chief executive who is supported by the finance director and Group management team. The Board is our principal decision-making body, and in line with the UK Corporate Governance Code[1], 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 Corporate Governance Code.

Day-to-day management of the Group is delegated to the executive directors, who are supported by the Group management team (see page 37 for details of the members). The Group management team meets regularly to consider operational matters affecting the Group as a whole, including risk, health, safety and environment, strategy, the Group budget and our responsible business strategy. We also have several forums with representatives from across the divisions. These include a health and safety forum, HR forum and commercial directors' forum. Each forum meets on a regular basis, focuses on specific topics, and acts as a channel for sharing ideas and best practice. The forums assist the Board and Group management team in ensuring that good governance is adopted at all levels throughout the Group. There is a clear division of responsibilities between the running of the Board and the executive running of the business (see page 39). The Board has identified certain matters that are only for its decision-making which are set out in a formal schedule (see panel on page 39).

Culture

Our culture is fundamental to the successful delivery of our strategic objectives. We are committed to being a responsible business and conducting all of our activities to the highest standards of integrity and honesty, in an open and ethical way. To support this, the Board ensures that the tone is set from the top and our governance framework includes clear policies for all employees on the Group's expected standards and the restrictions on which certain authority is delegated. This ensures that the overall approach to governance is Board-led while at the same time supporting our philosophy of decentralisation which gives our divisions the autonomy to develop initiatives to meet their own markets. Ensuring that each of our divisions supports the Group-led training and specific training relevant to their employees, empowers them to work together in a way that positively impacts on productivity and performance. The executive directors ensure that our core values are embedded throughout the Group by meeting regularly with all divisions, attending and participating in their employee conferences and running sessions at the leadership development programme, where participants are asked to consider what the core values mean for them individually and for the Group as a whole.

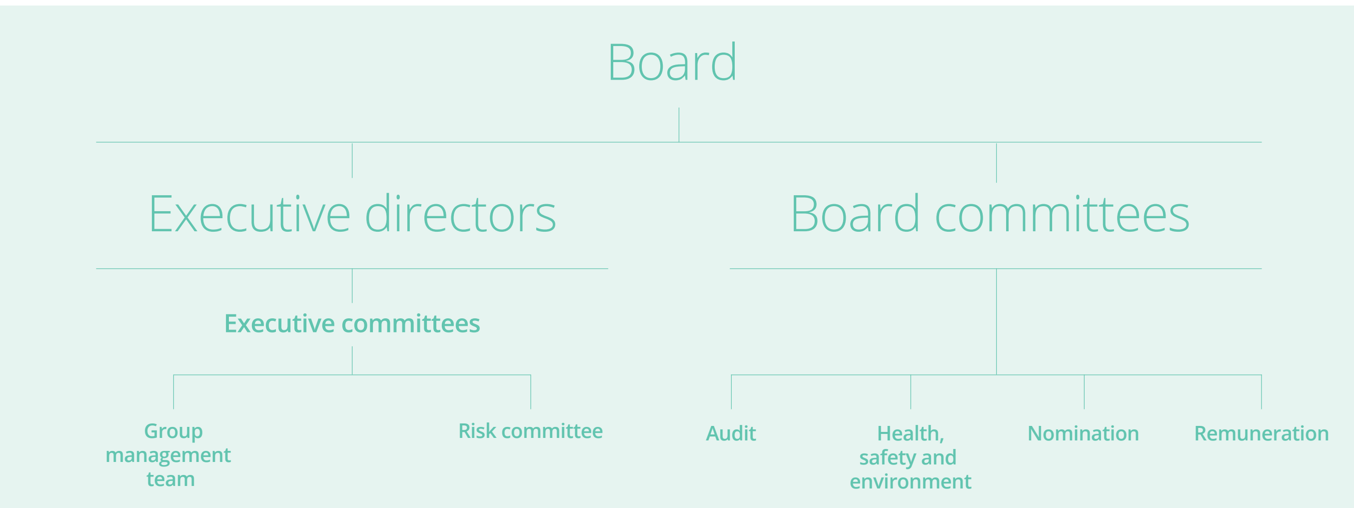
The Board regularly monitors various indicators of our culture which include our health and safety performance, matters raised through our independent 'raising concerns' (whistleblowing) hotline, employee turnover and stakeholder engagement (see pages 10, 43 and 54). Our measures for ensuring good corporate governance practice across the Group include regular internal audit reviews, encouraging employees to speak up and taking appropriate action where behaviour does not meet expectations.

1 As a UK premium-listed company, we have adopted a governance structure based on the principles of the UK Corporate Governance Code (the Corporate Governance Code) published in April 2016, which is available on the Financial Reporting Council's website at frc.org.uk. Further details of how we have applied the Corporate Governance Code's principles and complied with its provisions are set out in this report and the remuneration report.

The Board considers that it, and the Company, were compliant throughout the accounting period with the main principles and relevant provisions of the Corporate Governance Code applicable to premium-listed companies.

The Board also notes that the FRC published a new UK Corporate Governance Code in July 2018 which applies to accounting periods of the Company beginning on or after 1 January 2019. The Board has been taking the necessary steps to ensure that the Group is able to discharge its obligations under the new Corporate Governance Code effectively.

Our governance framework



Board's key roles and responsibilities

Chair[1]
- leads our Board and is responsible for its effectiveness;
- is 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;
- facilitates contributions from all directors; and
- ensures effective communication with our shareholders and other stakeholders.

Chief executive[1]
- develops and implements the Group strategy and commercial objectives as approved by the Board;
- leads the Group management team;
- ensures the Company's core values and culture are embedded throughout the Group; and
- promotes and conducts the affairs of the Company to the highest standards of integrity, probity and corporate governance.

Finance director
- manages the Group's financial affairs;
- oversees the Group's relationship with investors and analysts; and
- supports the chief executive in the implementation and achievement of Group strategy.

Senior independent director
In addition to his responsibilities as a non-executive director, the senior independent director:
- supports the chair in the delivery of his objectives;
- is available to shareholders should they have a concern which has not been resolved through the chair or chief executive or for which contact through those channels is not appropriate;
- together with the nomination committee is responsible for ensuring that an orderly succession planning process is in place for the Board; and
- leads the appraisal of the chair's performance with the non-executive directors.

Non-executive directors
- constructively challenge the executive directors in all areas and help develop proposals on strategy;
- monitor delivery of the strategy within the risk and control framework set by the Board;
- satisfy themselves on the integrity of the financial information and the effectiveness of financial controls and risk management systems; and
- are responsible for determining appropriate levels of remuneration for the executive directors.

Company secretary
- 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;
- is responsible for advising the Board on corporate governance matters;
- facilitates a comprehensive induction for newly appointed directors tailored to individual requirements;
- is responsible for compliance with Board procedures;
- coordinates the performance evaluation of the Board; and
- provides advice and services to the Board.

1 There is a clear division of responsibilities between the chair and the chief executive, which is set out in writing and agreed by the Board.

Leadership

The Board's role

Our Board is responsible for ensuring the sound running of the Group for all our stakeholders in accordance with best practice corporate governance. The Board ensures we have an appropriate governance structure to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the Group. As outlined above and demonstrated in our strategic report, our core values and Total Commitments are at the heart of everything we do and define the qualities which underpin our culture, values and ethics.

The Board's key responsibilities include:
- setting the strategic direction and governance framework of the Group;
- ensuring that the necessary financial, technical and human resources are in place;
- establishing and embedding our culture, values and ethics to ensure that the appropriate corporate governance structure is in place to prevent misconduct and breach of ethical practices; and
- reporting to shareholders on its stewardship of the Group.

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.

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.

A summary of the matters required to be brought to the Board's attention are:
- strategy;
- risk management and internal controls;
- structure and capital;
- financial reporting and controls;
- communication, including ensuring a satisfactory dialogue with shareholders;
- Board membership and other key appointments;
- approval of any conflicts of interest;
- remuneration for the executive directors;
- delegation of authority including the Group's delegated authorities process; and
- corporate governance matters including a review of the effectiveness of the Board and its committees.

A formal programme of meetings is put in place each year 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 its 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 2018 are set out below. There is a process in place whereby key matters can be escalated to the Board outside of the formal programme of meetings and the executive management keeps the Board updated with interim Board reports in between the scheduled meetings.

Key activities in 2018

Strategy

- comprehensively reviewed progress against strategy; and
- attended presentations from each divisional managing director on their strategic plans.

Risk management and internal controls

- reviewed and monitored the Group's safety performance;
- reviewed and approved the risk appetite of the Group;
- reviewed the appropriateness of the Group's risk management framework; and
- reviewed the Group's cyber security arrangements.

Board effectiveness

- reviewed the effectiveness of the Board, the Board's committees and each individual director;
- reviewed the composition and skills required of the Board; and
- appointed a new non-executive director, David Lowden.

Performance management

- set the Group budget and tracked performance against agreed KPIs;
- monitored market trends, supported by comparative data and customer insight;
- approved all financial results statements and dividend payments; and
- assessed the going concern and longer-term viability of the Group.

Culture and values

- reviewed the Group's gender pay gap data and report;
- discussed divisional initiatives to improve diversity and inclusion within their businesses, including a 'People Framework' approved by the nomination committee (see page 45);
- increased its focus on the non-executives' engagement with the divisions; and
- reviewed the Group's performance against our Total Commitments.

Governance

- approved the Group's statement of compliance in accordance with the Modern Slavery Act;
- reviewed and reconfirmed the Group's tax strategy; and
- reviewed the schedule of matters reserved for the Board.

In addition to the seven formal meetings held during the year, 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, as set out below.

Strategy day

Every October the Board holds a strategy day to review the Group's five-year strategic plan and the divisional strategic plans and priorities. In 2018, the chair, chief executive and non-executive directors each met with managing directors of the divisions prior to the strategy day to discuss their divisional strategic plans with them in detail. At the October strategy meeting, the non-executive directors each provided the Board with a summary of their observations and opinions on the divisional plans.

The Board also reviewed the Group's risk appetite at the strategy meeting, to ensure that our risk appetite remains appropriate to our strategy. As part of the review, the Board appraised a number of key topics aligned to our strategy, by considering the level of the Group's current risk appetite for each topic against the current residual and emerging risks, and whether any additional actions were necessary as a result.

The risk appetite will be formally reviewed each year as part of the strategy plan review.

Divisional meetings

Prior to the review of each division's strategic plan, the chair and the non-executive directors each made visits to the division whose strategic plan they would be reviewing. These visits included meeting with various employees from the division as well as making site visits to at least one project.

In June and October 2018, the Board held an evening reception with the directors and senior management teams of Investments and Partnership Housing. These events allowed the non-executive directors to meet operational managers and discuss a range of topics in a less formal setting.

Senior management team conference

The chair and one of the non-executive directors attended our senior management conference in October, which gave them the opportunity to meet around 80 managers from across the Group and gain insight into how best practice is shared between the divisions. The 2018 conference focused on considering future strategic opportunities for the Group and how to exploit technology, including examples from each of the divisions of innovative approaches being undertaken to future proof their business. Additionally, the conference attendees made a site visit to our regeneration project in Salford.

Spread of key activities in the year

February (B)
- 2017 results and dividend approved.

May (B)
- Annual general meeting.

June (B)
- Review of Group's modern slavery statement;
- Payment practices update; and
- Property Services business update.

August (B)
- Half year results and interim dividend approved.

September (B)
- Divisional strategy reviews and Board evaluation results review.

October (B)
- Group strategy meeting and risk appetite review.

November
- Reception for financial analysts and institutional investors with senior management from across the Group.

December (B)
- 2019 budget approved.

B = Board meeting

Attendance

Attendance of individual directors who held office during 2018 at scheduled Board and committee meetings is set out below. Sufficient time is given at the end of each meeting for the chair to meet privately with the senior independent director and non-executive directors to discuss any matters.

The chair met formally with the non-executive directors on seven occasions in the year without the executive directors present. No material issues were raised at any of these meetings.

	Board	Audit	Health, safety and environment	Nomination	Remuneration
Total number of meetings	**7**	**3**	**4**	**3**	**2**
Michael Findlay[1]	7	3[5]	3[5]	3	2[5]
John Morgan	7			3[5]	2[5]
Steve Crummett	7	3[5]		3[5]	1[5]
Malcolm Cooper	7	3	4	3	2
Tracey Killen[2]	6	2		2	1
David Lowden[3]	2	1		1	1
Patrick De Smedt	7	3		3	2
Simon Gulliford[4]	1	1		1	1

1 Michael Findlay attended all Board and nomination committee meetings during the year, and was also present at all meetings of the remuneration and audit committees and three meetings of the HSE committee.

2 Tracey Killen was unable to attend the December meetings due to personal reasons. Tracey's non-attendance was approved by the Board as a whole.

3 David Lowden was appointed as a director on 10 September 2018. He attended all Board and committee meetings following his appointment.

4 Simon Gulliford resigned as a director on 4 May 2018. Simon was unable to attend one Board and one committee meeting prior to his resignation due to a prior commitment relating to another appointment. He missed the HSE committee meeting that took place prior to his resignation, due to sickness.

5 Attended by invitation.

→ Effectiveness

Composition
As at the date of this report, the Board consists of the chair, two executive directors and three non-executive directors. Biographical details of each of the directors are given on page 36. David Lowden will be standing for election at the 2019 annual general meeting (AGM) as this is the first AGM following his appointment. Patrick De Smedt retired from the Board with effect from 31 December 2018 and therefore will not offer himself for re-election. In accordance with the Corporate Governance Code, all of the other directors will stand for re-election at the forthcoming AGM.

As at the date of David Lowden's appointment, both he and Patrick De Smedt were non-executive directors of PageGroup plc. Notwithstanding this relationship, and in view of Patrick's planned departure from the Group shortly following David's appointment, the Board determined David to be independent. All of the non-executive directors are considered by the Board to be independent in character and judgement and as at the date of this report, 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 44 to 46 for further information.

Development, information and support
Newly-appointed directors receive a detailed information pack describing our values and culture, as well as governance matters relevant to the Group. They also participate in a comprehensive and tailored induction programme which includes visits to our divisions and meetings with senior divisional management. Following David Lowden's appointment to the Board in September 2018, his induction programme contained each of these elements, as detailed below.

Induction of David Lowden
David's induction included the following:
- 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;
  - the chair;
  - the company secretary; and
  - divisional managing directors.
- Visits/meetings as follows:
  - various meetings with the divisional management directors and their teams at their offices; and
  - visits to a number of divisional projects.

Ongoing training and development
Training on the role and responsibilities of directors is offered on appointment and subsequently as necessary.

This includes:
- briefing papers;
- divisional visits;
- strategic planning and review;
- one-to-one meetings with management;
- e-learning; and
- external seminars.

The chair reviews on an annual basis each of the director's training undertaken and any development needs.

The regular presentations from management and informal meetings included in the Board programme increase the non-executive directors' understanding of the Group and of construction and regeneration.

The company secretary provided updates to the Board during the year on relevant governance matters, and on new legislation and its impact on the Company. This included further information on compliance with the General Data Protection Regulation and payment practices reporting obligation and the new Corporate Governance Code. The audit committee regularly considers new accounting developments through presentations from management and the external auditor.

All Board members completed the Group's e-learning modules issued during 2018 on the General Data Protection Regulation and the Market Abuse Regulation, and refresher e-learning on anti-bribery and corruption (with the exception of David Lowden who completed full modules on all three subjects). Further details can be found on page 54.

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.

Conflicts of interest
The Board has an agreed approach for dealing with the directors' conflicts of interest duties under the Companies Act 2006. Responsibility for authorising conflicts of interest in accordance with the Company's articles of association ('the Articles') is included in the schedule of matters reserved for the Board. In December 2017, the Board undertook its annual review of the potential conflict matters, following this review, the Board confirmed that it was aware of no situations that may or did give rise to conflicts with the interests of the Company other than those that may arise from directors' other directorships as disclosed on page 36.

Board evaluation

The 2017 evaluation involved a review of the Board's effectiveness and that of the audit, nomination and remuneration committees to ensure that the Board and its committees operate as effectively as possible. The review provided recommendations of areas of focus to improve the effectiveness of the Board. In 2018, the Board acted on each of the recommendations made. The 2018 evaluation process is described below:

2018 evaluation process

Evaluation questionnaire developed based on the key areas of focus agreed following the 2017 evaluation process.

Questionnaire circulated and responses collated and analysed by the chair and company secretary.

Results reported to the Board.

Discussion held by the whole Board and agreement of areas of focus.

Chair reviewed with each director the contributions they had made.

The results of the 2018 Board evaluation confirmed that the Board and its committees[1] had acted on and implemented the various actions resulting from the 2017 evaluation. Following a discussion on the 2018 results and feedback, it was agreed that the Board would consider various key topics for short training sessions prior to Board meetings to support further the continuing training and development of directors. It was agreed that these sessions would focus on:

- risk management;
- corporate governance;
- long-term investor and shareholder trends; and
- business environment.

Training sessions have been scheduled through 2019 as part of the Board calendar. In addition, Mercer | Kepler, the Group's remuneration advisers, attended the remuneration committee meeting in December 2018 to discuss changes under the new Corporate Governance Code in respect of remuneration and the implications for the Group. It was agreed that the 2019 Board evaluation would be undertaken internally and the chair and company secretary would prepare a new three-year Board evaluation proposal with a range of topics for the focus of the review for discussion by the Board.

The chair provided feedback to each executive and non-executive director on their individual contributions to the Board, reviewed with each of them the training they had undertaken during the year, and considered development priorities individually tailored to each director's experience and role. The senior independent director reviewed the chair's performance with the other directors and subsequently met him to provide feedback. Overall, no significant issues were highlighted in the feedback given to each director and the chair.

1 An evaluation of the HSE committee was due to take place in 2018 but due to further changes of membership, the Board has postponed the evaluation until 2019.

Shareholder engagement

Relations with shareholders

The Board recognises its responsibility to our shareholders and wider stakeholders. Further information can be found in our strategic report on page 10.

Engagement

The chair and the non-executive directors are available to meet with shareholders to listen to their views. The chair met with the governance team at Standard Life Aberdeen in April to discuss performance; key audit topics and audit tender; Board succession planning; gender pay gap; and a brief discussion on remuneration. No issues arose from the meeting.

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 full year and half year results. Written feedback from these meetings and presentations is distributed to all members of the Board. In addition, feedback and reports from Institutional Shareholder Services (ISS), the Investment Association (IA) and Pensions & Investment Research Consultants (PIRC) are circulated to the Board ahead of the AGM each year.

Senior management forum

A reception for financial analysts and institutional investors was held in November 2018 providing an opportunity for them to meet with senior management from across the Group.

AGM

The 2019 AGM of the Company will be held at the offices of Jefferies International Limited, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ on Wednesday 8 May 2019 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 our website. Shareholders will also find enclosed with this document a form of proxy for use in connection with the meeting.

We encourage all shareholders to use the AGM as an opportunity for effective communication with the Company. The AGM also 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 and have the opportunity to meet all the directors informally.

All directors normally attend the AGM; however, Simon Gulliford did not attend the 2018 AGM due to his retirement. All serving directors plan to attend the 2019 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 in previous years, 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 our website.

Nomination committee report

Chair's overview

During 2018, succession planning and the composition of the Board and its committees remained a key focus. In addition, as the Group continues to pursue its strategy of construction and regeneration, we recognise that talented and motivated people improve our performance and reputation and attracting them is key to our future success. The committee also has oversight of employee development and succession planning for the wider Group, including steps taken to ensure that we are an employer of choice for prospective candidates.

Highlights of the committee's activities included:
- the appointment by the Board, on the committee's recommendation, of David Lowden as an independent non-executive director;
- approval of David Lowden as senior independent director from 1 January 2019 following the departure of Patrick De Smedt;
- approval of the appointment of Malcolm Cooper as chair of the HSE committee in May 2018 following the resignation of Simon Gulliford;
- consideration and approval of a 'People Framework' to help drive improvements in inclusivity across the Group and to reduce the Group's gender pay gap; and
- consideration of executive succession planning.

The committee also considered progress against the recommendations and priorities from the 2017 Board evaluation review. We are pleased to report that the Board has acted on and implemented the various actions resulting from the 2017 evaluation and has made further recommendations following the 2018 Board evaluation on the continuing training and development of directors.

Members during the year

Michael Findlay (Chair)
Malcolm Cooper
Tracey Killen
David Lowden (from 10 September 2018)
Patrick De Smedt (until 31 December 2018)
Simon Gulliford (until 4 May 2018)

Responsibilities

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, to ensure our continued ability to deliver our strategy.

Michael Findlay chairs the committee but is not permitted to chair meetings where his own succession and performance are discussed. Biographies for each member of the committee are set out on page 36.

The committee's detailed responsibilities include:
- 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 Group and future skills and expertise needed on the Board, including development and training; and
- ensuring suitable candidates for the Board are identified and recommended for appointment, giving due regard to the benefits of diversity, including gender, ethnicity, and cognitive diversity.

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

Activities during the year

In 2018 the committee met three times and details of attendance at meetings are disclosed on page 41. More information relating to our strategic objective of developing people is included in our strategic report.

In addition to the highlights outlined in the chair's overview, the committee:
- considered and reviewed the 2018 Board evaluation process and oversaw the internal evaluation of the Board. See page 43 for further details;
- considered the overall structure and balance of the Board;
- reviewed succession planning for the divisional management teams and senior talent development;
- oversaw employee development and succession planning for the wider Group; and
- reviewed and updated the committee's terms of reference.

John Morgan and Steve Crummett are not members of the committee although they are invited to attend meetings.

→ Effectiveness

Succession planning

Board

The Board takes succession planning for its members seriously. We believe we have a 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, following the resignation of Simon Gulliford as a non-executive director, the committee considered the skills, experience and time commitment required for the non-executive role, and the length and tenure of the existing non-executive directors in determining the right profile of candidate to be appointed.

The committee appointed a sub-committee consisting of the chair and the chief executive to manage the recruitment of a new non-executive. Following a review of potential headhunters, the sub-committee appointed Russell Reynolds Associates (formerly the Zygos Partnership) to assist with this process. The sub-committee identified a shortlist of candidates from a selection of individuals suggested by Russell Reynolds Associates and, following meetings with each of these candidates, identified a further shortlist for the other Board members to meet. After completing this comprehensive process, the Board was delighted to appoint David Lowden as a non-executive director, which took effect from 10 September 2018. David's extensive commercial, marketing and financial experience gained through his previous roles, together with his experience as a non-executive director and former CEO of Taylor Nelson Sofres, will be of great benefit to the Board and its committees. David became a member of the audit, nomination and remuneration committees following his appointment. He was appointed as the senior independent director with effect from 1 January 2019. Russell Reynolds Associates does not provide any other services to, or have any connection with, the Company.

David Lowden
Succession planning in action

February – March 2018	May – July 2018	14 August 2018	September 2018	1 January 2019
Following the resignation of Simon Gulliford, and having considered the existing skills and experience on the Board, a candidate profile was drafted and Russell Reynolds Associates was appointed to identify a shortlist of potential candidates.	Candidates were interviewed by the chair and chief executive, and a selection of shortlisted candidates were interviewed by all the other Board members.	Appointment of David Lowden to the Board, audit, nomination and remuneration committees announced, effective 10 September.	David began his formal induction programme (see page 42 for further details).	David succeeded Patrick De Smedt as senior independent director.

As part of the Board evaluation process undertaken during the year, the Board reviewed the skills needed to deliver our Group strategy and whether the Board had all the appropriate skills. A similar process was undertaken as part of the Board's succession plan review. The committee also considered the overall structure and balance of the Board, including the length of tenure of the non-executive directors (see table below). The committee keeps the composition of the Board under continuous review and is satisfied that as at the year end, notwithstanding the departure of Patrick De Smedt, who had served on the Board for nine years, and after taking into consideration the experience of the remaining directors, the Board has the required balance of skills and that appropriate succession plans are in place across the Group for future Board appointments.

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

Board tenure non-executive	Number	Percentage
< 1 year	1	25
1 to 2 years	1	25
2 to 3 years	2	50

Wider Group
Developing and retaining talented people are key to providing excellence in project delivery and customer service as outlined in our strategic report on pages 7 to 8 and 11, and in our 2018 responsible business report. We have an overarching leadership development programme in place which provides core and consistent leadership training for senior employees across the Group. During 2018, the committee reviewed the succession plans for the executive directors and the Group management team, as well as the divisional succession and senior talent development plans which each of our divisions has continued to work on during the year. Each of our divisions uses succession and development planning tools most appropriate to the size and requirements of its business. In addition, each division has its own training programmes incorporating both technical and broader business training specific to the division's and employees' requirements. These training programmes range from apprenticeships for different skills to supporting employees through professional qualifications. Where practically possible, each division considers existing employees for new roles and development opportunities and in 2018, 9% of employees across the divisions were promoted internally.

Diversity
In 2017, the Board adopted a diversity policy which sets out its commitment to inclusivity and equal opportunity within the Board and among all employees in the Group. Female representation on the Board in 2018 was 14%, increasing to 17% at the end of the year following the departure of Patrick De Smedt. As set out in its diversity policy, the Board ensures that the selection processes for the Board will provide access to a diverse range of candidates. Appointments will be made on merit and without resorting to quotas, but with due regard for the benefits of diversity on the Board, including gender.

We believe that a diverse workforce reflecting different skills and experience at all levels is critical for innovation and enables us to benefit from the broadest range of ideas and expertise. This supports our strategic objectives of winning work in our targeted markets and pursuing innovation. Our review of the Group's gender pay gap in the latter part of 2017 provided an opportunity for us to consider our approach to inclusion in a fresh light.

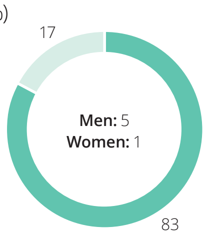
As part of the Board's ongoing commitment to providing leadership on inclusion, in early 2018 following discussion and agreement with the Group HR forum, the committee approved the Group's People Framework in order to implement a range of activities to help drive improvements in inclusivity and diversity, and further reduce the Group's gender pay gap over the course of the next few years. While the purpose of the framework is to drive improvements in inclusivity, it is focused on activities that will benefit all employees and not just specific groups, to ensure we attract and retain the best talent with the skills required.

We continue to include a 'people report' in the Board meeting papers, covering key statistics and details of activities undertaken by each division to improve inclusivity and diversity in line with the People Framework. These included 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. The committee was pleased that our largest division, Construction & Infrastructure, won the 'Inspiring Change in the Workplace' award at the 2018 Inspiring Change Awards organised by CECA (Civil Engineering Contractors Association). The award recognised the division's drive to promote an inclusive culture where every employee feels valued. Further information on the activities in this area can be found in our 2018 responsible business report.

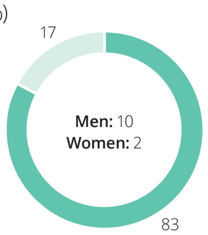
As part of the Board's diversity policy we are also committed to giving full and fair consideration to applications for employment made by disabled people and supporting any of our employees who become disabled while working for the Group. This includes making adjustments to roles and responsibilities and providing training to ensure disabled employees are treated fairly and have opportunities for promotion and career development.

At the February 2019 Board meeting, the Board reviewed the results of the Group's gender pay gap. In 2018 our median gender pay gap remained relatively unchanged at 32.0% (2017: 31.0%); we did not expect the figures to change quickly. We are pleased that we are continually seeing an increase in the number of women joining the Group, and our focus over the coming years is to ensure that appropriate career progression routes and support are in place, as this will not only retain them, but also help reduce our pay gap. The Board is satisfied that the results are not due to any equal pay issues within the Group, but are attributable to the lack of women in senior positions. See our strategic report on page 3 and our 2018 responsible business report for further information.

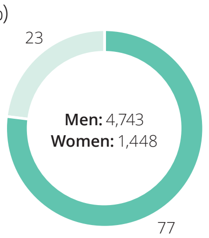
BOARD
(%)



SENIOR MANAGEMENT (GMT)[1]
(%)



WIDER EMPLOYEES
(%)



Men
Women

Numbers are based on 6,206 employees at 31 December 2018.

1 John Morgan and Steve Crummett are included in both the Board and senior management numbers. Since the year end, the gender ratio of the GMT has changed to one woman (8%) and 11 men (92%).

2019 priorities
During 2019, the committee will continue to focus on:
- succession planning for the Board and senior management;
- reviewing succession planning in the divisional management teams to ensure there is a diverse pipeline for succession; and
- reviewing progress against our activities to further improve inclusivity and diversity across the Group.

Michael Findlay
Chair of the nomination committee
21 February 2019

Health, safety and environment committee report

Chair's overview
Protecting people and keeping them safe is one of the Group's Total Commitments to being a responsible business (see page 3), and in 2018 monitoring the Group's safety performance remained a key focus for the committee.

Highlights of the committee's activities included:
- reviewing and approving the Group's health and safety framework;
- monitoring and reviewing the Group's responsible business strategy;
- monitoring the Group's performance against our Total Commitments; and
- site visits to a Construction & Infrastructure project in Slough, a Fit Out project in London and a Partnership Housing project in Salisbury.

Members during the year
Malcolm Cooper (Chair from 4 May 2018)
Andy Saul
Clare Sheridan
Simon Gulliford (until 4 May 2018)

Responsibilities
The committee is responsible for the following:
- assisting the Board in fulfilling its oversight responsibilities in relation to health, safety and environment (HSE) matters and making recommendations to the Board for any changes considered necessary;
- assisting the Board in reviewing our Group 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 our Group health and safety strategy 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 our responsible business strategy and performance against our Total Commitments.

The principal purpose of the committee is to focus on our health and safety culture by challenging each of the divisions to seek continual improvement in managing and reducing the number of safety incidents and driving better behaviour and performance. It also aims to support the Group health and safety forum and divisional health and safety teams.

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 is reviewed annually and includes standing items considered at each meeting together with any additional matters the committee has decided to focus on. 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 statement on page 4 and the risk review on page 26.

In 2018, the committee met four times to review our strategy with respect to HSE matters and carried out three site visits. Details of attendance at meetings are disclosed on page 41. Although not a member of the committee, Michael Findlay attends the meetings on a regular basis and attended three meetings during 2018.

A summary of the committee's other principal activities in 2018 is as follows:

- reviewed divisional health and safety performance during the year;
- continued to monitor and review performance against the health and safety framework;
- reviewed our environmental reports;
- monitored our performance as a Group against HSE targets and KPIs; and
- reviewed our performance against our Total Commitments.

Health and safety framework

Each division sets its own strategy and targets in order to focus on areas that are relevant to its business within an overarching framework. At the end of 2017, the framework was reviewed and updated by our health and safety forum, a focus group whose members include health and safety representatives from across the divisions, and approved by the HSE committee in early 2018. During the year, the committee monitored and reviewed each division's progress against the health and safety framework, which covered three key strategic areas: severity of high potential incidents, mental health and wellbeing, and for each division to identify and target three of its biggest health and safety risks. In 2019, the health and safety framework will continue its focus on high potential incidents, and mental health and wellbeing. However, for 2019, the framework has been updated for the divisions to focus on innovative ways to further improve health and safety, with a particular focus on each of their top three risks.

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 projects. We have well-established safety systems designed to minimise the risks of HSE incidents, including tool box talks, detailed method statements, health and safety briefings at induction, site visits, detailed investigation of all incidents, and regular training and updates. In order to maintain an effective safety culture, our divisions regularly review and enhance these systems as well as addressing behavioural factors which can cause injuries.

Overall, the committee is encouraged by the continued improvement in the Group's accident frequency rate in 2018 (see page 12). While we aim to minimise the risks of accidents, any accidents that do regrettably occur are thoroughly investigated, and any major incidents are reported to the Board. In December 2018, Construction & Infrastructure was fined £100,000 in respect of an accident that took place in 2017 at the King's Troop Royal Horse Artillery, during which a worker suffered a right-hand amputation. The court recognised that the division had pleaded guilty at the first opportunity to having failed to prevent access to a dangerous part of machinery, as well as the division's safety record going back over 40 years. We deeply regret this serious injury and continue to challenge our divisions to seek ongoing improvements in eliminating injuries in our work.

During 2018, the committee reviewed each division's activities to target its three biggest health and safety risks, additional reporting on high potential incidents and activities undertaken to share learning as relevant with other divisions to further drive improvements in safety performance.

We are very pleased that our divisions have received a number of awards during the year in recognition of the work and initiatives being carried out. Further information about these awards, as well as new safety initiatives, can be found in our 2018 responsible business report.

Site visits

As mentioned in the 2017 annual report, on 30 January 2018 the committee made an unannounced visit to the Construction & Infrastructure ice arena project in Slough. The project completed in early 2018 and included the refurbishment and refit of the existing building and ice pad and an extension added to house a reception/café/gym and climbing wall area. The committee met with the project manager and the health and safety manager to discuss the site in general and focus on health and safety arrangements. Overall, the committee was satisfied with the health and safety arrangements on site, and identified and fed back on a couple of areas that could be improved in terms of tidiness while working.

In March 2018, the committee visited the Royal Dutch Shell office refurbishment in London's South Bank to follow up on Fit Out's trials being carried out in conjunction with behavioural consultants to help increase health, safety and wellbeing awareness on this site. The committee was pleased with the interventions being made as part of the initiative, and with the positive culture on site in relation to health and safety. During the study, the levels of unsafe behaviours reduced by 82% for working at height and by 93% for material movements in just 12 weeks. The committee was pleased to learn that in August 2018 Fit Out won the Health, Safety & Wellbeing Initiative of the Year award at the Association for Project Safety's National CDM Awards in recognition of this work.

In September 2018, the committee visited a Partnership Housing project being undertaken for the Defence Infrastructure Organisation to provide housing on three sites on Salisbury Plain. The committee met with the project manager and safety team at the Ludgershall site, undertook an extensive review of the project and site at Bulford, and finished with a visit to the site office at Larkhill where groundworks were being undertaken. In summary, the committee found the sites were being operated safely and were well presented and tidy, with good storage facilities and waste being managed and segregated.

Health and wellbeing

The committee reviewed management plans and actions to improve health and wellbeing across the Group. All employees have access to an employee assistance programme that provides confidential counselling and support on a variety of issues. In June, a digital GP service was made available to all employees to help them get quicker and more convenient access to a medical professional.

During the year, each of the divisions continued to drive its focus on occupational health, particularly mental health and wellbeing. These initiatives included mental health and wellbeing training, publishing mental health and wellbeing standards/policies, making available a range of awareness materials, participating in mental health awareness week and various training sessions and education around occupational health, particularly respiratory disorders. Further information can be found in the 2018 responsible business report.

An independent personal financial education programme was rolled out across the Group during the year as part of our mental wellbeing initiative. This programme is provided by an independent third party and is not affiliated to any financial product.

Environment

We are committed to reducing energy consumption across the Group and in our supply chain. During the year, the committee reviewed the Group's performance in reducing our environmental impact. Highlights of our activities in 2018 included:

- rolling out science-based targets across the Group with the first data being collected from 1 January 2019;
- retaining our A- score in the CDP index;
- decreasing our carbon intensity by 3%;
- reducing construction waste by 11% to 88,255 tonnes (2017: 99,704 tonnes);
- diverting 95% of total waste from landfill (2017: 89%);
- diverting 94% of construction waste from landfill (2017: 96%); and
- developing a Carbon Calculator for roll out during the first quarter of 2019, to help us to manage our carbon emissions.

Managing waste

Our total waste produced in 2018 increased by 32% to 907,539 tonnes (2017: 687,803 tonnes). However, our waste intensity (total waste produced per £m of revenue) has increased at the lower rate of 24% to 305.4. We seek to carefully manage and reduce the level of waste produced on our sites where possible.

WASTE INTENSITY

	2018	2017	2016
Total waste produced (tonnes)	**907,539**	687,803	860,209
Waste intensity	**305.4**	246.3	335.8
Revenue	**£2,972m**	£2,793m	£2,562m

Managing our emissions

Our greenhouse gas (GHG) 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 we have 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. 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.

GHG EMISSIONS CO_2e TONNES

	2018	2017	2016 baseline	2010 baseline
Scope 1 – operation of facilities	**19,934**	19,559	17,201	33,357
Scope 2 – indirect emissions (purchased energy)	**3,632**	5,337	6,935	25,288
Scope 3 – indirect emissions (related activities)	**5,863**	3,548	6,634	5,097
Total emissions	**29,429**	28,444	30,770	63,742

Since 2010 we have significantly reduced our Scope 1 and Scope 2 emissions, and future improvements in these emission scopes are likely to be marginal. The level of our Scope 1 emissions is impacted by the type of work we undertake. Our 2018 data includes the A1 Leeming to Barton and A6 motorway projects for the first time, as they are no longer joint ventures. These two projects alone account for 1,350 tonnes of CO_2e, and if stripped out, a like-for-like comparison with 2017 would show a reduction of total emissions, at 28,050 tonnes.

We are continuing to investigate ways to reduce our carbon emissions, and believe we can make the biggest impact going forward by reducing our Scope 3 emissions. We will therefore be working closely with our supply chain to reduce these emissions as part of the rollout of our science-based targets.

CARBON INTENSITY

	2018	2017	2016 baseline	2010 baseline
Total emissions (CO_2e tonnes)	**29,429**	28,444	30,770	63,742
Carbon intensity	**9.9**	10.2	12.0	30.3
Revenue	**£2,972m**	£2,793m	£2,562m	£2,102m

While our total tonnes of CO_2e has increased from 28,444 tonnes to 29,429, our carbon intensity (GHG emissions per £m of revenue) has reduced by 3%.

As part of our introduction of science-based targets, from 1 January 2019, we will be reporting against a 2016 baseline year. Further details on our environmental performance and new targets are contained in our 2018 responsible business report.

Responsible business strategy

The committee monitored the Group's performance in the year against our Total Commitments. Overall, this performance was positive, although further work is needed to embed the use of Local Multiplier 3 (LM3) for assessing the social value contribution made on our projects. In 2018, in conjunction with Simetrica, we developed a social value bank that will enable us to measure the value of economic, social and environmental wellbeing generated from our activities. The social value bank will be rolled out across the Group in early 2019 (see our 2018 responsible business report for more information).

The committee reviewed our responsible business strategy to ensure that our Total Commitments remain relevant and appropriate, and confirmed that the Group would adopt six UN Sustainable Development Goals that most closely align to our Total Commitments and where we can have the greatest impact. The committee also reviewed the way we measure our performance, and our 2018 responsible business report details the KPIs and targets that we will be reporting against from 2019. The report also includes details of those issues identified as material by both internal and external stakeholders following our 2018 materiality survey.

Looking ahead

In 2019, the committee will:
- continue to challenge the divisions to seek further reductions in the number of safety incidents;
- review the divisions' data in respect of high potential incidents;
- review actions needed to protect employees' health and wellbeing;
- review our performance against our Total Commitments;
- review our responsible business strategy and health and safety policy framework; and
- undertake site visits to a couple of projects.

Malcolm Cooper

Chair of the health, safety and environment committee
21 February 2019

Audit committee report

→ Accountability

Chair's overview

During 2018, the committee's key focus has been on the integrity of the Group's:
- financial reporting;
- process of risk management and internal controls; and
- compliance with new legislation.

I am pleased to report that no issues in respect of the Group's integrity have been identified by the committee during the year.

The Board evaluation for 2018 included an evaluation of the audit committee. Overall the committee is considered to be operating effectively.

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 Corporate Governance Code, and the committee as a whole has the competence, diverse skills and experience relevant to the sector. Biographies of members are set out on page 36. Malcolm Cooper, the chair of the committee, is a qualified accountant and experienced FTSE 250 audit committee chair and continues to have recent and relevant financial experience for the audit committee of a company in the construction and regeneration sectors.

Members during the year

Malcolm Cooper (Chair)
Tracey Killen
David Lowden (from 10 September 2018)
Patrick De Smedt (until 31 December 2018)
Simon Gulliford (until 4 May 2018)

Other regular attendees:
- chair of the Board;
- finance director;
- company secretary;
- Group head of finance and reporting;
- Group head of audit and assurance; and
- representatives from the external auditor.

Responsibilities

In summary, the committee is responsible for reviewing and monitoring:
- the integrity of the financial statements;
- the Group's internal financial controls and internal control and risk management systems;
- the work and findings of internal and external audit;
- the effectiveness of the Group's internal and external audit functions; and
- that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by employees in connection with improprieties.

The committee is also responsible for the oversight and appointment of the external auditor. The formal role of the committee, which was reviewed during 2018, is set out in the terms of reference which are available on our website.

Activities during the year

February	August	December
Full year results review.	Half year results review.	Reviewed Group and divisional risk registers including the Group's principal risks.
Undertook fair, balanced and understandable review of the 2017 annual report.	Half year review of the impact of the new accounting standards adopted from 1 January 2018.	Reviewed effectiveness of the Group's risk management and internal controls.
Reviewed effectiveness of the external auditor including an evaluation of performance during the 2017 audit.	Reviewed Group and divisional risk registers including the Group's principal risks.	Reviewed fraud and bribery prevention measures and details of any matters arising from the raising concerns reporting lines.
Reviewed effectiveness of the Group's internal financial controls and internal audit.	Reviewed effectiveness of the Group's risk management and internal controls.	Reviewed significant accounting judgements for the 2018 audit.
Reviewed fraud and bribery prevention measures and details of any matters arising from the raising concerns reporting lines.	Discussed the 2018 audit plan with the external auditor.	Reviewed the committee's terms of reference.
Reviewed the Group's business continuity and incident management plan.	Reviewed fraud and bribery prevention measures and details of any matters arising from the raising concerns reporting lines.	
	Approved the 2019 internal audit plan.	

The committee held three scheduled meetings during the year, of which further detail is set out in the table above. Details of attendance at meetings are disclosed on page 41. The regular attendees listed on the previous page also attended each meeting. There is a formal agenda for each meeting to ensure that the committee covers all elements of its remit and the meetings are scheduled in line with the Company's financial reporting timetable. The chair of the audit committee met with the finance director and the external audit partner individually during the year. In addition, the committee held discussions at the end of each meeting with the external auditor and the Group head of audit and assurance, without the management team present. No matters of significance were raised during any of these discussions. The committee's authorities and calendar of work remain in line with the requirements of the Corporate Governance Code, having regard to the recommendations of the Financial Reporting Council in its guidance on audit committees.

At the meeting in February 2019, the committee reviewed the going concern and viability assessment and approved the audit fee for the year ended 31 December 2018. Further information on the work of the committee during the year, including full descriptions of the risk management and internal control processes are set out on the following pages.

Financial and business reporting

The committee's detailed review of the year end position by reference to the year end accounts assisted the Board in making the going concern statement set out on page 21. In line with provision C.2.2 of the Corporate Governance Code, the committee considered and approved the key assumptions in the long-term viability statement (see page 32 for further information).

Fair, balanced and understandable assessment

One of the key compliance requirements of the Corporate Governance Code is for the Board to confirm that the annual report and financial statements ('the 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 the strategic report from pages 1 to 34). To enable the Board to make this declaration, a formal review 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 the company secretary 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 the finance team in support of the policies adopted and judgements and estimates made and confirm that they remain appropriate for the Group (see table below).

These papers are discussed with the finance director, 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.

Set out below are what we consider to be the key accounting matters which required the exercise of judgement during the year. These are all considered to be recurring matters.

Issue	Basis of assurance	Conclusion
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 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.	Based on its review and discussions with the management team and external auditor, the committee concluded that the treatment of contract revenue, margin, receivables and payables in the financial statements is appropriate.
Impairment of goodwill	The value of goodwill is supported by a value-in-use model prepared by the management team. This is based on cash flows extracted from the Group budget and strategic plan, which have both been approved by the Board. The committee reviewed and challenged the management team on the assumptions used in the value-in-use model.	Based on its review and discussion with the management team and the external auditor, the committee was satisfied that the value of goodwill is appropriate.
Valuation of shared equity receivables The valuation of shared equity receivables is reliant upon the assumptions made by the management team and the accompanying valuation model.	Key assumptions include the discount rate, redemption rates and house price inflation. The committee reviewed and challenged the management team on the supporting assumptions used in the valuation of shared equity loan receivables.	Based on its review and discussion with the management team and the external auditor, the committee was satisfied that the supporting assumptions used remain appropriate.

Auditor

External auditor's independence and effectiveness

The committee oversees the Company's relationship with the external auditor. To ensure that the external auditor remains independent of the Company it carries out an annual assessment of the auditor's independence along with an appraisal of its qualifications, expertise and resources. To fulfil these 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. In addition, key members of the audit team rotate off the Company's audit after a specific period of time. Makhan Chahal was appointed as the lead audit engagement partner with effect from the Company's 2017 audit. Makhan is a senior audit partner with over 20 years' experience, and leads Deloitte LLP's business, infrastructure and professional services audit team. These policies and safeguards, together with the Company's own policies on engaging the external auditor for non-audit work and employment by the Company of former employees of the external auditor, enabled the committee to confirm that it was satisfied with Deloitte LLP's continued independence and objectivity.

As part of its responsibility for assessing the effectiveness of the external audit, the committee discussed the external audit plan at the committee meeting held in August 2018 and reviewed progress against the audit plan at the meeting held in December 2018, noting at that time the scope of work to be undertaken and the key audit matters being addressed by the external auditor. At the meeting prior to the announcement of the full year results, the committee reviewed the ternal auditor's fulfilment of the agreed audit plan and the key areas of audit focus as described in the independent auditor's report on pages 76 to 83. In addition, the internal evaluation of 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. No issues arose in the course of these reviews which impacted the effectiveness of the external auditor.

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 requirements of the Competition & Markets Authority 2014 Order and The Statutory Auditors and Third Country Auditors Regulations 2016 that all public interest entities are required to conduct an auditor tender at least every 10 years and to rotate their auditors after at least 20 years. As indicated in last year's report, while not subject to the provisions set out within the Corporate Governance Code for FTSE 350 companies, having taken into account the formal regulatory tender requirements that form part of UK law, the committee confirmed that the Group intends to put the external audit contract out to tender during 2020 to take effect from the conclusion of the 2020 financial year end. Any firm appointed by the directors during 2020 would then be subject to reappointment by the shareholders at the AGM in 2021. 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 which applied during the 2018 financial year complies with the FRC's Revised Ethical Standard.

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 or create a conflict of interest. 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 and preclude Deloitte LLP from providing certain services, such as valuation work and preparing accounting records and financial statements. 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 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 of £50,000, the advance approval of the audit committee chair. In addition, Deloitte LLP has its own safeguards in place to confirm that non-audit work prohibited by the FRC's Ethical Standard is not provided to the Group or Company.

The committee monitors compliance with the Company's policy throughout the year and during 2018 Deloitte LLP did not provide any non-audit services that required the approval of the committee. The fees for non-audit services during the year are set out in note 3 to the consolidated financial statements on page 101 and total £6,000 (0.7% of the audit fee) for work in respect of the half year.

Risk management and internal controls

The Board has reserved for itself specific responsibility for formulating the Group's risk appetite and risk management strategy, and for reviewing the system of internal controls and monitoring their effectiveness. The Board fulfils this obligation by agreeing the strategy, setting delegated authorities and approving appropriate policies and procedures which are then cascaded throughout the Group. In 2018, the Board reviewed its appetite and approach to risk, including whether or not a formal risk appetite framework was appropriate. Following this review, a formal framework in respect of each key risk was adopted in order to achieve greater scrutiny of the nature and extent of the risks the Board was willing to take in order to achieve the Group's long-term strategic objectives and performance, and to ensure that the appropriate culture and reward systems are embedded throughout the Group to mitigate against these risks increasing outside the tolerance levels set within the framework.

Certain responsibilities for risk management and internal controls have been delegated to the audit committee as outlined below and in the risk review on pages 22 to 31. We also have 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, and ensures that clear procedures are in place to elevate risks to the Board.

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's risk management guidance for directors and with the Corporate Governance Code.

The committee has conducted a review of the effectiveness of the system of internal controls for the year ended 31 December 2018 and for the period to the date of this report. The process included a review of the relationship between the internal and external audit function, a formal review of the Group risk register, and 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 our Group 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 environmental, social and corporate governance risks facing the business. The executive directors met 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 division. At each Board meeting, the Board considers:

- how effectively the risks have been assessed and the principal risks determined;
- how they have been managed or mitigated;
- whether necessary actions are being taken promptly to address any significant failings or weaknesses; and
- whether the causes of the failing or weakness indicate poor decision making, a need for more extensive monitoring or a reassessment of the effectiveness of management's ongoing processes.

In addition, the Board devoted time during some of the scheduled Board meetings to consider specific commercial issues which at the time represented the greatest risks to the achievement of our objectives and the mitigating actions in place to address them.

During the year, the Board undertook a detailed review of, and agreed its appetite for, risk in respect of key issues impacting the business. As part of the review the Board has confirmed metrics that it will use to determine whether or not the level of risk is increasing or decreasing. The Board will review its risk appetite each year as part of its strategic review.

Further details of our approach to risk and the principal risks identified facing the Group are highlighted in the risk review on pages 22 to 31. 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 continuing to improve due to our strong cash performance, strengthened balance sheet and the resolution of older 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 our system of internal controls 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 tax, treasury, internal audit, IT, pensions and insurance, is retained at 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. 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. No new matters or issues were raised by the internal audit team directly to the committee that had not already been reported to the committee by the executive directors.

The committee is responsible for approval in advance of the plans of the internal audit function:
- an audit plan for each year is drawn up following a review of the divisional and Group risk registers and discussion with the management team and the committee to ensure it is aligned to the principal risks of the Group, focusing predominantly on areas of key risks and materiality;
- internal audit and assurance work carried out in 2018 included operational, project and financial reviews across the Group and the results of these reviews were recorded in audit reports and presented to the committee; and
- the status of agreed management actions to address identified operational weaknesses is actively tracked through to implementation.

At each meeting, the committee receives a report on the internal controls framework and the internal audit activities. In 2018 the committee received information on and reviewed the work 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 also 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 in Construction & Infrastructure and Partnership Housing, which assist in the professional development of the individual employees 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 in the overall internal audit process.

The committee assesses annually the effectiveness of the internal audit function and reviews and confirms that the internal audit team is staffed appropriately and operating effectively.

In its annual assessment the audit committee:
- met with the Group head of audit and assurance separately without management present to discuss the effectiveness of the internal audit function;
- reviewed and assessed the audit plan; and
- assessed the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and whether the function is able to continue to meet the needs of the Group.

The results of the latest assessment were reviewed by the committee in December 2018 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.

Business conduct and ethics

Raising concerns procedures

Our procedures are supported by the operation of an independent whistleblowing hotline which can be accessed in four ways: by telephone, via an app, through a website or by sending an email. This enables employees across the Group and other workers on our sites to report concerns anonymously and in confidence. The existence of the various reporting mechanisms is covered with all employees on induction and is publicised via the Company's and divisions' intranets and on notice boards in offices and on sites. Occasionally reports are also made directly to the chief executive or to the managing directors of the divisions. Reports of concerns raised are presented to the committee at each meeting, together with the results of investigations 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. Since the Group's e-learning compliance programme began in October 2016, use of the hotline has grown considerably. There is a purposeful link in all e-learning to the hotline and the imagery around the hotline has been refreshed and widely distributed, with posters placed throughout the business and included in internal newsletters and on intranets. Of the total calls made to the hotline in 2018, 48% related to human resource matters and 10% to health and safety. All reports were investigated.

During 2018, the Board reviewed the Group's whistleblowing procedures to assess how easy it is for people to raise issues and how any issues raised are subsequently investigated and followed up to ensure that the reviews undertaken are independent and appropriate. Following this review, the Board is satisfied that with the wide variety of ways in which a call can be logged, the whistleblowing hotline provides an easily accessed resource with no obstacles for those who wish to raise a concern and that calls can be made anonymously if the caller does not wish to be identified.

E-learning

During the year, we rolled out a General Data Protection Regulation e-learning module to all employees as well as two e-learning modules relating to the Market Abuse Regulation. The market abuse e-learning was split into two modules, the first being an in-depth training module for the Board and another more general overview for all employees in the Group.

In addition to this, a tax-related e-learning module, 'anti-facilitation of tax evasion (AFTE) process', was sent to selected employees across the Group who are primarily responsible for tax compliance. New joiners are invited to complete relevant e-learning modules as part of their induction. Those yet to complete a module are sent a reminder email or called by their line manager to check on their progress. We aim to launch refresher training periodically and, as mentioned in last year's report, in early 2018, we issued refresher training on anti-bribery and corruption, one of the e-learning modules released in 2016. Future plans for e-learning include a module on the Group's insurances and refresher training on competition law in early 2019.

Modern slavery

The Board reviewed and approved the Group's modern slavery statement in respect of the 2017 financial year. The statement is available on our website and explains the actions taken to ensure that we do not undertake activities or engage suppliers or subcontractors who undertake activities that may be in breach of the Modern Slavery Act.

In our 2018 statement, to be published in the first half of 2019, we will report against the following KPIs:
- employee training levels;
- activities that we undertake to support the Gangmasters Labour Abuse Authority Construction panel;
- our evaluation of the impact of the BES 6002 Ethical Labour Sourcing standard on the Group;
- implementation of ISO 20400:2017 – sustainable procurement;
- the development of our online due diligence questionnaire; and
- investigations undertaken into reports of modern slavery and remedial actions taken in response.

Malcolm Cooper
Chair of the audit committee
21 February 2019

Other statutory information

The directors have pleasure in submitting their annual report and accounts for the Company together with the consolidated financial statements of the Group for the year ended 31 December 2018.

The strategic report is presented on pages 1 to 34 inclusive. The directors' report required under the Companies Act 2006 ('the Act') comprises the directors' and corporate governance report and the remuneration report, together with explanatory notes incorporated by reference.

The Board has chosen, in accordance with section 414C (11) of the Act, to include in the strategic report the following information that it considers to be of strategic importance that would otherwise be required to be disclosed in the directors' report:
- employment policies, employee consultation and involvement;
- additional details within the non-financial reporting statement of the Group's approach to diversity and inclusion and environmental, social and governance disclosures;
- the likely future developments in the business of the Group; and
- details of research and development activities.

There were no significant events since the balance sheet date. The management report as required by the Financial Conduct Authority's (FCA's) Disclosure and Transparency Rules (Rule 4.1) comprises the strategic report which includes the principal risks to our business.

Directors

Biographical details and details of Board changes during the year are shown earlier in the directors' and corporate governance report. The directors of the Company who served during the year are shown on page 64 of the remuneration report and further details of directors' contracts, remuneration and interests in shares of the Company are also given in the remuneration report.

The rules regarding the appointment and removal of directors are contained in the Company's articles of association ('the Articles'). The Articles require each director to submit themselves for election by shareholders at the first AGM after their appointment, and for re-election every three years thereafter. Notwithstanding the provisions in the Articles, in accordance with the Corporate Governance Code, all directors retire and, assuming they wish to continue to stand, offer themselves for election or re-election at the Company's AGM.

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 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 liability insurance policy in favour of the trustees of The Morgan Sindall Retirement Savings Plan ('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.

Articles of association

The Company's constitution, known as the Articles, is essentially a contract between the Company and its shareholders, governing many aspects of the management of the Company. The Articles may be amended in accordance with the provisions of the Act by way of special resolution by the Company's shareholders. The Company's current Articles are available on our website.

Capital structure

During the year 737,734 ordinary shares were allotted to satisfy amounts under the Group's savings-related share option plan. As at 31 December 2018 the issued ordinary share capital totalled 45,461,416 shares of 5p each. Further details on the issued share capital is shown in note 22 to the consolidated financial statements.

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 4 May 2018 to allot relevant securities up to a nominal amount of £745,457. That authority will apply until the conclusion of this year's AGM or close of business on 4 August 2019, whichever is the earlier, 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 annual 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 annual 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 them. 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 them if any call or other sum then payable by them 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.

Restriction on 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 4 May 2018, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,472,743 shares of 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 close of business on 4 August 2019, 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 annual 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.

An interim dividend of 19.0p was paid on 29 October 2018 and the directors recommend a final dividend of 34.0p, making a total for the year of 53.0p. Further details can be found in note 7 to the consolidated financial statements on page 103. Subject to shareholder approval at the 2019 AGM, the final dividend will be paid on 20 May 2019 to shareholders on the register at close of business on 26 April 2019.

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. Other than as referred to under 'Morgan Sindall Group Employee Benefit Trust' below, during the year there were no arrangements under which a shareholder has waived or agreed to waive any dividends nor any agreement by a shareholder to waive future dividends.

Morgan Sindall Group Employee Benefit Trust

In November 2018, Butterfield Trust (Guernsey) Limited retired as Trustee of the Morgan Sindall Group Employee Benefit Trust and Zedra Trust Company (Guernsey) Limited (Zedra) were appointed as replacement Trustee. Zedra, as Trustee of the Trust, holds shares on trust for the benefit of the employees and former employees of the Group and their dependants that have not been exercised or vested. The voting rights in relation to these shares may be 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 2018 which equated to 1.5% of the total dividend paid. Details of the shares so held may be found in the consolidated financial statements on page 88.

Substantial shareholdings

As at 31 December 2018, 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 [1]	% of total voting rights [2]	Direct or indirect holding
Standard Life Aberdeen plc	6,022,361	13.27	Indirect
J O Hambro Capital Management Group Ltd	5,006,661	11.04	Indirect
Numis Nominees (Client) Limited <Morgan02> and <Morgan03>[3]	4,530,537	9.99	Direct
Ameriprise Financial Inc	2,627,969	5.93	Indirect
J.P. Morgan Asset Management Holdings Inc	2,310,035	5.17	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.

3 John Morgan's and his connected person's shareholding.

As at 21 February 2019, Standard Life Aberdeen plc had notified the Company in accordance with DTR 5 that its interest in the total voting rights of the Company was 6,006,807 (13.21%).

Related party transactions

During the year, the Board has reviewed all related party transactions and, save as disclosed in note 24, there were no significant related party transactions in the year to 31 December 2018.

Change of control

The Group's banking facilities which are described on page 21 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.

Financial instruments

The financial risk management objectives and policies can be found in the principal risks on pages 28 to 29. Information about the use of financial instruments by the Company and its subsidiaries is given in note 25 to the consolidated financial statements.

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 Zedra (see page 88 of the consolidated financial statements), there are no disclosures required to be made under UK Listing Rule 9.8.4. As mentioned above, during the year, the Trustee responsibility was transferred from Butterfield Trust (Guernsey) Limited to Zedra.

Disclosure of information to the external auditor

The directors who held office at the date of approval of the directors' and corporate governance 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 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.

Directors' responsibilities

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 therefore 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, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board on 21 February 2019.

John Morgan
Chief Executive

Remuneration report

Remuneration

Dear Shareholder

I am pleased to introduce our remuneration report for the year ended 31 December 2018. This is my first report, having taken over as chair of the committee following the 2018 annual general meeting (AGM). I would like to thank my predecessor, Patrick De Smedt, for his guidance and support in helping me prepare for the role.

The report is split into two sections:
i) the annual report on remuneration which includes this letter and which will be subject to an advisory vote at our AGM on 8 May 2019; and
ii) the remuneration policy which was approved at the AGM on 4 May 2017 and which is reproduced this year for information purposes only.

Key activities in 2018

- Review of the new UK Corporate Governance Code ('the 2018 Code') changes in respect of remuneration and the impact on the Group's remuneration arrangements;
- review of latest shareholder and proxy agency guidelines on remuneration and implications for the Group;
- approval of updated terms of reference for the remuneration committee incorporating the 2018 Code changes;
- initial review of the chief executive pay ratio calculation approaches and action planning for full disclosure next year;
- review of policy and processes for applying committee discretion, and the application of malus and clawback;
- adjudication of the 2017 annual bonus outcome and the vesting outcome for the 2015–2017 long-term incentive plan (LTIP) awards;
- setting of targets for the 2019 bonus plan and 2019–2021 LTIP awards;
- review of senior executive salaries for 2019; and
- review of the committee's effectiveness (see page 43).

Performance in 2018

2018 was another successful year for the Group, with further financial and strategic progress made. The increase in underlying revenue growth, profit before tax (adjusted*) (PBTA*) and adjusted* earnings per share (EPS), shown below, reflect management actions to improve commercial performance and operational efficiency (see the strategic report on pages 1 to 34 for further information).

	2018	2017	change
Revenue	**£2,972m**	£2,793m	6%
PBTA*	**£81.6m**	£66.1m	23%
Basic EPS (adjusted*)	**151.8p**	121.1p	25%
Share price at 31 December	**£10.54**	£14.28	-26%

Review of remuneration for 2018

Reflecting the strong results set out above, the executive directors will each receive a bonus of 125% of salary, of which 30% will be deferred in shares for three years. LTIP awards granted in 2016, which vest on three-year performance to 31 December 2018 (two thirds on EPS and one third on relative total shareholder return (TSR)), will vest in full. The committee satisfied itself that the outcome reflected the underlying performance of the business over the relevant period. The committee has not exercised its discretion in respect of the remuneration outcomes for executive directors during the year.

Where possible the committee has adopted some of the recent changes to the 2018 Code and reporting regulations and will aim to comply with all of the required changes in 2019. The following annual remuneration report includes a summary of the impact of share price appreciation on remuneration outcomes for the chief executive and the pay scenario bar charts indicate the maximum remuneration receivable assuming a 50% share price appreciation.

Remuneration policy

The committee expects the 2017 remuneration policy to remain effective until the 2020 AGM. As part of its next policy review, the committee will consider changes needed to ensure that the policy captures any feedback from the Company's shareholders and proxy agencies, and is fully compliant with the 2018 Code and latest investor best practice guidelines.

Our policy is that performance-related components should form a significant portion of 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 reflect the interests of shareholders. The committee believes that the policy should be simple and straightforward, with all elements of pay being clear and openly communicated to stakeholders and aligned with pay philosophies across the Group.

When considering the remuneration of executive directors, the committee takes account of remuneration levels and practices across the Group. For example, in reviewing the executive directors' incentives for 2019, we reviewed the incentive arrangements for divisional executives to ensure a coherent and fair approach across the Group. The committee has not formally consulted with employees in respect of the design of the executive director remuneration policy, but will keep this under review.

Proposed remuneration arrangements for 2019

Fixed pay

From 1 January 2019, the base salaries for John Morgan and Steve Crummett will be 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 those for the employee population.

Long-term incentive plan

The executive directors will each receive LTIP awards equivalent to 150% of basic salary. Any awards that vest will be subject to a two-year holding period post vesting. For 2019, EPS targets will be equivalent to a growth rate of 6%–13% per year over the three-year period, while the TSR target will require 10% per year outperformance of the comparator median (which consists of the constituents of the FTSE 250 Index as used for the 2018 awards), a target which the committee believes is broadly equivalent to an upper quartile level of performance.

To conclude, the committee remains committed to the remuneration policy and its implementation which we feel provides a suitable opportunity for the executive directors to be rewarded for their contribution to the business, and is structured to help align the interests of all stakeholders. We value the support which shareholders have provided, as reflected in the feedback from our engagement and the votes on remuneration at our 2018 AGM. We hope to continue to receive your support at the forthcoming AGM.

Tracey Killen
Chair of the remuneration committee
21 February 2019

Remuneration framework at a glance

Remuneration philosophy

The key principles of our approach to executive remuneration are to ensure that remuneration:
- aligns management and shareholder interests;
- is competitive in the marketplace;
- helps retain and motivate executive directors of the calibre required in order to deliver the Group's strategy; and
- rewards growth in earnings over the long term, thereby driving growth in value to our shareholders.

The phasing of payments (based on the chief executive's maximum remuneration opportunity for 2019):

Phasing	2019	2020	2021	2022	2023
Salary	26% of total package				
Pension/benefits	4% of total package				
Annual bonus	22% of total package Cash element (70% of total bonus)	Deferred element –10% of total package deferred in nil cost share options for three years (30% of total bonus)			
LTIP	Three-year performance period (100% of LTIP)			38% of total package Two-year holding period – delivered in shares (100% of LTIP)	

Application of remuneration policy

Salary

Overview of policy
- Set by reference to market rates, taking into account individual performance, experience, Group performance and the pay and conditions of other senior management in the Group.

Remuneration in respect of 2018
- Chief executive: £505,254
- Finance director: £402,877

Application of policy in 2019
- Chief executive: £520,410 (+3%)
- Finance director £414,962 (+3%)

Annual bonus

Overview of policy
- Maximum 125% of salary.
- Paid 70% in cash, with the remaining 30% subject to deferral in nil cost share options for three years.
- All or a majority of the bonus will be based on PBTA* set relative to the Group budget. Financial measures will account for not less than 80% of the annual bonus.
- Malus and clawback provisions apply.

Remuneration in respect of 2018
- Chief executive: £631,566 (100% of maximum).
- Finance director: £503,595 (100% of maximum).

In each case, 30% of the bonus earned will be deferred in nil-cost share options for three years.

Application of policy in 2019
Up to 125% of salary, with payments subject to PBTA target set relative to a stretching Group budget.

LTIP

Overview of policy
- Maximum of 150% of salary.
- Subject to performance (EPS and TSR) and, for awards made from 2017 onwards, a two-year post vest holding period.
- Malus and clawback provisions apply.

Remuneration in respect of 2018
The 2016 LTIP will vest in full with EPS of 151.8p being equivalent to a compound annual growth rate of RPI + 31.0% per year over the three-year period and three-year TSR of 77.8%. This places the Company above the comparator group made up of six of the Group's UK-listed peers.

Application of policy in 2019
Awards of shares with a face value of 150% of salary vesting on three-year performance, measured against stretching EPS and TSR targets (weighted two thirds and one third respectively).

	2018 Maximum (excluding share price growth) £000	2018 Actual (excluding share price growth) £000	2018 Actual (including share price growth) £000
John Morgan			
Fixed pay	579	579	579
Annual bonus	632	632	632
LTIP	714	714	1,124
Total	**1,925**	**1,925**	**2,335**
Steve Crummett			
Fixed pay	466	466	466
Annual bonus	503	503	503
LTIP	570	570	897
Total	**1,539**	**1,539**	**1,866**

Committee members during the year

Tracey Killen (Chair from 4 May 2018)
Malcolm Cooper
David Lowden (from 10 September 2018)
Patrick De Smedt (until 31 December 2018)
Simon Gulliford (until 4 May 2018)

All members of the committee are independent. The chair of the Board and chief executive attended all meetings of the committee and the company secretary acted as secretary to the committee. The chair of the committee reported to subsequent meetings of the Board on the committee's work. No person was present during any discussion relating to their own remuneration.

Responsibilities

The committee is responsible for:

- reviewing the ongoing appropriateness and effectiveness of the remuneration policy, including in relation to retention and development;
- proposing to shareholders changes to the remuneration policy and approving its implementation for executive directors and other senior executives, taking into account arrangements for the wider employee group;
- approving the design of our annual bonus arrangements LTIPs, including the performance targets that apply; and
- determining the award levels for the executive directors and other senior executives based on performance against annual bonus targets and long-term incentive performance conditions.

The terms of reference of the committee are available on our website.

Activities during the year

The committee met on two occasions during the year. Attendance at the meetings is disclosed in the directors' and corporate governance report on page 41. The meetings covered a review of the 2018 AGM season, UK remuneration governance and trends in UK executive remuneration as well as a review of the committee's terms of reference. In addition, the committee undertook its normal business of setting the salaries for the executive directors, confirming performance-related pay for the year ended 31 December 2018 and setting bonus and long-term incentive targets for 2019. Additional consultation between committee members and between the chair of the committee and the chief executive took place outside of formal meetings.

Advisers

Remuneration advisers Mercer | Kepler (Mercer) were originally appointed by the committee in 2016 following a competitive tender process, and were retained in 2018. During the year, Mercer updated the committee on best practice in executive remuneration, changes in shareholders' voting guidelines and 2018 Code changes in respect of remuneration. The committee also consulted the chief executive but not in relation to his own remuneration.

Mercer also provided advice to the Company on accounting for share awards but provided no other material services to the Company or the Group.

The fees paid by the Company to Mercer during the financial year for advice to the committee in relation to the above were £28,155 (2017: £33,010), on the basis of time and materials.

Mercer is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at remunerationconsultantsgroup.com, and the committee considers its advice objective and independent. Mercer has no other connection with the Company.

Consideration of shareholder views

We are 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 its 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. Over the course of 2019, the committee will look to consult with major shareholders ahead of submitting a new remuneration policy for shareholder approval at the 2020 AGM. The committee would appreciate any feedback from shareholders on the Group's remuneration policy ahead of, or during, the consultation.

Annual report on remuneration

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

Implementation of the remuneration policy for 2019

Base salaries

In setting the 2019 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 should increase by 3% with effect from 1 January 2019. In considering the salary increases, the committee took account of the performance of each executive director and their respective responsibilities.

	From 1 January 2019 £	From 1 January 2018 £	Increase
John Morgan	**520,410**	505,254	3%
Steve Crummett	**414,962**	402,877	3%

Pension arrangements

The Company contributes up to 10% of base salary to a personal pension plan and/or as a cash supplement. This is in line with the maximum pension contribution for the employee population. Consistent with all employees participating in the Morgan Sindall Retirement Savings Plan ('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 National Insurance contribution.

Annual bonus

The maximum annual bonus potential for 2019 will be 125% of base salary with 70% of any bonus earned paid in cash and the remaining 30% deferred in nil cost share options for three years. To ensure that management is focused on the Group's financial performance in 2019, 100% of the bonus will continue to be based on a PBTA* target range set in relation to the Group budget. The annual bonus including the deferred shares will be subject to malus and clawback provisions.

The targets for the forthcoming year are set in relation to the Group budget, which is considered commercially sensitive. Retrospective disclosure of the targets and performance against them will be disclosed in next year's remuneration report.

Long-term incentives

The committee intends to make awards to the executive directors under the 2014 LTIP in March 2019.

The awards to be granted in 2019 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 performance compared with the constituents of the FTSE 250 Index (excluding investment trusts), over a three-year period. Further details on these performance conditions are set out below.

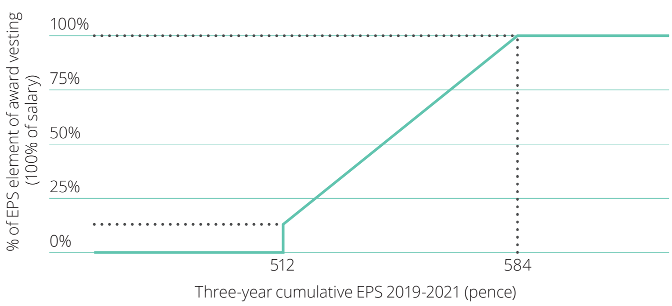
Net shares vesting under LTIP awards granted in 2019 will be subject to a mandatory two-year holding period at the end of the vesting period. All awards are subject to malus and clawback provisions.

EPS performance condition (two thirds of award)

For the awards granted in 2019, 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 2019, 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 average target range for EPS growth in other FTSE long-term incentives.

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

EPS PERFORMANCE CONDITION



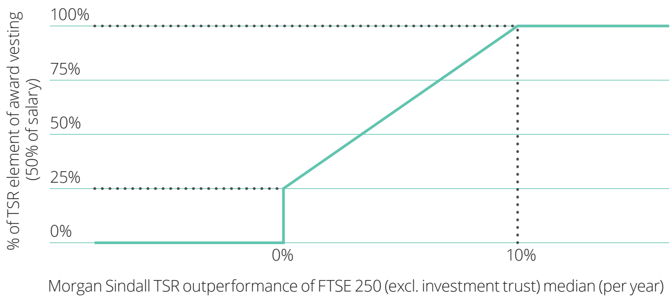
TSR performance condition (one third of award)

TSR targets for 2019 awards will be expressed as an outperformance of median as per the 2017 and 2018 awards.

As with the 2018 awards, the TSR comparator group will be based on the constituents of the FTSE 250 Index (excluding investment trusts). Full vesting will require 10% per year outperformance of comparator median, a level which remains broadly equivalent to an upper quartile level of difficulty.

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

TSR PERFORMANCE CONDITION



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 chair's fee is determined by the committee while the non-executive directors' remuneration is determined by the Board within the limits set by the Company's articles of association and is based on relevant market data, together with external advice as appropriate. During 2018, the Board determined that the chair of the health, safety and environment (HSE) committee should be paid an additional fee per year of £6,000. This was paid pro rata from the time that Malcolm Cooper took over as chair of the HSE committee on 4 May 2018 to reflect the additional workload and time commitments required. The committee determined that the chair's fee for 2019 be increased by 3%, and the Board deemed that the base fee for non-executive directors should also be increased by 3% in line with the increase for wider employees across the Group. The Board undertook a more detailed review of the additional fees paid to the chairs of the committees, taking account of benchmark data and the increased time commitments involved since these fees were last reviewed, and has decided to increase the fees for the chairs of the committees. Accordingly, the annual fees from 1 January 2019 are as follows:

	2019 £	2018 £	Increase
Chair	**175,000**	170,000	3%
Non-executive directors			
Base fee	**47,528**	46,144	3%
Additional fees:			
Audit committee chair	**10,000**	7,500	33%
HSE committee chair	**10,000**	6,000[1]	67%
Remuneration committee chair	**10,000**	6,000	67%
Senior independent director	**10,000**	6,000	67%

1 From 4 May.

Non-executive directors receive no other benefits and do not participate in any 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. Our present intention is to use market purchased shares to satisfy these awards; however, we retain 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 7.06% (2017: 7.56%) of the current issued ordinary share capital under all employee share plans, of which 0% relates to discretionary share plans.

As at 31 December 2018, the Trust held 770,599 shares, which may be used to satisfy awards.

Directors' remuneration (audited)

Single total figures of remuneration for 2017 and 2018

EXECUTIVE DIRECTORS	Fees/basic salary £000	Benefits[1] £000	Pension contributions £000	Annual bonuses[2] £000	Value of long-term incentives[3,4] £000	Total remuneration £000
John Morgan						
2018	**505**	**24**	**50**	**632**	**1,124**	**2,335**
2017	491	24	49	613	1,270	2,447
Steve Crummett						
2018	**403**	**23**	**40**	**503**	**897**	**1,866**
2017	391	23	39	489	957	1,899

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

2 Annual bonus figures represent the full amount earned for 2018. 30% of this amount will be deferred in nil-cost share options for three years. The table below shows performance against PBTA* targets for 2018 representing 100% of the annual bonus potential:

	Threshold target £m	50% target £m	Maximum target £m	Actual performance £m	Percentage of maximum %
Adjusted Group PBTA* at 31 December 2018	65.8	70.0	78.4	81.6	100

3 LTIP awards granted in 2016 are due to vest on 2 March 2019. As set out in the table below, 100% of the 2016-2018 awards are expected to vest:

	Weighting	Threshold target (EPS: 12.5% vest TSR: 25% vest)	40% target	Stretch target (100% vest)	Actual performance	Percentage vesting
Performance condition:						
Adjusted EPS	66.67%	RPI + 5% per year 77.2p	RPI + 10% per year 82.7p	RPI + 15% per year 88.5p	RPI + 31% per year 151.8p	100%
Relative TSR	33.33%	Median (equivalent to fourth position)	N/A	Equivalent to second position	77.8% TSR (above first position)	100%
Total vesting						**100%**

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 2018 of £12.01, a 57% increase on the share price at the date of grant. Accordingly, c36% of the 'value of long-term incentives' figure shown in the single figure table above is a result of share price appreciation, amounting to c£410,000 and c£327,000 for John Morgan and Steve Crummett respectively. The value of long-term incentives in the single-figure table above does not include the value of any dividend equivalent shares that may be due on vesting.

4 The 2017 comparative figures for the value of the long-term incentives and total remuneration have been revised from last year's report to reflect the actual share price on the date of vesting and the value of dividend equivalent shares awarded. Awards granted in 2015, which vested based on performance to 31 December 2017, are valued using the market prices at the date of vesting (2 March 2018) of £11.92.

NON-EXECUTIVE DIRECTORS	Fees £000		Taxable benefits[1] £000		Total £000	
	2018	2017	2018	2017	2018	2017
Michael Findlay	**170**	145	–	–	**170**	145
Malcolm Cooper[2]	**58**	52	–	–	**58**	52
Tracey Killen[3]	**46**	30	–	–	**46**	30
David Lowden[4]	**16**	–	–		**16**	
Patrick De Smedt[5]	**58**	57	–	–	**58**	57
Simon Gulliford[6]	**16**	45	–	–	**16**	45

1 Taxable benefits include taxable relevant travel and accommodation expenses for attending Board meetings and related business. Any value disclosed is inclusive of tax arising on the expense, which is settled by the Company.

2 Malcolm Cooper's fee includes a fee of £6,000 (pro rated from 4 May 2018) for his role as chair of the HSE committee.

3 Tracey Killen joined the Board on 5 May 2017 and took over as chair of the remuneration committee on 4 May 2018.

4 David Lowden joined the Board on 10 September 2018.

5 Patrick De Smedt stepped down from the Board on 31 December 2018.

6 Simon Gulliford stepped down from the Board on 4 May 2018.

The aggregate remuneration for executive and non-executive directors in 2018 was £2.5m (2017: £2.5m). Aggregate remuneration comprises salary, fees, benefits, pension contributions and bonus payments.

Share awards granted during the year

2014 Long-Term Incentive Plan

On 6 March 2018 LTIP awards were made to the executive directors, which will vest subject to performance over the three financial years to 31 December 2020. 67% of these awards are subject to an EPS performance condition and 33% subject to a TSR performance condition, full details of which are included in last year's annual report on remuneration.

	Date of grant	Percentage of salary awarded	Five-day average share price at date of grant	No. of shares over which award was granted	Face value of award £	Percentage of awards vesting at threshold	Performance period
John Morgan	6 March 2018	150	£12.29	61,666	757,875	16.7% (12.5% for EPS element, 25% for TSR element)	Three financial years to 31 December 2020
Steve Crummett				49,171	604,312		

The share price used to calculate the awards at the date of grant was based on the average share price for the five dealing days preceding the date of grant. The closing share price on 6 March 2018 was £12.40.

Deferred bonus share options

30% of the annual cash bonus earned in 2017 was deferred into nil-cost share options that will become exercisable three years from the date of grant.

	Date of grant	Percentage of bonus earned which was deferred	Five-day average share price at date of grant	No. of shares over which award was granted	Face value of award £	Date from which options are exercisable
John Morgan	6 March 2018	30	£12.29	14,967	183,944	6 March 2021
Steve Crummett				11,934	146,669	

The share price used to calculate the awards at the date of grant was based on the average share price for the five dealing days preceding the date of grant. The closing share price on 6 March 2018 was £12.40.

Other disclosures

Payments to past directors or for loss of office

No payments were made during the year.

Shareholder voting

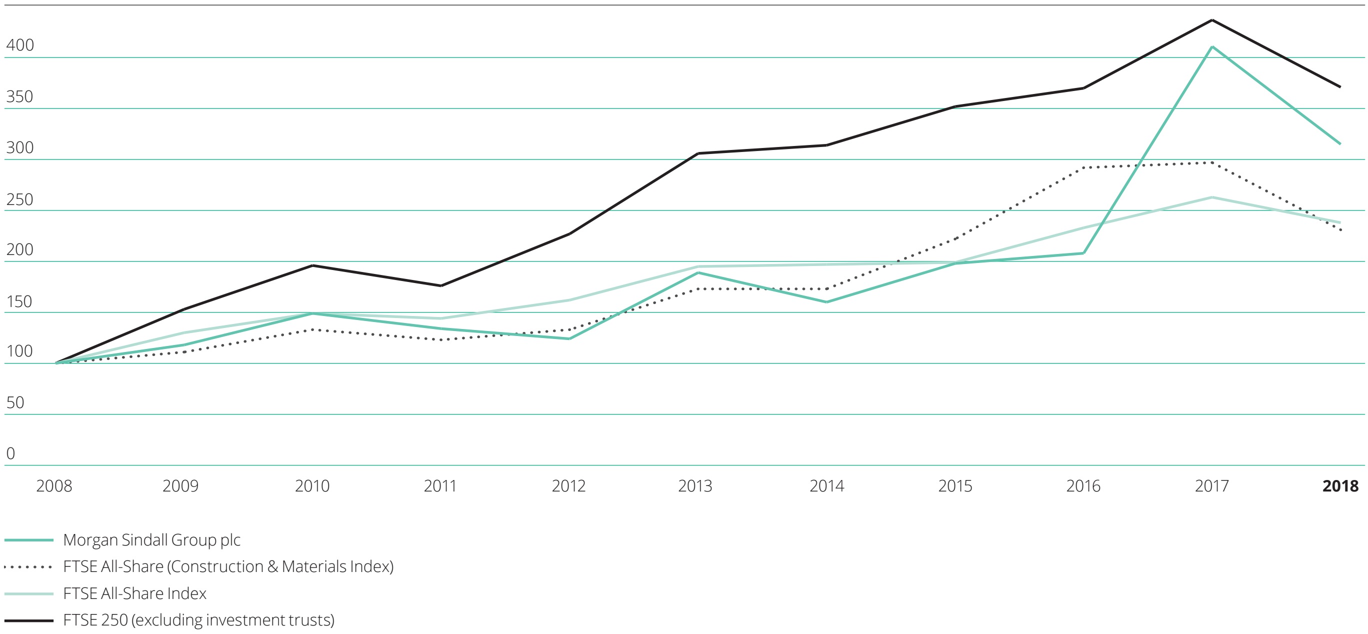
At last year's AGM held on 4 May 2018, the remuneration report (excluding the remuneration policy) for the year ended 31 December 2017 was approved by shareholders. The following table shows the results of the advisory vote on the 2017 annual remuneration report at the 2018 AGM as well as the results of the binding vote on the remuneration policy, which was last approved by shareholders at the 2017 AGM:

	Voting for		Voting against			
	Number of shares	Percentage	Number of shares	Percentage	Total votes cast	Votes withheld[1]
Annual remuneration report	33,355,798	99.35	219,006	0.65	33,574,804	6,355
Remuneration policy	28,699,357	88.28	3,811,276	11.72	32,510,633	3,751,597

1 People who have indicated that they wish to actively abstain from voting are counted as a vote withheld. 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.

Performance graph

The graph below shows the TSR for the Company's shares over the last 10 financial years. It shows the value to 31 December 2018 of £100 invested in the Company on 1 January 2009 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE All-Share (Construction & Materials Index), these being indices which the Company has been a constituent of over the period shown. The graph also shows the value of £100 invested in the FTSE 250 Index (excluding investment trusts), the constituents of which are used for the purposes of the TSR element of the LTIP. In all cases the other points plotted are the values at intervening financial year ends.



Chief executive remuneration

The table below provides a summary of the total remuneration received by the chief executive over the last 10 years, including details of annual bonus pay out and long-term incentive award vesting level in each year. The annual bonus payout and long-term incentive award vesting level as a percentage of the maximum opportunity are also shown for each of these years.

		Total remuneration £000	Annual bonus percentage of maximum	Long-term incentive award vesting percentage of maximum share awards	Long-term incentive award vesting percentage of maximum share options
2018	John Morgan	2,335	100	100	n/a
2017	John Morgan	2,447	100	100	n/a
2016	John Morgan	1,467	100	62	n/a
2015	John Morgan	905	80	–	n/a
2014	John Morgan	519	–	–	n/a
2013	John Morgan	507	–	n/a	–
2012	John Morgan	671	30	n/a	46
2012	Paul Smith	1,327	26	49	46
2011	Paul Smith	1,025	85	–	–
2010	Paul Smith	1,096	100	–	–
2009	Paul Smith	796	27	25	n/a

Notes:

John Morgan was appointed chief executive on 5 November 2012, having previously been executive chair. He waived his bonus entitlement in 2013.

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

Percentage change in remuneration levels

The table below shows details of the percentage change in base salary, benefits and annual bonus for the chief executive between 31 December 2017 and 31 December 2018, compared to the average percentage change for other employees of the Group:

	Percentage change in base salary	Percentage change in benefits	Percentage change in bonus payment
Chief executive	2.9	0	3.1
All employees	4.3	(1.8)	4.5

The chief executive's bonus increased by 3% in 2018 due to his salary increase of 3% on 1 January 2018. The chief executive's salary increase was in line with the increase of the wider workforce.

Relative importance of spend on pay

The table below shows pay for all employees compared to other key financial indicators:

	2018	2017	Change
Employee remuneration	**£484.3m**	£455.5m	6%
Basic earnings per share (adjusted*)	**151.8p**	121.1p	25%
Dividends paid during the year	**£21.5m**	£16.8m	28%
Employee headcount[1]	**6,660**	6,409	4%

1 Employee headcount is the monthly average number of employees on a full time equivalent basis. More detail is set out in note 2 on page 100.

Shareholding guidelines

Through participation in performance-linked share-based plans, there is strong encouragement for senior executives to build and maintain a significant shareholding in the business. Shareholding guidelines are in place requiring the executive directors to build and maintain a shareholding in the Company equivalent to 200% of base salary based on the net of tax value of shares. Until 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.

	Percentage of salary required under shareholding guidelines	Percentage of salary held at 31 December 2018
John Morgan	200	9,451%
Steve Crummett	200	231%

The share price used to value the shares as at 31 December 2018 was £10.54.

Directors' interests

The figures below set out the shareholdings beneficially owned by directors and their family interests at 31 December 2018.

	31 December 2018 No. of shares	31 December 2017 No. of shares
Michael Findlay	**4,173**	4,173
John Morgan	**4,530,537**	4,474,069
Steve Crummett	**88,414**	45,870
Malcolm Cooper	**10,000**	10,000
Tracey Killen	**611**	–
David Lowden	**–**	n/a
Patrick De Smedt[1]	**2,000**	2,000
Simon Gulliford[2]	**11,350**	11,350

1 Patrick De Smedt stepped down from the Board on 31 December 2018, and the shareholding represents the number of shares held at his date of leaving.

2 Simon Gulliford stepped down from the Board on 4 May 2018, and the shareholding represents the number of shares held at this date of leaving.

There have been no changes in the interests of the directors between 31 December 2018 and 21 February 2019.

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 £49,500 per year. In addition, Steve received expenses of £761, of which £55 were non-taxable.

Outstanding interests under share schemes

Details of the executive directors' interests in long-term incentive awards as at 31 December 2018 and movements during the year are as follows:

Performance shares

	Date of award	No. of shares outstanding as at 1 January 2018	No. of shares awarded	No. of shares vested	No. of dividend equivalent shares awarded	Total no. of shares vested	No. of shares lapsed	No. of awards outstanding as at 31 December 2018	End of performance period	Date awards vest
John Morgan										
	2.3.2015	98,680	–	98,680	7,864	(106,544)	–	–	31.12.2017	2.3.2018
	2.3.2016	93,627	–	–	–	–	–	93,627	31.12.2018	2.3.2019
	6.3.2017	72,636	–	–	–	–	–	72,636	31.12.2019	6.3.2020
	6.3.2018	–	61,666	–	–	–	–	61,666	31.12.2020	6.3.2021
	Total	**264,943**	**61,666**	**98,680**	**7,864**	**(106,544)**	**–**	**227,929**		
Steve Crummett										
	2.3.2015	74,348	–	74,348	5,925	(80,273)	–	–	31.12.2017	2.3.2018
	2.3.2016	74,655	–	–	–	–	–	74,655	31.12.2018	2.3.2019
	6.3.2017	57,918	–	–	–	–	–	57,918	31.12.2019	6.3.2020
	6.3.2018	–	49,171	–	–	–	–	49,171	31.12.2020	6.3.2021
	Total	**206,921**	**49,171**	**74,348**	**5,925**	**(80,273)**	**–**	**181,744**		

Notes:

100% of the awards granted in 2015 vested due to the maximum EPS and TSR targets being achieved. Adjusted EPS for the Group as at 31 December 2017 was 121.1p (RPI + 34.8% per year.) which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 132.2% which was top of the comparator group, and resulted in 100% of the TSR element of the award vesting.

100% of the awards granted in 2016 will vest due to the EPS and TSR targets being achieved. Adjusted EPS for the Group as at 31 December 2018 was 151.8p (RPI + 31% per year) which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 77.8% which was top of the comparator group, and resulted in 100% of the TSR element of the award vesting.

The awards of performance shares over 150% of salary granted in 2017 and 2018 are subject to cumulative EPS growth targets equivalent to a growth rate of 6%-13% per year and a TSR performance condition. Full details are included in previous remuneration reports.

Share options

	Date of grant	No. of options outstanding as at 1 January 2018	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2018	End of performance period	Exercise price	Date from which exercisable
John Morgan	17.3.2010	106,364	–	–	106,364	31.12.2012	£5.55	17.3.2013

Note:

The outstanding options granted in 2010 satisfied their performance condition and are exercisable. These options will, if not exercised, lapse 10 years from the date of grant.

The mid-market price of a share on 31 December 2018 was £10.54 and the range during the year was £10.22 to £15.40.

Remuneration policy

The table below summarises the main elements of the remuneration policy approved by shareholders at the AGM on 4 May 2017 and which came into effect from that date.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Base salary	To provide competitive fixed remuneration. 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.	Basic salary is reviewed annually by the committee or, if appropriate, in the event of a change in an individual's position or responsibilities. Salary levels are set by reference to market rates, taking into account individual performance, experience, company performance and the pay and conditions of other senior management in the Group. 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.	There is no prescribed maximum annual increase. Current salary levels are presented on page 62.	Not applicable.
Benefits	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. Car or travel allowances to facilitate effective travel.	Current benefits include travel allowance, private medical insurance, income protection insurance and life assurance. Other benefits may be provided where appropriate.	The travel allowance is £17,000. The value of other benefits is based on the cost to the Company and is not predetermined.	Not applicable.
Pension	To provide a pension arrangement to contribute towards retirement planning.	The Company will contribute to the defined contribution pension scheme, The Morgan Sindall Retirement Savings Plan ('the Retirement Plan') or to personal pension arrangements at the request of the individual. The Company may also consider a cash alternative (for example where a director has reached the HMRC's lifetime or annual allowance limit).	Employer contributions are 10% of base salary. Directors who are members of the Retirement Plan may elect to exchange part of their salary or bonus award in return for pension contributions, where the Company will enhance the additional contributions by half of the saved employer's National Insurance contribution.	Not applicable.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Annual bonus	Rewarding the achievement of demanding annual performance metrics.	Performance measures and targets are reviewed annually by the committee. 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. 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.	The maximum opportunity is 125% of base salary. Financial targets incorporate an appropriate sliding scale range around a challenging target. Target performance will typically deliver up to 50% of maximum bonus, with threshold performance typically paying up to 15% of maximum bonus.	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. Financial targets will account for not less than 80% of the annual bonus. 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.
2014 LTIP	To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance. To encourage share ownership and provide further alignment with the interests of shareholders.	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. 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. Performance targets are reviewed annually by the committee for each new award. 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. 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. Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.	150% of base salary.	Awards are subject to performance conditions based on the Company's EPS and on relative TSR compared to a group of UK-listed peers. The committee has discretion to introduce additional performance condition(s) (to complement EPS and TSR) for up to one third of future awards. For both the EPS and TSR conditions, no more than 25% of the awards will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.
All employee sharesave plan	To encourage share ownership and provide further alignment with shareholders.	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. This scheme is open to all employees including executive directors.	Prevailing HMRC limits apply.	Not applicable.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
All employee sharesave plan	To encourage share ownership and provide further alignment with shareholders.	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. This scheme is open to all employees including executive directors.	Prevailing HMRC limits apply.	Not applicable.
Non-executive directors' fees	Set to attract, retain and motivate talented individuals.	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. The chair receives a fixed annual fee. Fees are normally reviewed annually. 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. 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.	For the non-executive directors, there is no prescribed maximum annual increase. The Company's Articles of Association provide that the total aggregate remuneration paid to the chair 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.	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 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 our 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 Mercer, 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 in incentives;
- the timing of grant of awards and/or payments;
- the size of awards (up to plan/policy limits) and/or payments;
- where the result indicated by the relative TSR performance condition should 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 TSR being considered abnormal;
- measurement of performance in the event of a change of control or reconstruction;
- determination of good leaver status (in addition to any specified categories) for incentive plan purposes;
- payment of dividends accrued during the vesting period;
- adjustments required in certain circumstances (for example, rights issues, corporate restructuring and special dividends);
- adjustments to existing performance conditions for exceptional events so that they can still fulfil their original purpose;
- 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; an error in calculating the vesting outcomes; or in the event of corporate failure.

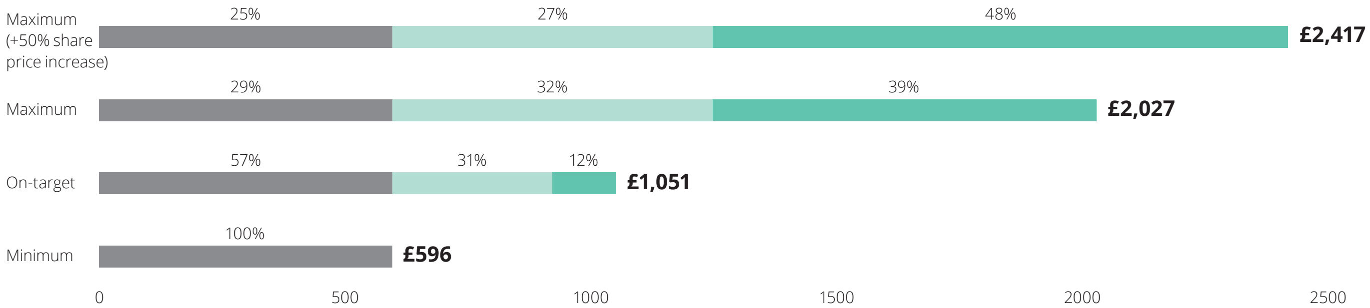
Remuneration scenarios for the executive directors

The charts below provide an indication of the level of remuneration that would be received by each executive director under the following three assumed performance scenarios.

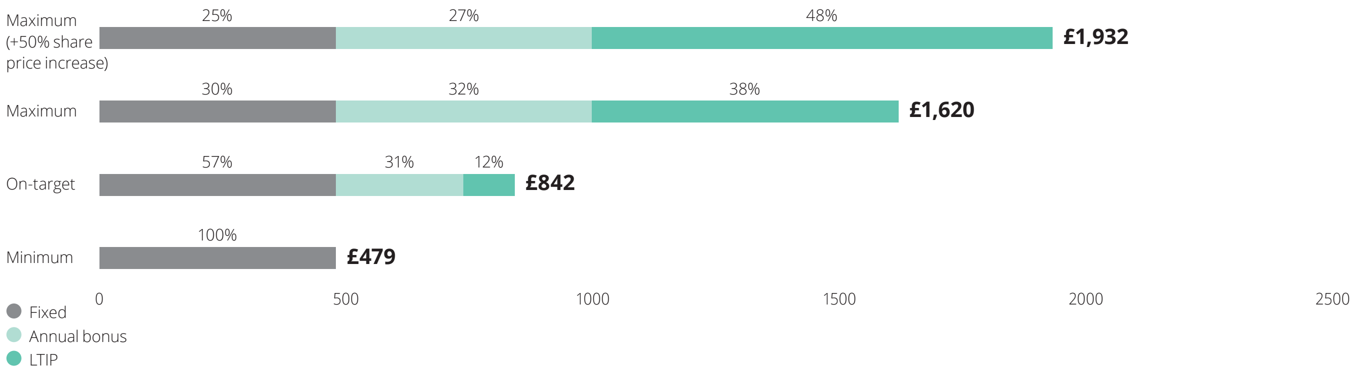
Below threshold performance	Fixed elements of remuneration only – base salary, benefits and pension
On-target performance	Assumes 50% pay out under the annual bonus Assumes 16.7% pay out under the LTIP (aligned with threshold performance)
Maximum performance[1]	Assumes 100% pay out under the annual bonus (125% of salary) Assumes 100% pay out under the LTIP (150% of salary)

1 Maximum shown both with and without the impact of share price appreciation on the potential value of long-term incentive awards. For the purposes of this illustration, three-year share price appreciation is assumed to be 50% in line with the reporting regulations'.

JOHN MORGAN
Chief Executive
(£000)



STEVE CRUMMETT
Finance Director
(£000)



Notes:

Base salary levels are as at 1 January 2019.

The value of benefits has been estimated based on amounts received in respect of 2018.

The value of pension receivable is the equivalent of 10% of base salary.

The maximum scenarios are shown both with and without the impact of share price appreciation on the potential value of long-term incentive awards. For the purposes of this illustration, three-year share price appreciation is assumed to be 50% in line with the reporting regulations.

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:

Fixed elements	Approach	Maximum annual grant value
Base salary	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.	
Pension	New executive directors will receive company contributions or cash alternative not greater than the existing policy.	
Benefits	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.	
SAYE	New appointees will also be eligible to participate in all-employee share schemes.	
Annual bonus	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 base salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table.	150% of base 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 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

Executive directors

Executive directors have rolling service contracts that provide for 12 months' notice on either side. There are no special provisions that apply in the event of a change of control.

	Date of service contract
John Morgan	20 February 2012
Steve Crummett	5 February 2013

Non-executive directors

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	Month/year second three-year term was extended
Michael Findlay	1 October 2016	–	–
Malcolm Cooper	9 November 2015	November 2018	–
Tracey Killen	5 May 2017	–	–
David Lowden	10 September 2018	–	–

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

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

Tracey Killen
Chair of the remuneration committee
21 February 2019

Financial statements

Contents

Independent auditor's report	**76**
Consolidated financial statements	**84**
Significant accounting policies	**89**
Critical accounting judgements and estimates	**97**
Notes to the consolidated financial statements	**98**
Company financial statements	**119**
Significant accounting policies	**121**
Notes to the Company financial statements	**122**
Shareholder information	**129**

Independent auditor's report

to the members of Morgan Sindall Group plc

Report on the audit of the financial statements

Opinion

In our opinion:
- the financial statements of Morgan Sindall Group plc ('the parent company') and its subsidiaries ('the group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 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 Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the critical accounting judgements and estimates;
- the significant accounting policies; and
- the related notes 1 to 26 and parent company only notes 1 to 2.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework'.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • recognition of contract revenue, margin and related receivables and liabilities; • impairment of goodwill; • valuation of shared equity loan receivables; and • uncertainty within the construction and business support services industry. The key audit matters identified within this report are consistent with those reported on in the prior year with the exception of those set out within the significant changes in our approach section.
Materiality	The materiality that we used in the group financial statements was £4.0 million which was determined on the basis of 5% of the profit before tax for the year.
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 scope covered eight components of the group. Of these, four were subjected to a full-scope audit whilst the four remaining were subject to specific procedures on certain account balances. Our full-scope audit of components provided coverage of 91% of the group's revenue, 95% of the group's net assets and 92% of the group's profit before tax.
Significant changes in our approach	As part of our risk assessment process we concluded that the carrying value of land and work in progress is no longer considered a key audit matter. This is because none of the projects within Partnership Housing's portfolio displayed significant risk characteristics such as inactivity for a number of years or lower than expected average margins.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in the significant accounting policies to the financial statements 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 and parent company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks, including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the parent company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 22 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 32 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; or
- the directors' explanation on page 32 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 are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

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.

Recognition of contract revenue, margin and contract assets and liabilities

Key audit matter description	For construction companies, there is judgement in assessing the appropriate contract revenue and margin to recognise and this is therefore a key audit matter. Revenue and margin recognition has been recognised under the output method to measure progress for the majority of the group's contracts, although for cost-reimbursable services contracts an input basis is utilised where the total contract price is a product of the costs incurred. This involves the assessment of the valuation of 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. Profit is not recognised until the group is able to reasonably measure the outcome of a performance obligation. Given the level of judgement and potential for management bias in the estimates used, we considered there to be an inherent risk of fraud in contract revenue recognition. The Audit Committee also considered this as an issue as set out in the Audit Committee report on page 51. Management have discussed this within key sources of estimation uncertainty on page 97. The accounting policies are set out within the significant accounting policies on pages 92 to 93. Revenue from construction contracts at 31 December 2018 was £2,076.8 million (2017: £1,992.4 million) as set out in note 1. Contract assets were £192.0 million (amounts due from construction contracts in 2017 were £174.2m) and trade receivables were £207.6 million (2017: 208.0 million)) as set out in notes 15 and 16.
How the scope of our audit responded to the key audit matter	• We evaluated the design and implementation of controls over revenue recognition, contract assets and contract debtors and for certain divisions we also tested the operating effectiveness of such controls. Additionally, we 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 including low margin or loss-making contracts and contracts with significant balance sheet exposures. • For this sample of contracts, we focused on the significant judgements adopted by management, we critically assessed the forecast costs to complete, variations within contract revenue and contract costs, and the completeness and validity of loss provisions arising from customer disputes. • This assessment included: – agreeing contract valuation positions to third-party certificates and signed variations; – where necessary, reviewing legal correspondence and expert advice; – reviewing contract terms and conditions; – reperforming the key calculations behind the margin applied, the profit taken and stage of completion, as well as balance sheet exposure; – interviewing and challenging contract managers and commercial directors; and – reviewing correspondence with customers. • For the sample of contracts selected we tested the recoverability of contract assets 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. We did this through interviewing and challenging contract managers, commercial directors and a review of correspondence with customers and solicitors. • In addition, for the remaining contracts population we performed the following: – recalculated the percentage of completion based on costs to date and recalculated revenue to agree to that reported by management; and – considered management provisions across all contracts. • We compared the final outcome on projects completed in the year to previous estimates to determine the reliability of management estimates.
Key observations	We are satisfied that the judgements applied by management in assessing the appropriate contract revenue and margin to recognise are appropriate.

Impairment of goodwill

Key audit matter description	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. Determination of the recoverable amount incorporates judgements based on assumptions about future operating cash flows for the related businesses. Management uses judgement in determining the inputs to the value-in-use model to support the value of goodwill. Together with the size of the balance, impairment of goodwill is therefore a key audit matter. The Audit Committee also considered this as an issue as set out in the Audit Committee report on page 51. The accounting policies are set out within the significant accounting policies on page 94. The carrying value of goodwill at 31 December 2018 was £213.9 million (2017: £213.9 million).
How the scope of our audit responded to the key audit matter	We challenged the assumptions used in the impairment model which calculates the recoverable amount of goodwill, described in note 9 to the financial statements. Our challenge focused on: • comparing the cash flows to the latest Board approved budgets; • assessing the appropriateness of the design and implementation of the controls used in the preparation of the model; • assessing the appropriateness of the CGUs identified and goodwill allocation during the period; • assessing the appropriateness of the discount rate used by independently benchmarking the discount rate; • assessing the appropriateness of cash flow projections relative to previous performance, current order book, and Office for National Statistics guidance on construction growth rate; • benchmarking against the wider peer group; • challenging management's sensitivity analysis on reasonable reductions in the cash flow projections and discount rates; and • we tested the mechanical accuracy and integrity 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.
Key observations	We concluded that management's assumptions around future operating cash flows and the inputs to the model were within a reasonable range and as a result have not identified that any impairment of goodwill is required.

Valuation of shared equity loan receivables

Key audit matter description	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 therefore making this a key audit matter. The Audit Committee also considered this as an issue as set out in the Audit Committee report on page 51. The accounting policies are consistent with the prior year and set out within the significant accounting policies on page 95. The carrying value of shared equity loan receivables at 31 December 2018 was £13.0 million (2017: £15.6 million) as set out in note 13.
How the scope of our audit responded to the key audit matter	In addressing this key audit matter we have: • assessed the design and implementation of key controls surrounding the preparation of the model; • reviewed the mathematical accuracy of the model, including recalculating the profit or loss on disposal of redemptions to date; • vouched a sample of redemptions to source documentation; • discussed with the directors the rationale for the discount rate they used; and • challenged key assumptions, agreeing to third party and market support where possible.
Key observations	Management's valuation model is consistent year on year and we considered the overall valuation to be appropriate.

Uncertainty within the construction and business support services industry

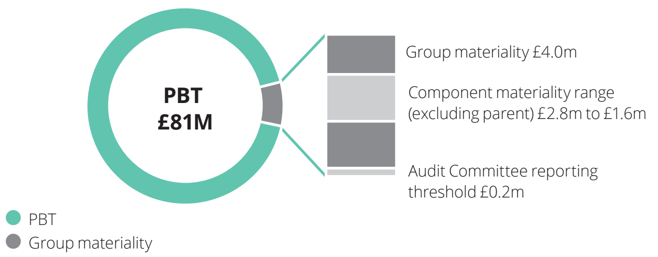
Key audit matter description	2018 has been a challenging period for companies within the construction and business services industry. This has led to uncertainty in the industry which has been further heightened by the UK's impending exit from the European Union. Due to the uncertainty within the industry and potential impact on the group we have determined this to be a key audit matter and have considered potential impacts below.
How the scope of our audit responded to the key audit matter	In addressing this key audit matter, we have: • considered this uncertainty as part of our risk assessment and enhanced our procedures in other areas such as contract revenue, margin and related receivables and liabilities, challenge of cash flow forecasts used within the impairment of goodwill and appropriateness of the going concern assumption; • assessed the outcome of sensitivity analysis carried out on the forecasts used to drive the goodwill and going concern assumptions; • assessed the solvency and liquidity of the group by taking into account relevant ratios. We also reviewed the ability of the group to collect and settle payments in a reasonable timescale, and its future commitments; • considered the group's financing arrangements; • confirmed our understanding of the business model, key contractual arrangements and how actual performance on contracts compares with the bidding stage; and • assessed the wider issues impacting the industry highlighted by these events including cash management and the culture within the entity.
Key observations	We concur with management that there are no significant matters identified as a result of these procedures. We have set out our observations in relation to goodwill and the recognition of contract revenue, margin and related receivables and liabilities in the key audit matters above which are unchanged.

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:

	Group financial statements	Parent company financial statements
Materiality	£4.0 million (2017: £3.0 million)	£3.2 million (2017: £3.0 million)
Basis for determining materiality	5% of profit before tax	2.6% of net assets, capped below group materiality (2017: 2.4% of net assets, capped below group materiality)
Rationale for the benchmark applied	We used profit before tax as it represents a key performance measure for the group.	As the parent company is a non-trading entity and a cost centre, it is considered appropriate to use net assets as the basis for determining materiality.



We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £0.20 million (2017: £0.15 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Based on 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 91% (2017: 92%) of the group's revenue, 92% (2017: 84%) of the group's profit before tax and 95% (2017: 92%) of the group's net assets.

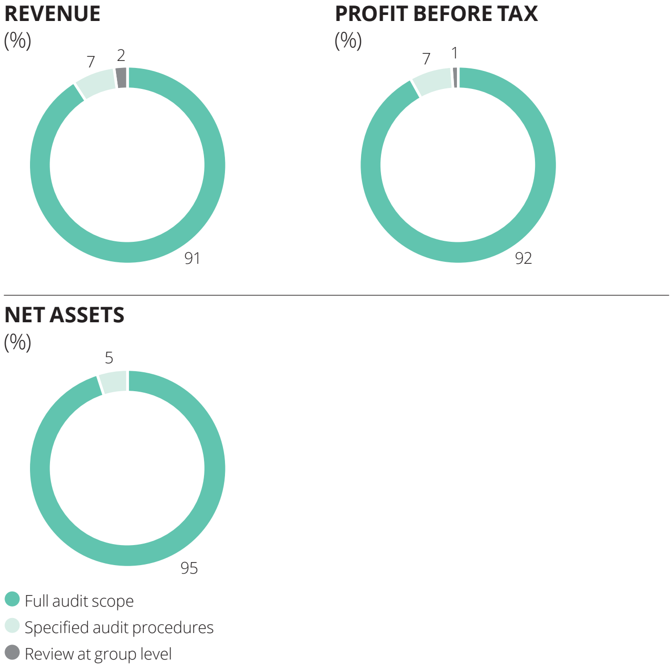
Our oversight of component auditors focused on the planning of their audit work and key judgements made. In particular, our supervision and direction focused on the work performed in relation to key audit matters by component teams, including contract revenue, margin and related receivables and liabilities, impairment of goodwill, and valuation of shared equity loan receivables.

As part of our monitoring of component auditors, we have also attended key audit close meetings.

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 in addition to the parent entity was executed to lower levels of materiality ranging from £1.6 million to £2.8 million (40%-70%) of group materiality (2017: 50%-70%). The parent company is located in Central London and audited directly by the group audit team. At the parent entity level, we 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 Senior Statutory Auditor is also the audit partner for the group's most significant components, the Construction & Infrastructure and Fit Out divisions as well as the Investments division. The group audit team held a group-wide planning meeting to discuss the assessment of risks at the start of the audit and subsequently held regular update calls throughout the audit. The Senior Statutory Auditor or another senior member of the group audit team participated in all of the final close meetings of the group's significant components. The Senior Statutory Auditor or another senior member of the Group audit team carried out a review of the component auditor files.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information are included where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team, including significant component audit teams and involving relevant internal specialists, including tax, IT, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: recognition of contract revenue, margin and related receivables, and management override of controls; and
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations that have a direct effect on the financial statements included the UK Companies Act, Listing Rules, UK Corporate Governance Code, pensions legislation, and tax legislation. Those that are fundamental to the operations of the group included the Bribery Act, employee laws, carbon reduction regulations, and health, safety and environment matters.

Audit response to risks identified
As a result of performing the above, we identified recognition of contract revenue, margin and related receivables and liabilities as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- 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 group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
The company listed and therefore became a public interest entity in 1994. We have been auditor since that date. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 25 years, covering the years ending 1994 to 2018. The auditors were appointed by the shareholders at the company's annual general meeting.

Consistency of the audit report with the additional report to the Audit Committee
Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report
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.

Makhan Chahal ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
21 February 2019

Consolidated income statement

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Revenue	1	**2,971.5**	2,792.7
Cost of sales		**(2,656.2)**	(2,518.3)
Gross profit		**315.3**	274.4
Administrative expenses		**(235.0)**	(209.9)
Share of net profit of joint ventures	12	**5.2**	4.1
Operating profit before amortisation of intangible assets		**85.5**	68.6
Amortisation of intangible assets	9	**(1.0)**	(1.2)
Operating profit		**84.5**	67.4
Finance income	5	**2.0**	1.6
Finance expense	5	**(5.9)**	(4.1)
Profit before tax		**80.6**	64.9
Tax	6	**(13.8)**	(12.5)
Profit for the year	3	**66.8**	52.4
Attributable to:			
Owners of the Company		**66.8**	52.4
Earnings per share			
Basic	8	**149.8p**	118.8p
Diluted	8	**142.1p**	112.7p

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

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Profit for the year		**66.8**	52.4
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain arising on retirement benefit asset	18	**(2.8)**	0.1
Deferred tax on retirement benefit asset	6	**0.5**	–
		(2.3)	0.1
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange movement on translation of overseas operations		**0.2**	(0.2)
Gains arising during the year on cash flow hedges		**–**	0.3
Reclassification from cash flow hedges to the income statement		**(0.5)**	(0.7)
Deferred tax relating to items that may be reclassified	6	**–**	0.1
		(0.3)	(0.5)
Other comprehensive expense		**(2.6)**	(0.4)
Total comprehensive income		**64.2**	52.0
Attributable to:			
Owners of the Company		**64.2**	52.0

Consolidated balance sheet

at 31 December 2018

	Notes	**2018 £m**	2017 £m
Assets			
Goodwill and other intangible assets	9	**216.4**	215.8
Property, plant and equipment	10	**62.6**	14.4
Investment property	11	**5.7**	5.9
Investments in joint ventures	12	**81.5**	76.7
Other investments		**1.3**	1.3
Shared equity loan receivables	13	**13.0**	15.6
Retirement benefit asset	18	**–**	2.8
Non-current assets		**380.5**	332.5
Inventories	14	**334.2**	295.0
Contract assets	15	**192.0**	–
Trade and other receivables	16	**233.2**	404.1
Cash and cash equivalents	25	**217.2**	221.2
Current assets		**976.6**	920.3
Total assets		**1,357.1**	1,252.8
Liabilities			
Contract liabilities	15	**(98.3)**	–
Trade and other payables	17	**(797.8)**	(854.1)
Current tax liabilities		**(5.8)**	(8.9)
Lease liabilities	20	**(11.2)**	(0.5)
Borrowings	25	**(10.2)**	(27.8)
Current liabilities		**(923.3)**	(891.3)
Net current assets		**53.3**	29.0
Trade and other payables	17	**(15.6)**	(9.6)
Lease liabilities	20	**(35.7)**	(0.4)
Deferred tax liabilities	6	**(12.0)**	(13.9)
Provisions	19	**(23.9)**	(21.0)
Non-current liabilities		**(87.2)**	(44.9)
Total liabilities		**(1,010.5)**	(936.2)
Net assets		**346.6**	316.6
Equity			
Share capital	22	**2.3**	2.2
Share premium account		**38.3**	33.8
Other reserves		**(0.6)**	(0.3)
Retained earnings		**306.6**	280.9
Equity attributable to owners of the Company		**346.6**	316.6
Total equity		**346.6**	316.6

The consolidated financial statements of Morgan Sindall Group plc (company number: 00521970) were approved by the Board on 21 February 2019 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2018

	Notes	**2018 £m**	2017 £m
Operating activities			
Operating profit		**84.5**	67.4
Adjusted for:			
Amortisation of intangible assets	9	**1.0**	1.2
Share of net profit of equity accounted joint ventures	12	**(5.2)**	(4.1)
Depreciation	10	**18.5**	5.6
Share option expense	23	**6.3**	5.5
Gain on disposal of property, plant and equipment		**(0.2)**	(0.1)
Revaluation of investment properties	11	**0.2**	–
Movement in fair value of shared equity loan receivables	13	**(0.5)**	(0.5)
Disposals of investment properties	11	**–**	0.7
Repayment of shared equity loan receivables	13	**3.1**	3.3
Increase in provisions	19	**2.9**	2.2
Operating cash inflow before movements in working capital		**110.6**	81.2
Increase in inventories		**(49.2)**	(78.7)
Increase in contract assets		**(13.8)**	–
Increase in receivables		**(7.2)**	(71.3)
Increase in contract liabilities		**40.7**	–
Increase in payables		**6.3**	112.2
Movements in working capital		**(23.2)**	(37.8)
Cash inflow from operations		**87.4**	43.4
Income taxes paid		**(13.9)**	(9.6)
Net cash inflow from operating activities		**73.5**	33.8
Investing activities			
Interest received		**2.1**	1.4
Dividend from joint ventures	12	**1.5**	2.6
Proceeds on disposal of property, plant and equipment		**0.4**	0.6
Purchases of property, plant and equipment	10	**(9.2)**	(6.3)
Purchases of intangible fixed assets	9	**(1.6)**	–
Net increase in loans to joint ventures	12	**(3.0)**	(14.2)
Payment for the acquisition of subsidiaries, joint ventures and other businesses		**(2.0)**	(9.6)
Payment for other investments		**(0.2)**	(1.1)
Net cash outflow from investing activities		**(12.0)**	(26.6)
Financing activities			
Interest paid		**(3.6)**	(4.6)
Dividends paid	7	**(21.5)**	(16.8)
Repayments of leases liabilities		**(13.5)**	(0.4)
Proceeds from borrowings	25	**0.3**	8.0
Repayment of borrowings	25	**(17.9)**	–
Proceeds on issue of share capital	22	**4.6**	0.1
Payments by the Trust to acquire shares in the Company		**(16.1)**	(1.1)
Proceeds on exercise of share options		**2.2**	0.3
Net cash outflow from financing activities		**(65.5)**	(14.5)
Net decrease in cash and cash equivalents		**(4.0)**	(7.3)
Cash and cash equivalents at the beginning of the year		**221.2**	228.5
Cash and cash equivalents at the end of the year	25	**217.2**	221.2

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Notes	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2017		2.2	33.7	0.2	241.1	277.2
Profit for the year		–	–	–	52.4	52.4
Other comprehensive income		–	–	(0.5)	0.1	(0.4)
Total comprehensive income		–	–	(0.5)	52.5	52.0
Share option expense	23	–	–	–	5.5	5.5
Tax relating to share option expense	6	–	–	–	(0.6)	(0.6)
Issue of shares at a premium	22	–	0.1	–	–	0.1
Purchase of shares in the Company by the Trust		–	–	–	(1.1)	(1.1)
Exercise of share options		–	–	–	0.3	0.3
Dividends paid	7	–	–	–	(16.8)	(16.8)
1 January 2018		**2.2**	**33.8**	**(0.3)**	**280.9**	**316.6**
Effect of change in accounting policies[1]		–	–	–	(11.7)	(11.7)
As restated at 1 January 2018		**2.2**	**33.8**	**(0.3)**	**269.2**	**304.9**
Profit for the year		–	–	–	66.8	66.8
Other comprehensive income		–	–	(0.3)	(2.3)	(2.6)
Total comprehensive income		–	–	(0.3)	64.5	64.2
Share option expense	23	–	–	–	6.3	6.3
Tax relating to share option expense	6	–	–	–	2.0	2.0
Issue of shares at a premium	22	0.1	4.5	–	–	4.6
Purchase of shares in the Company by the Trust		–	–	–	(16.1)	(16.1)
Exercise of share options		–	–	–	2.2	2.2
Dividends paid	7	–	–	–	(21.5)	(21.5)
31 December 2018		**2.3**	**38.3**	**(0.6)**	**306.6**	**346.6**

1 Refer to the significant accounting policies on pages 89 to 91 for details of the changes.

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2017: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.8m) (2017: (£0.3m)) 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) (2017: (£0.6m)) 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 ('the Trust') to satisfy options under the Company's share incentive schemes. The number of shares held by the Trust at 31 December 2018 was 770,599 (2017: 555,104) with a cost of £7.7m (2017: £4.2m). 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 2018 of £10.54 (2017: £14.28), the market value of the shares was £8.1m (2017: £7.9m).

Significant accounting policies

for the year ended 31 December 2018

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 strategic report on page 1.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared on the going concern basis as set out in the finance review on page 21 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) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

(d) Functional and presentation currency

These consolidated financial statements are presented in pounds sterling which is the Group's presentational currency. All financial information, unless otherwise stated, has been rounded to the nearest £0.1m.

(e) 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. The impacts of the changes are set out below:

IFRS 9 –'Financial Instruments'

Introduces changes to the classification and measurement of financial assets, hedge accounting and the model to be applied when assessing whether financial assets are impaired. IFRS 9 introduces a new impairment model based on expected losses, rather than incurred loss as per IAS 39. This has resulted in an impairment provision of £2.3m being recognised in relation to loans that were part of the Group's long-term interests in a PFI joint venture and trade and other receivables. The net effect on opening reserves at 1 January 2018 was £1.9m net of deferred tax adjustments. The directors reviewed and assessed the Company's existing financial instruments at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 had no impact on the Company financial instruments classification and measurement other than the additional loss allowance recognised. The Company has elected to not restate comparatives in respect of the classification and measurement of financial instruments as allowed in the transition provisions of IFRS 9. There was no material impact on the financial statements for the year ended 31 December 2018.

IFRS 15 – 'Revenue from Contracts with Customers'

Introduces a new model for revenue recognition based on the satisfaction of performance obligations. The details of the significant changes and quantitative impact of the changes are set out below.

a) **Accounting for contract variations, loss and expense claims, and liquidated damages**

IFRS 15 introduces the concept of enforceable rights and requires a greater degree of certainty than IAS 11 for items of variable consideration to be included in the total contract price. The most common items affected are variations in the scope of works, loss and expense claims and the waiver of contractually due liquidated damages. These must be agreed, at least in principle, by the customer before they can be included whereas IAS 11 only required it to be probable that they would be agreed by the customer. Where these items have been agreed in principle but the corresponding change in contract price has not yet been agreed, only the amount that is highly probable not to reverse will be included in the total contract price. This results in revenue being recognised later under IFRS 15.

b) **Consistent method of measuring progress**

IFRS 15 requires that a single method of measuring progress must be used for all similar performance obligations in similar situations. The Group has chosen to use an output method to measure progress for most contracts where revenue is recognised over time. However, an input method will continue to be used for cost reimbursable infrastructure services contracts as the total contract price is a product of the costs incurred.

c) **Recognition of revenue over time for pre-let, forward sold developments**
Under IAS 18 the Group recognised revenue and profit at practical completion for pre-let, forward sold developments as the customer did not have the ability to specify the main structural elements of the building. Under IFRS 15 revenue is recognised as control is passed to the customer. Where the asset being constructed does not have an alternative use to the Group due to practical or contractual restrictions and the Group has an enforceable right to payment for performance completed to date, control is deemed to transfer over time. As a result, revenue will be recognised earlier under IFRS 15.

The Group applied IFRS 15 using the cumulative effect method, i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. In addition, IFRS 15 requires contract assets ('amounts due from construction contract customers' under IAS 11) and contract liabilities ('amounts due to construction contract customers' under IAS 11) to be presented on the statement of financial position. The effect of these changes on retained earnings at the date of transition was £9.8m net of deferred tax adjustments.

The reported results for 2018 are prepared under IFRS 15 whereas the 2017 comparatives were reported under IAS 11, IAS 18 and related interpretations. Accordingly the results are not directly comparable. The most significant impact on the 2018 reported results as a result of the application of IFRS 15 arose from the following:

- Under IFRS 15, revenue relating to uncertain amounts is only recognised when it becomes highly probable that it will be received from the customer. Revenue and associated contract assets decreased by £6.5m as at the transition date in relation to a specific contract, which was subsequently settled in the period. Accordingly the reported revenue in 2018 is £6.5m higher as a result of adopting IFRS 15 than it would have been if reported under IAS 11, IAS 18 and related interpretations that were in effect prior to the change.
- Under IFRS 15, costs which relate to a future activity on the contract are recognised as an asset when it is probable that they will be recovered. Contract assets decreased by £3.6m at transition. No material impact on the profit arises in the period by the application of this policy in line with IFRS 15 as compared to IAS 11, IAS 18 and related interpretations that were in effect prior to the change.

IFRS 16 – 'Leases'

From 1 January 2018, the Group has applied IFRS 16 Leases in advance of its effective date on 1 January 2019. This requires a right-of-use asset and lease liability to be recognised in respect of all leases other than those that are less than one year in duration or of a low value. For short-term leases the Group will opt to recognise a lease expense on a straight-line basis. The effect of this for the Company has been to recognise a right-of-use asset of £42.9m and lease liability of £43.4m at the transition date of 1 January 2018. The Group has taken advantage of the practical expedients to grandfather previous conclusions under IAS 17 on which contracts contain leases, to apply the cumulative catch up approach rather than full retrospective application and to measure the right-of-use asset at an amount equal to the lease liability (adjusted for accruals and prepayments) at transition date. Under IFRS 16 the right of use assets will be tested for impairment in accordance with IAS 36 'Impairment of Assets'. This will replace the previous requirement to recognise a provision for onerous leases. An impairment assessment of the right-of-use assets was performed on transition at 1 January 2018 with no impact identified.

The impact upon the consolidated income statement for the year ended 31 December 2018 is a decrease in administrative expenses of £1.3m and an increase in finance expense of £1.3m. In the consolidated cash flow statement depreciation of the right-of-use-asset is included in operating activities and the repayment of the lease liabilities are included in financing activities whereas under IAS 17 operating lease rental payments were in operating activities. The impact on the consolidated cash flow statement is an increase in cash inflow from operations of £12.2m and an increase in the cash outflow from financing activities of £13.1m. In the prior year the operating lease expense was £13.1m.

The effect of the accounting policy changes on 1 January 2018 can be summarised as follows:

£m	As previously reported	Adjustments IFRS 9	Adjustments IFRS 15	Adjustments IFRS 16	As restated
Property, plant and equipment	14.4	–	–	42.9	57.3
Investments in joint ventures	76.7	(1.9)	–	–	74.8
Inventories	295.0	–	(10.0)	–	285.0
Contract assets	–	–	178.2	–	178.2
Trade and other receivables	404.1	(0.4)	(175.0)	(0.7)	228.0
Change in total assets		(2.3)	(6.8)	42.2	
Contract liabilities	–	–	(57.6)	–	(57.6)
Trade and other payables – current	(854.1)	–	52.6	1.2	(800.3)
Lease liabilities – current	(0.5)	–	–	(10.2)	(10.7)
Lease liabilities – non-current	(0.4)	–	–	(33.2)	(33.6)
Deferred tax liabilities	(13.9)	0.4	2.0	–	(11.5)
Change in total liabilities		0.4	(3.0)	(42.2)	
Change in total equity		**(1.9)**	**(9.8)**	**–**	

(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 the financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation'
- Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures'
- 'Annual Improvements to IFRS Standards 2015–2017 Cycle'
- Amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs';
- Amendments to IAS 19 'Employee Benefits Plan Amendment, Curtailment or Settlement'
- IFRS 10 'Consolidated Financial Statements' and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'
- IFRIC 23 'Uncertainty over Income Tax Treatments'

The Group is currently assessing the impact of the standards but does not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods.

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. Control is achieved when the Company has (i) the power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. 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 and infrastructure contracts

A significant portion of the Group's revenue is derived from construction and infrastructure services contracts. These services are provided to customers across a wide variety of sectors and the size and duration of the contracts can vary significantly from a few weeks to more than 10 years.

The majority of contracts are considered to contain only one performance obligation for the purposes of recognising revenue. While the scope of works may include a number of different components, in the context of construction and infrastructure services activities these are usually highly interrelated and produce a combined output for the customer.

Contracts are typically satisfied over time. For fixed price construction contracts progress is measured through a valuation of the works undertaken by a professional quantity surveyor, including an assessment of any elements for which a price has not yet been agreed such as changes in scope. For cost reimbursable infrastructure services contracts progress is measured based on the costs incurred to date as a proportion of the estimated total cost and an assessment of the final contract price payable.

Variations are not included in the estimated total contract price until the customer has agreed the revised scope of work.

Where the scope has been agreed but the corresponding change in price has not yet been agreed, only the amount that is considered highly probable not to reverse in the future is included in the estimated total contract price. Where delays to the programme of works are anticipated and liquidated damages would be contractually due, the estimated total contract price is reduced accordingly. This is only mitigated by expected extensions of time or commercial resolution being achieved where it is highly probable that this will not lead to a significant reversal in the future.

For cost reimbursable contracts, expected pain share is recognised in the estimated total contract price immediately while anticipated gain share and performance bonuses are only recognised at the point that they are agreed by the customer.

In order to recognise the profit over time it is necessary to estimate the total costs of the contract. These estimates take account of any uncertainties in 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 and the expected cost of any rectification works during the defects liability period.

Once the outcome of the performance obligations of a construction contract can be reasonably measured, margin is recognised in the income statement in line with the corresponding stage of completion. Where a contract is forecast to be loss-making, the full loss is recognised immediately in the income statement.

(b) Service contracts

Service contracts include design, maintenance and management services. Contracts are typically satisfied over time and revenue is measured through an assessment of time incurred and materials utilised as a proportion of the total expected or percentage of completion depending upon the nature of the service.

(c) Sale of land and development properties

The Group derives a significant portion of revenue from the sale of land, and the development and sale of residential and commercial properties.

Contracts are typically satisfied at a point in time. This is usually deemed to be legal completion as this is the point at which the Group has an enforceable right to payment. The only exception to this is pre-let forward sold developments where the customer controls the work in progress as it is created; or where the Group is unable to put the asset being constructed to an alternative use due to legal or practical limitations and has an enforceable right to payment for the work completed to date. Where these conditions are met, the contract is accounted for as a construction contract in accordance with paragraph (a) above.

Revenue from the sale of land, residential and commercial properties is measured at the transaction price agreed in the contract with the customer. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds 12 months. The transaction price is therefore not adjusted for the effects of a significant financing component. The Group no longer utilises shared equity loan schemes for the sale of residential properties.

Proceeds from the sale of properties taken in part exchange is not included in revenue but is treated as a reduction in costs.

In order to recognise the profit, it is necessary to estimate the total costs of a development. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured and the expected cost of any rectification works during the defects liability period which is 12 months for commercial property and 24 months for residential property.

Profit is recognised by allocating the total costs of a scheme to each unit at a consistent margin. For mixed tenure schemes which also incorporate a construction contract, the margin recognised for the open market units is consistent with the construction contract element of the development.

(d) Contract costs

Costs to obtain a contract are expensed unless they are incremental; i.e. they would not have been incurred if the contract had not been obtained, and the contract is expected to be sufficiently profitable for them to be recovered.

Costs to fulfil a contract are expensed unless they relate to an identified contract, generate or enhance resources that will be used to satisfy the obligations under the contract in future years and the contract is expected to be sufficiently profitable for them to be recovered.

Where costs are capitalised, they are amortised over the shorter of the period for which revenue and profit can be forecast with reasonable certainty and the duration of the contract except where the contract becomes loss making. If the contract becomes loss making, all capitalised costs related to that contract are immediately expensed.

(e) 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
Where the Company is a lessee, a right-of-use asset and lease liability are recognised at the outset of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Group's expectations of the likelihood of lease extension or break options being exercised. The lease liability is subsequently adjusted to reflect imputed interest, payments made to the lessor and any lease modifications. The right-of-use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Group and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset. The right-of-use asset is subsequently depreciated in accordance with the Group's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

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 three years.

Property, plant and equipment
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:
- freehold land — not depreciated
- freehold building — 2% per year
- plant and equipment — between 8.3% and 33% per year
- fixtures and fittings — over the period of the lease
- right-of-use assets — over the period of the 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.

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 receivable balance designated as at fair value through profit or loss under IAS 39 on the basis of an accounting mismatch will continue to be accounted for as fair value through profit or loss on the same basis at the date of initial application of IFRS 9. 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.

Cash and cash equivalents
Cash and cash equivalents can include 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.

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 any post-retirement plan other than a defined contribution plan. For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories (i) service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements; (ii) net interest expense or income; and (iii) remeasurements.

The Group presents service costs within cost of sales and administrative expenses in its consolidated income statement. Net interest expense or income is recognised within finance costs.

The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

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

The Group always recognises lifetime expected credit losses for trade receivables, contract assets and loans to joint ventures. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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.

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 2018

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 is performed of the contractual agreements with the customer as well as the substance of the transaction to determine whether performance obligations have been satisfied over time. 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 pages 92 to 93.

Notes to the consolidated financial statements

1 Revenue

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

	2018 £m	2017 £m
Construction contracts	**2,076.8**	1,992.4
Other services	**182.9**	140.9
Construction revenue	**2,259.7**	2,133.3
Regeneration revenue	**711.8**	659.4
Total revenue	**2,971.5**	2,792.7

The Group derives its revenue from contracts with customers for the transfer of goods and services over time in the following divisions. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 'Operating Segments' (see note 2).

	2018 £m	2017 £m
Construction and design	**668.5**	807.3
Infrastructure	**674.2**	587.5
Construction & Infrastructure	**1,342.7**	1,394.8
Traditional fit out	**714.9**	616.5
Design and build	**116.5**	118.4
Fit Out	**831.4**	734.9
Property Services	**99.9**	66.2
Contracting	**296.6**	290.1
Mixed tenure	**222.3**	183.4
Partnership Housing	**518.9**	473.5
Urban Regeneration	**185.3**	175.3
Investments	**8.8**	10.6
Inter-segment revenue	**(15.5)**	(62.6)
Total revenue	**2,971.5**	2,792.7

Finance income of £2.0m (2017: £1.6m) 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 infrastructure services in the highways, rail, aviation, energy, water and nuclear markets, including tunnel design; and construction services in education, healthcare, defence, commercial, industrial, leisure and retail. BakerHicks offers a multidisciplinary design and engineering consultancy.
- **Fit Out**: Overbury specialises in fit out and refurbishment in commercial, central and local government offices, further education and retail banking. Morgan Lovell provides office interior design and build services direct to occupiers.
- **Property Services**: provides response and planned maintenance for social housing and the wider public sector.
- **Partnership Housing:** delivers housing through mixed tenure and contracting activities. Mixed tenure includes building and developing homes for open market sale, affordable rent, private renting or shared ownership in partnership with local authorities and housing associations. Contracting includes the design and build of new homes and planned maintenance and refurbishment for clients who are mainly local authorities, housing associations and the Defence Infrastructure Organisation.
- **Urban Regeneration**: works with landowners and public sector partners to transform the urban landscape through the development of multi-phase sites and mixed-use regeneration, including residential, commercial, retail and leisure.
- **Investments**: provides the Group with construction and regeneration opportunities through various long-term strategic partnerships to develop under-utilised property assets, and generates development profits from such partnerships.

'Group activities' represents costs and income arising from corporate activities which cannot be meaningfully allocated to the operating segments. These include the costs of the Group Board, treasury management, corporate tax coordination, Group finance and internal audit, 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. In addition to monitoring and reviewing the financial performance of the operating segments and the Group on a statutory basis, management also use adjusted performance measures which are disclosed in this annual report. These measures are not an alternative or substitute to statutory IFRS measures. There are three main adjusted performance measures used by management and disclosed in this annual report which are:

'Adjusted'

In all cases the term 'adjusted' excludes the impact of intangible amortisation of £1.0m (2017: £1.2m). The segmental analysis below reconciles the statutory operating profit measure to the 'adjusted' measure and is used in reviewing the segmental performance. The adjusted profit before tax is the statutory measure excluding the impact of intangible amortisation of £1.0m (2017: £1.2m), and is used only in monitoring the Group's performance. Adjusted basic earnings per share (EPS) excludes the post-tax impact of intangible amortisation of £0.9m (2017: £1.0m). Detailed reconciliation of the adjusted EPS measures can be seen in note 8.

'Net cash'

Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing. A reconciliation of this number at the reporting date can be seen in note 25. In addition, management monitor and review average daily net cash as good discipline in managing capital. Average daily net cash is defined as the average of the 365 end-of-day balances of the net cash over the course of a reporting period.

'Operating cash flow'

Management use an adjusted measure for operating cash flow as it encompasses other cash flows that are key to the ongoing operations of the Group. These other cash flows include payments of lease liabilities; investment in property, plant and equipment, and intangible assets; and returns from equity accounted joint ventures. The adjusted measure of operating cash flow of £66.4m for 2018 is derived from the consolidated cash flow statement and note 5 as reconciled as: cash inflow from operating (£87.4m) plus dividend from joint ventures (£1.5m), interest income from joint ventures (£1.4m (see note 5)) and proceeds on disposal of property, plant and equipment (£0.4m), less repayments of lease liabilities (£13.5m), purchase of property, plant and equipment (£9.2m), and purchase of intangible assets (£1.6m). Operating cash flow conversion is operating cash flow divided by adjusted operating profit.

2 Business segments continued

The Group reports its segmental information as presented to management below:

2018	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	**1,329.8**	**830.0**	**99.9**	**517.7**	**185.3**	**8.8**	**–**	**–**	**2,971.5**
Inter-segment revenue	**12.9**	**1.4**	**–**	**1.2**	**–**	**–**	**–**	**(15.5)**	**–**
Total revenue	**1,342.7**	**831.4**	**99.9**	**518.9**	**185.3**	**8.8**	**–**	**(15.5)**	**2,971.5**
Operating profit/(loss) before amortisation of intangible assets	**27.0**	**43.8**	**2.0**	**12.2**	**19.6**	**(2.4)**	**(16.7)**	**–**	**85.5**
Amortisation of intangible assets	**–**	**–**	**(1.0)**	**–**	**–**	**–**	**–**	**–**	**(1.0)**
Operating profit/(loss)	**27.0**	**43.8**	**1.0**	**12.2**	**19.6**	**(2.4)**	**(16.7)**	**–**	**84.5**
Other information:									
Average number of employees	**4,011**	**787**	**634**	**997**	**73**	**67**	**91**		**6,660**

2017	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	1,332.6	734.5	66.2	473.5	175.3	10.6	–	–	2,792.7
Inter-segment revenue	62.2	0.4	–	–	–	–	–	(62.6)	–
Total revenue	1,394.8	734.9	66.2	473.5	175.3	10.6	–	(62.6)	2,792.7
Operating profit/(loss) before amortisation of intangible assets	20.4	39.1	(1.3)	14.1	10.0	0.5	(14.2)	–	68.6
Amortisation of intangible assets	–	–	(0.6)	(0.4)	(0.2)	–	–	–	(1.2)
Operating profit/(loss)	20.4	39.1	(1.9)	13.7	9.8	0.5	(14.2)	–	67.4
Other information:									
Average number of employees	3,844	750	626	942	72	96	79		6,409

During the year ended 31 December 2018 and the year ended 31 December 2017, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK. The Group has no major customers as defined under IFRS 8.

3 Profit for the year

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

	2018 £m	2017 £m
Depreciation charge:		
Plant, equipment, fixtures and fittings	**6.3**	5.6
Right-of-use assets	**12.2**	–
Government grants received	**–**	(2.4)

Auditor's remuneration

	2018 £m	2017 £m
Audit of the Company's annual report	**0.1**	0.1
Audit of the Company's subsidiaries and joint ventures	**0.8**	0.8
Total audit fees	**0.9**	0.9
Total non-audit fees	**–**	–
Total fees	**0.9**	0.9

Non-audit fees totalled £6,000 for the year ended 31 December 2018 (2017: £22,800). The current year non-audit fees relate to agreed-upon procedures in relation to the half year results announcement.

4 Staff costs

	2018 £m	2017 £m
Wages and salaries	**423.0**	397.0
Social security costs	**48.1**	47.1
Other pension costs (note 18)	**13.2**	11.4
	484.3	455.5

5 Finance income and expense

	2018 £m	2017 £m
Interest receivable from joint ventures	**1.4**	1.3
Other interest income	**0.6**	0.3
Finance income	**2.0**	1.6
Interest expense on bank overdrafts and borrowings	**(2.0)**	(0.9)
Interest expense on lease liabilities	**(1.4)**	(0.1)
Loan arrangement and commitment fees	**(2.0)**	(2.6)
Other interest expense	**(0.5)**	(0.5)
Finance expense	**(5.9)**	(4.1)
Net finance expense	**(3.9)**	(2.5)

6 Tax

Tax expense for the year

	2018 £m	2017 £m
Current tax:		
Current year	**12.6**	11.0
Adjustment in respect of prior years	**(1.8)**	(0.2)
	10.8	10.8
Deferred tax:		
Current year	**2.8**	1.9
Adjustment in respect of prior years	**0.2**	(0.2)
	3.0	1.7
Tax expense for the year	**13.8**	12.5

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated taxable profit for the year.

The table below reconciles the tax charge for the year to tax at the UK statutory rate:

	2018 £m	2017 £m
Profit before tax	**80.6**	64.9
Less: post-tax share of profits from joint ventures	**(5.2)**	(4.1)
	75.4	60.8
UK corporation tax rate	**19.00%**	19.25%
Income tax expense at UK corporation tax rate	**14.3**	11.7
Tax effect of:		
Non-taxable income and expenses	**0.4**	0.4
Tax liability upon joint venture profits[1]	**0.7**	0.6
Adjustments in respect of prior years	**(1.6)**	(0.4)
Other	**–**	0.2
Tax expense for the year	**13.8**	12.5

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

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 2017	(14.2)	1.8	(0.5)	1.2	(11.7)
(Charge)/credit to income statement	(0.3)	(1.8)	–	0.4	(1.7)
Credit to other comprehensive income	–	0.1	–	–	0.1
Charge to equity	–	–	–	(0.6)	(0.6)
1 January 2018	**(14.5)**	**0.1**	**(0.5)**	**1.0**	**(13.9)**
Effect of change in accounting policy[1]	–	2.4	–	–	2.4
As restated	**(14.5)**	**2.5**	**(0.5)**	**1.0**	**(11.5)**
Charge income statement	–	(2.3)	–	(0.7)	(3.0)
Credit to other comprehensive income	–	–	0.5	–	0.5
Credit to equity	–	–	–	2.0	2.0
31 December 2018	**(14.5)**	**0.2**	**–**	**2.3**	**(12.0)**

1 Refer to the significant accounting policies on pages 89 to 91 for details of the changes.

6 Tax continued

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

At 31 December 2018, the Group had unused tax losses of £2.9m (2017: £3.2m) available for offset against future profits. A deferred tax asset has been recognised in respect of £0.6m (2017: £0.2m) of these losses. No deferred tax asset has been recognised in respect of the remaining £2.3m (2017: £3.0m) due to the unpredictability of future profit streams against which the losses may be utilised. £0.6m of the losses expire after 2024. The remaining losses may be carried forward indefinitely.

The UK corporation tax rate is set to reduce 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.

7 Dividends

Amounts recognised as distributions to equity holders in the year:

	2018 £m	2017 £m
Final dividend for the year ended 31 December 2017 of 29.0p per share	**12.9**	–
Final dividend for the year ended 31 December 2016 of 22.0p per share	**–**	9.7
Interim dividend for the year ended 31 December 2018 of 19.0p per share	**8.6**	–
Interim dividend for the year ended 31 December 2017 of 16.0p per share	**–**	7.1
	21.5	16.8

The proposed final dividend for the year ended 31 December 2018 of 34.0p 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

	2018 £m	2017 £m
Profit attributable to the owners of the Company	**66.8**	52.4
Adjustments:		
Amortisation of intangible assets net of tax	**0.9**	1.0
Adjusted earnings	**67.7**	53.4

	2018 Number of shares (millions)	2017 Number of shares (millions)
Basic weighted average number of ordinary shares	**44.6**	44.1
Dilutive effect of share options and conditional shares not vested	**2.4**	2.4
Diluted weighted average number of ordinary shares	**47.0**	46.5
Basic earnings per share	**149.8p**	118.8p
Diluted earnings per share	**142.1p**	112.7p
Adjusted earnings per share	**151.8p**	121.1p
Diluted adjusted earnings per share	**144.0p**	114.8p

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 £13.20 (2017: £12.03).

A total of 1,016,473 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 2018 (2017: 38,938).

9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost or valuation			
1 January 2017	213.9	32.4	246.3
Additions	–	–	–
1 January 2018	**213.9**	**32.4**	**246.3**
Additions	–	1.6	1.6
31 December 2018	**213.9**	**34.0**	**247.9**
Accumulated amortisation			
1 January 2017	–	(29.3)	(29.3)
Amortisation	–	(1.2)	(1.2)
1 January 2018	**–**	**(30.5)**	**(30.5)**
Amortisation	–	(1.0)	(1.0)
31 December 2018	**–**	**(31.5)**	**(31.5)**
Net book value at 31 December 2018	**213.9**	**2.5**	**216.4**
Net book value at 31 December 2017	213.9	1.9	215.8

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 (2017: £151.1m), Partnership Housing £46.8m (2017: £46.8m) and Urban Regeneration £16.0m (2017: £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 into perpetuity using an estimated nominal growth rate of 1.9% (2017: 2.3%). This growth rate does not exceed the long-term average for the relevant markets.

Discount rates are pre-tax and reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. The risk-adjusted nominal rates used for the cash-generating units with goodwill balances are 12.3% (2017: 12.0%) for Construction & Infrastructure, 13.3% (2017: 13.0%) for Partnership Housing and 13.8% (2017: 13.5%) for Urban Regeneration.

In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified. In addition, no other reasonably possible scenarios have been identified which could lead to an impairment.

10 Property, plant and equipment

	Freehold property and land £m	Plant, equipment, fixtures and fittings £m	Right-of-use assets Leasehold property £m	Right-of-use assets Plant and equipment £m	Total £m
Cost					
1 January 2017	4.8	46.5	–	–	51.3
Additions	–	6.3	–	–	6.3
Transfers	(2.4)	–	–	–	(2.4)
Disposals	–	(2.1)	–	–	(2.1)
1 January 2018	**2.4**	**50.7**	**–**	**–**	**53.1**
Effect of change in accounting policy[1]	–	–	31.6	11.3	42.9
As restated	**2.4**	**50.7**	**31.6**	**11.3**	**96.0**
Additions	–	9.2	8.8	6.1	24.1
Disposals	–	(7.2)	(0.9)	(0.6)	(8.7)
31 December 2018	**2.4**	**52.7**	**39.5**	**16.8**	**111.4**
Accumulated depreciation					
1 January 2017	–	(34.7)	–	–	(34.7)
Depreciation charge	–	(5.6)	–	–	(5.6)
Disposals	–	1.6	–	–	1.6
1 January 2018	**–**	**(38.7)**	**–**	**–**	**(38.7)**
Depreciation charge	–	(6.3)	(6.9)	(5.3)	(18.5)
Disposals	–	7.0	0.9	0.5	8.4
31 December 2018	**–**	**(38.0)**	**(6.0)**	**(4.8)**	**(48.8)**
Net book value at 31 December 2018	**2.4**	**14.7**	**33.5**	**12.0**	**62.6**
Net book value at 31 December 2017	2.4	12.0	–	–	14.4

1 Refer to the significant accounting policies on pages 89 to 91 for details of the changes.

11 Investment property

	2018 £m	2017 £m
Valuation		
1 January	**5.9**	6.6
Disposals	**–**	(0.7)
Revaluation	**(0.2)**	–
31 December	**5.7**	5.9

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 2018 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 13 'Fair Value Measurement'.

12 Investments in joint ventures

The Group has interests in the following 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 Homes England and Legal & General to develop mixed-use regeneration schemes in assisted areas. Joint control is exercised through the board of the general partner at which each partner is represented by two directors and no decision can be taken without the agreement of a director representing each partner.

HB Community Solutions Living Limited 50% share
HB Community Solutions Living Limited is a joint venture with the founders of HB Villages Limited and is developing supported independent living accommodation for adults with learning and physical disabilities across the UK.

Health Innovation Partners Limited 50% share
Through the Health Innovation Partners joint venture, the Group has the following interests:

- 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.
- A 25% interest in The Oxleas Property Partnership LLP (TOPP), a joint venture with Arcadis BAC Limited and Oxleas NHS Foundation Trust. TOPP is a 10-year partnership that will work to develop the Trust's estate and surplus assets, helping to reduce costs and maximise revenue for the Trust which can be reinvested into healthcare delivery.

Joint control of both joint ventures 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 the Canal and River Trust 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 Ashley Care Developments LLP 50% share
Morgan Ashley Care Developments LLP is a joint venture with Ashley House plc developing a pipeline of extra care and supported living schemes.

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.

12 Investments in joint ventures continued

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.

Investments in equity accounted joint ventures are as follows:

	2018 £m	2017 £m
1 January	**76.7**	56.9
Effect of change in accounting policies[1]	**(1.9)**	–
As restated	**74.8**	56.9
Equity accounted share of net profits	**5.2**	4.1
Loans advanced to joint ventures	**13.0**	21.4
Loans repaid by joint ventures	**(10.0)**	(7.2)
Acquisition of joint venture	**–**	4.1
Dividends received	**(1.5)**	(2.6)
31 December	**81.5**	76.7

1 Refer to the significant accounting policies on pages 89 to 91 for details of the changes.

Summarised financial information related to equity accounted joint ventures is set out below:

	2018 £m	2017 £m
Non-current assets (100%)	**316.6**	280.8
Current assets (100%)	**327.4**	325.2
Current liabilities (100%)	**(159.1)**	(184.7)
Non-current liabilities (100%)	**(388.3)**	(342.7)
Net assets reported by equity accounted joint ventures (100%)	**96.6**	78.6
Revenue (100%)	**248.7**	263.2
Expenses (100%)	**(238.8)**	(254.1)
Net profit (100%)	**9.9**	9.1

Results of equity accounted joint ventures:

	2018 £m	2017 £m
Group share of profit before tax	**5.2**	4.1
Group share of tax	**–**	–
Group share of profit after tax	**5.2**	4.1

13 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.

	2018 £m	2017 £m
1 January	**15.6**	18.4
Net change in fair value recognised in the income statement	**0.5**	0.5
Repayments by borrowers	**(3.1)**	(3.3)
31 December	**13.0**	15.6

The Group's maximum credit exposure is limited to the carrying value of the shared equity loan receivables granted. The Group's credit risk is partially mitigated as the shared equity loan receivables are secured by way of a second charge over the property. The change in the fair value attributable to a change in the credit risk during the year was £0.4m (2017: £0.3m). There were no defaults during the year (2017: no 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:

Assumption	**2018**	2017
Period over which shared equity loan receivables are discounted:		
First Buy and Home Buy schemes	**20 years**	20 years
Other schemes	**9 years**	9 years
Nominal discount rate	**5.3%**	5.3%
Weighted average nominal annual property price increase	**2.5%**	2.4%
Forecast default rate	**7.0%**	4.6%
Number of loans under the shared equity scheme outstanding at the year end	**396**	489

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 2018, 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 £0.2m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2018, 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 £0.2m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2018, if the forecast default rate had been 100bps higher at 8.0% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.2m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

14 Inventories

	2018 £m	2017 £m
Work in progress	**334.2**	295.0

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

15 Contract assets and liabilities

	2018 £m	2017 £m
Contract assets	**192.0**	–
Contract liabilities	**(98.3)**	–

The contract assets primarily relate to the Group's right to consideration for construction work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. On most contracts certificates are issued by the customer on a monthly basis.

The Group has taken advantage of the practical expedient in paragraph 94 of IFRS 15 to immediately expense the incremental costs of obtaining contracts where the amortisation period of the assets would have been one year or less.

The contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised. All contract liabilities held at 31 December 2018 are expected to satisfy performance obligations in the next 12 months.

Significant changes in the contract assets and the contract liabilities during the period are as follows:

	2018		2017	
	Contract assets £m	**Contract liabilities £m**	Contract assets £m	Contract liabilities £m
1 January	**–**	**–**	–	–
Effect of change in accounting policies[1]	**178.2**	**(57.6)**	–	–
As restated	**178.2**	**(57.6)**	–	–
Revenue recognised:				
performance obligations satisfied in the current year	**2,910.1**	**57.6**	–	–
adjustments to performance obligations satisfied in previous years	**3.8**	**–**	–	–
Cash received for performance obligations not yet satisfied	**–**	**(98.3)**	–	–
Amounts transferred to trade receivables	**(2,900.1)**	**–**	–	–
31 December	**192.0**	**(98.3)**	–	–

1 Refer to the significant accounting policies on pages 89 to 91 for details of the changes.

15 Contract assets and liabilities continued

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the balance sheet date:

	2019 £m	2020 £m	2021 + £m	Total £m
Construction & Infrastructure	1,070.7	496.2	354.8	**1,921.7**
Fit Out	438.7	31.3	–	**470.0**
Property Services	108.2	74.2	540.3	**722.7**
Partnership Housing	251.7	59.6	15.8	**327.1**
Urban Regeneration	106.2	12.6	0.2	**119.0**
Investments	1.9	0.8	3.8	**6.5**
	1,977.4	**674.7**	**914.9**	**3,567.0**

16 Trade and other receivables

	2018 £m	2017 £m
Amounts due from construction contract customers	**–**	174.2
Trade receivables (note 25)	**207.6**	208.0
Amounts owed by joint ventures	**3.5**	2.1
Prepayments	**12.5**	10.2
Other receivables	**9.6**	9.6
	233.2	404.1

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 £0.4m (2017: £0.9m).

17 Trade and other payables

	2018 £m	2017 £m
Amounts due to construction contract customers	**–**	58.3
Trade payables	**174.7**	162.0
Amounts owed to joint ventures	**0.4**	0.2
Other tax and social security	**23.3**	37.5
Accrued expenses	**581.7**	573.3
Deferred income	**6.8**	2.7
Other payables	**10.9**	20.1
Current	**797.8**	854.1
Other payables	**15.6**	9.6
Non-current	**15.6**	9.6

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 £1.3m (2017: £1.9m) to reflect the time value of money.

18 Retirement benefit schemes

Defined contribution plan

The Morgan Sindall Retirement Savings 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 £13.2m (2017: £11.4m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2018, contributions of £1.6m (2017: £1.5m) were due in respect of December's contribution not paid over to the Retirement Plan.

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.

On 23 May 2018 the Trustees of the Retirement Plan completed a buy-in transaction with Aviva to insure the benefits of the defined benefit members. The buy-in policy is an asset of the Retirement Plan that provides payments that are an exact match to the pension payments made to the defined benefit members covered by the policy. The insurance policy was initially recognised as an asset at an amount equal to its cost. It was then immediately remeasured to its fair value in accordance with IAS 19, giving rise to an actuarial loss of £2.8m, leaving no accounting surplus/deficit.

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:	2018 %	2017 %
Discount rate	**2.8**	2.5
Expected rate of salary increases	**4.6**	4.4
Rate of inflation	**2.5**	2.4
Rate of future pension increases[1]	**3.0-3.5**	3.0-3.5
Average life expectancy for pensioner retiring now at age 65 years	**87.2**	87.6
Average life expectancy for pensioner retiring in 20 years at age 65 years	**89.1**	89.8

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

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	**14.0**	**(11.2)**	**2.8**	13.8	(11.2)	2.6
Finance income/(expense)	**0.3**	**(0.3)**	**–**	0.4	(0.3)	0.1
Actuarial (loss)/gain	**(3.4)**	**0.6**	**(2.8)**	0.5	(0.4)	0.1
Benefits paid	**(0.9)**	**0.9**	**–**	(0.7)	0.7	–
31 December	**10.0**	**(10.0)**	**–**	14.0	(11.2)	2.8

18 Retirement benefit schemes continued

Sensitivity analysis
As the buy-in policy is valued in line with the corresponding liability value there would be a corresponding change in assets and liabilities for any change in assumptions used to value the liabilities, with no impact on the net position.

The actuarial loss recognised in the statement of comprehensive income during the year was £2.8m (2017: gain of £0.1m).

Almost all of the Retirement Plan's assets, gilts (2017: 55%) and corporate bonds (2017: 44%), were used to fund the buy-in. For IAS 19 purposes, the buy-in asset is valued as equal to the accounting value of the liabilities covered. This results in the total Retirement Plan assets being equal to the IAS 19 liabilities. Consequently the surplus was reduced to nil at 31 December 2018.

No contributions are expected to be paid to the defined benefit section of the Retirement Plan during 2019.

19 Provisions

	Insurance £m	Other £m	Total £m
1 January 2017	17.0	1.8	18.8
Utilised	(1.0)	(0.5)	(1.5)
Additions	4.1	0.2	4.3
Released	(0.6)	–	(0.6)
1 January 2018	**19.5**	**1.5**	**21.0**
Utilised	(1.6)	(0.1)	(1.7)
Additions	3.6	4.1	7.7
Released	(3.1)	–	(3.1)
31 December 2018	**18.4**	**5.5**	**23.9**

Insurance provisions comprise the Group's self-insurance of certain risks and include £8.7m (2017: £7.3m) held in the Group's captive insurance company, Newman Insurance Company Limited.

Other provisions include property dilapidations and obligations to former employees other than retirement or post-retirement obligations.

The majority of the provisions are expected to be utilised within 10 years.

20 Lease liabilities

The Group leases several assets including the buildings, plant and vehicles. The average lease term is five years. There are no variable terms to any of the leases. The maturity profile for the lease liabilities at 31 December 2018 are set out below:

	2018			2017		
	Property £m	**Plant and equipment £m**	**Total £m**	Property £m	Plant and equipment £m	Total £m
Within one year	**6.0**	**5.2**	**11.2**	–	0.5	0.5
Within two to five years	**18.5**	**7.2**	**25.7**	–	0.4	0.4
After more than five years	**10.0**	**–**	**10.0**	–	–	–
31 December	**34.5**	**12.4**	**46.9**	–	0.9	0.9

The Group adopted IFRS 16 on the 1 January 2018 and has applied the cumulative catch up approach rather than full retrospective application, therefore there has been no restatement of comparative information.

20 Lease liabilities continued

	2018			2017		
	Property £m	**Plant and equipment £m**	**Total £m**	Property £m	Plant and equipment £m	Total £m
1 January	**–**	**0.9**	**0.9**	–	1.2	1.2
Effect of change in accounting policies[1]	**32.2**	**11.2**	**43.4**	–	–	–
As restated	**32.2**	**12.1**	**44.3**	–	1.2	1.2
Additions	**8.8**	**6.1**	**14.9**	–	–	–
Terminations	**(0.1)**	**(0.1)**	**(0.2)**	–	–	–
Repayments	**(7.4)**	**(6.1)**	**(13.5)**	–	(0.4)	(0.4)
Interest expense	**1.0**	**0.4**	**1.4**	–	0.1	0.1
31 December	**34.4**	**12.4**	**46.9**	–	0.9	0.9

1 Refer to the significant accounting policies on pages 89 to 91 for details of the changes.

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 2018, contract bonds in issue under uncommitted facilities covered £170.8m (2017: £192.0m) of contract commitments of the Group.

22 Share capital

	2018		2017	
	Number	**£m**	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	**44,723,682**	**2.2**	44,708,236	2.2
Exercise of share options	**737,734**	**0.1**	15,446	–
31 December	**45,461,416**	**2.3**	44,723,682	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.

737,734 shares were issued during 2018 in respect of options exercised under the Group's savings-related share option plan for a total consideration of £4.6m (2017: 15,446 shares were issued for a total consideration of £0.1m).

23 Share-based payments

The Group recognised a share option expense of £6.3m (2017: £5.5m) related to equity-settled share-based payment transactions. The Group has three share option schemes with unvested options or awards at 31 December 2018:

- Share Option Plan ('2014 SOP') for eligible employees across the Group. Options can be exercised if the EPS performance conditions are met over a three-year maturity period. If the options remain unexercised after a period of 10 years from the date of grant the options lapse. If employees are not deemed to be good leavers under the rules of the 2014 SOP, their options will be forfeited if they leave the Group before the end of the option maturity period.
- Savings-Related Share Option Plan ('SAYE') for all employees that have been employed by the Group for at least three months at the time of grant. There are no performance criteria for the SAYE and options are issued to participants in accordance with HMRC rules.
- Long-Term Incentive Plan ('2014 LTIP'). Details of the performance conditions and other information in respect of the 2014 LTIP are set out in the remuneration report on pages 62 to 63.

The Group also has options which are outstanding at 31 December 2018 under the Executive Remuneration Plan 2005 ('ERP 2005') and Employee Share Option Plan 2007 ('ESOP 2007') that have vested but the employees have not elected to exercise their options. The outstanding options under the ERP 2005 must be exercised by 16 March 2020 and the options under the ESOP 2007 must be exercised by 27 November 2024.

23 Share-based payments continued

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

	Share awards under 2014 LTIP		
	Awards with TSR condition	Awards with EPS condition	Share options under 2014 SOP
Number of awards or options granted	131,576	263,151	1,070,036
Weighted average fair value at date of grant (per share)	£5.82	£12.40	£2.53
Weighted average share price at date of grant	£12.40	£12.40	£12.40
Weighted average exercise price	n/a	n/a	£12.29
Valuation model	Monte-Carlo	Black-Scholes	Black-Scholes
Expected term (from date of grant)	3.0 years	3.0 years	6.5 years
Expected volatility[1]	29.0%	n/a	29.0%
Expected dividend yield[2]	n/a	n/a	3.1%
Risk free rate	0.8%	n/a	1.3%

1 Volatility has been calculated over the period of time commensurate with the expected award term immediately prior to the date of grant.

2 Under the 2014 LTIP, award holders may receive the value of any dividends paid during the vesting period in respect of their vested shares at the end of the vesting period. Consequently, the fair value is not discounted for value lost in respect of dividends.

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

	2018		2017	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	**4,948,204**	**7.83**	3,201,082	7.07
Granted during the year	**1,070,036**	**12.34**	2,252,285	8.96
Lapsed during the year	**(346,137)**	**8.96**	(308,550)	8.53
Exercised during the year	**(1,301,181)**	**6.69**	(196,613)	7.34
Outstanding at 31 December	**4,370,922**	**9.18**	4,948,204	7.83
Exercisable at 31 December	**529,572**	**6.61**	260,364	6.47
Weighted average remaining contractual life	**6.4 years**		8.0 years	

The weighted average share price at the date of exercise for share options exercised during the year was £14.18 (2017: £12.51).

The options outstanding at 31 December 2018 had exercise prices ranging from £5.35 to £13.49.

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. 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, amounting to £48.2m (2017: £86.6m).

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'.

	2018 £m	2017 £m
Short-term employee benefits	**8.7**	8.0
Post-employment benefits	**0.1**	0.1
Termination benefits	**0.2**	0.2
Share option expense	**3.2**	2.8
	12.2	11.1

Details of directors' remuneration are set out in the remuneration report on pages 64 to 68.

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 21 February 2019.

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 21 February 2019.

25 Financial instruments

Net cash

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

	2018 £m	2017 £m
Cash and cash equivalents	**217.2**	221.2
Non-recourse project financing due in less than one year	**(8.6)**	(26.5)
Borrowings due within one year	**(1.6)**	(1.3)
Net cash	**207.0**	193.4

Included within cash and cash equivalents is £45.0m (2017: £45.4m) which is the Group's share of cash held within jointly controlled operations.

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £30m mature in March 2022 and £150m in May 2022. Additional project finance borrowings of £8.6m (2017: £26.5m) 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 2018 was £98.8m (2017: £118.0m). Average daily net cash is defined as the average of the 365 end-of-day balances of the net cash (as defined above) over the course of a reporting period. Management use this as a key metric in monitoring the performance of the business.

25 Financial instruments continued

Financial risks and management

The Group has exposure to a variety of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, which are subject to periodic review by the Group's internal audit team and twice-yearly review by management. The policies include written principles for the Group's risk management as well as specific policies, guidelines and authorisation procedures in respect of specific risk mitigation techniques, such as the use of derivative financial instruments. The Group does not enter into derivative financial instruments for speculative purposes.

The following represent the key financial risks resulting from the Group's use of financial instruments:
- credit risk
- liquidity risk
- market risk

(a) Credit risk
Credit risk is the risk of financial loss to the Group if a client or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily in respect of the Group's trade receivables and contract assets.

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 contract assets or trade receivable balances at the reporting date with receivables spread across a wide range of clients. Due to the nature of the Group's operations, it is normal practice for clients to hold retentions in respect of contracts completed. Retentions held by clients at 31 December 2018 were £79.0m (2017: £74.5m). 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 contract assets or trade receivables.

The Group manages the collection of retentions through its post completion project monitoring procedures and ongoing contract with clients to ensure that potential issues that could lead to the non-payment of retentions are identified and addressed promptly. The directors always estimate the loss allowance on contract assets and trade receivables at the end of the reporting period at an amount equal to lifetime expected credit losses.

None of the contract assets at the end of the reporting period are past due, and taking into account the historical default experience and the future prospects in the industry the directors consider that no contract assets are impaired.

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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

	2018		2017	
	Gross trade receivables £m	**Provision for impairment losses £m**	Gross trade receivables £m	Provision for impairment losses £m
Not past due	**160.9**	**–**	159.4	–
Past due 1 to 30 days	**21.1**	**–**	16.6	–
Past due 31 to 120 days	**7.6**	**–**	10.5	–
Past due 121 to 365 days	**9.4**	**–**	9.6	0.5
Past due greater than one year	**9.0**	**0.4**	12.8	0.4
	208.0	**0.4**	208.9	0.9

25 Financial instruments continued

Financial risks and management continued

The following table shows the movement in lifetime expected credit losses that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9:

	2018 £m
Balance at 1 January (under IAS 39)	**0.9**
As restated[1]	**1.2**
Balance at 1 January – restated	**2.1**
Net increase in loss allowance arising from new amounts recognised in current year, net of those derecognised upon billing	**(1.3)**
31 December	**0.8**

1 Refer to the significant accounting policies on pages 89 to 91 for details of the changes.

There has not been any significant change in the gross amounts of trade and other receivables that has affected the estimation of the loss allowance.

The average credit period on revenue is 26 days (2017: 27 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 £46.7m (2017: £48.6m) 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 113 days (2017: 139 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.

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.

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

The Group does not have any material derivative or non-derivative financial liabilities with the exception of trade and other payables, borrowings and lease liabilities. Trade and other payables are generally non-interest bearing and, therefore, have no weighted average effective interest rates. 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 has a nominal value of £13.4m (2017: £13.6m) and fixed interest payments at an average rate of 5.1% (2017: 5.1%) for periods up until 2033.

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 one year 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 £nil (2017: £1.6m) and the fair value of the contracts with the other joint arrangement partners is a liability of £nil (2017: £1.1m). 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 13 'Fair Value Measurement'.

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 20 to 21.

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 £180m of committed bank facilities expiring in 2022. In order to manage its capital structure the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

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 subsequent events that affected the financial statements of the Group.

Company balance sheet

at 31 December 2018

	Notes	2018 £m	2017 £m
Assets			
Property, plant and equipment		**5.0**	1.3
Investments	1	**446.3**	426.3
Retirement benefit asset		**–**	2.8
Non-current assets		**451.3**	430.4
Trade receivables		**0.4**	0.3
Amounts owed by subsidiary undertakings:			
due within one year		**74.7**	67.2
due after one year		**2.9**	2.9
Current tax asset		**2.6**	–
Deferred tax asset		**2.2**	0.6
Prepayments		**4.4**	3.9
Other receivables		**3.7**	4.8
Cash and cash equivalents		**55.1**	70.2
Current assets		**146.0**	149.9
Total assets		**597.3**	580.3
Liabilities			
Bank overdrafts		**(20.8)**	(17.7)
Lease liabilities		**(0.7)**	(0.3)
Trade payables		**(2.0)**	(1.5)
Amounts owed to subsidiary undertakings		**(428.7)**	(408.3)
Current tax liabilities		**–**	(0.9)
Other tax and social security		**(0.9)**	(0.9)
Accrued expenses		**(10.0)**	(10.1)
Other payables		**(0.6)**	(2.3)
Current liabilities		**(463.7)**	(442.0)
Net current liabilities		**(317.7)**	(292.1)
Total assets less current liabilities		**133.6**	138.3
Lease liabilities		**(2.4)**	(0.1)
Provisions	2	**(13.7)**	(12.6)
Non-current liabilities		**(16.1)**	(12.7)
Net assets		**117.5**	125.6
Equity			
Share capital		**2.3**	2.2
Share premium account		**38.3**	33.8
Capital redemption reserve		**0.6**	0.6
Special reserve		**13.7**	13.7
Retained earnings		**62.6**	75.3
Total equity		**117.5**	125.6

The Company reported a profit for the financial year ended 31 December 2018 of £17.0m (2017: £30.6m).

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 21 February 2019 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Company statement of changes in equity

for the year ended 31 December 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
1 January 2017	2.2	33.7	0.6	13.7	57.3	107.5
Profit for the year	–	–	–	–	30.6	30.6
Other comprehensive income:						
Actuarial gain arising on retirement benefit asset	–	–	–	–	0.1	0.1
Total comprehensive income	–	–	–	–	30.7	30.7
Share option expense	–	–	–	–	5.5	5.5
Issue of shares at a premium	–	0.1	–	–	–	0.1
Tax relating to share option expense	–	–	–	–	(0.6)	(0.6)
Purchase of shares in the Company by the Trust	–	–	–	–	(1.1)	(1.1)
Exercise of share options	–	–	–	–	0.3	0.3
Dividends paid	–	–	–	–	(16.8)	(16.8)
1 January 2018	**2.2**	**33.8**	**0.6**	**13.7**	**75.3**	**125.6**
Change in accounting policy	–	–	–	–	(0.3)	(0.3)
As restated	**2.2**	**33.8**	**0.6**	**13.7**	**75.0**	**125.3**
Profit for the year	–	–	–	–	17.0	17.0
Other comprehensive income:						
Actuarial loss arising on retirement benefit asset	–	–	–	–	(2.8)	(2.8)
Tax arising on actuarial gain	–	–	–	–	0.5	0.5
Total comprehensive income	–	–	–	–	14.7	14.7
Share option expense	–	–	–	–	6.3	6.3
Tax relating to share options	–	–	–	–	2.0	2.0
Issue of shares at a premium	0.1	4.5	–	–	–	4.6
Purchase of shares in the Company by the Trust	–	–	–	–	(16.1)	(16.1)
Exercise of share options	–	–	–	–	2.2	2.2
Dividends paid	–	–	–	–	(21.5)	(21.5)
31 December 2018	**2.3**	**38.3**	**0.6**	**13.7**	**62.6**	**117.5**

Significant accounting policies

for the year ended 31 December 2018

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. There are no critical judgements the directors have made within the Company financial statement.

These financial statements have been prepared on the going concern basis as set out in the finance review on page 21, 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.

Notes to the Company financial statements

for the year ended 31 December 2018

1 Investments

	Subsidiary undertakings £m
Cost	
1 January 2018	**429.8**
Additions	20.0
31 December 2018	**449.8**
Provisions	
1 January 2018 and 31 December 2018	**(3.5)**
Net book value at 31 December 2018	**446.3**
Net book value at 31 December 2017	426.3

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

Construction & Infrastructure

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Construction & Infrastructure Ltd	Indirect	100
Bluestone Limited	Indirect	100
Magnor Plant Hire Limited	Direct	100
Morgan Est Rail Limited	Indirect	100
Morgan Sindall All Together Cumbria CIC [7]	Indirect	100
Morgan Sindall Engineering Solutions Limited	Indirect	100
Morgan Sindall Holdings Limited	Direct	100
Morgan Utilities Limited	Indirect	100
MS (MEST) Limited	Indirect	100
Baker Hicks Limited	Direct	100
Morgan Sindall Professional Services (France) Ltd	Indirect	100
Morgan Sindall Professional Services (Switzerland) Ltd	Indirect	100
Morgan Sindall Professional Services AG * [g]	Indirect	100
Morgan Sindall Professional Services GmbH * [h]	Indirect	100

Fit Out

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Overbury plc	Direct	100
Morgan Lovell plc	Direct	100

Property Services

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Property Services Limited	Direct	100
Lovell Powerminster Limited	Indirect	100
Manchester Energy Company Limited	Indirect	100

Partnership Housing

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Lovell Partnerships Limited	Direct	100
Abbey Walk Management Company Limited (a) (3)	Indirect	100
Bryn Celyn Residents Management Company Limited (a) (3)	Indirect	100
Caldon Quay Residents Management Company Limited (a) (3)	Indirect	100
Chetton Green Management Company Limited (a) (3)	Indirect	100
Coventry Gardens Residents Management Company Limited (a) (3)	Indirect	100
Crosse Courts (Basildon) Management Company Limited (a) (3)	Indirect	100
Eades Place Residents Management Company Limited (a) (3)	Indirect	100
Eden Valley Management Company Limited (a) (3)	Indirect	100
Electric Quarter Residents Management Company Limited (a) (3)	Indirect	100
Exford Drive Management Company Limited (a) (3)	Indirect	100
Fairfields Management Company Limited (a) (3)	Indirect	100
Firs Park Residents Management Company Limited (a) (3)	Indirect	100
Fountain Court Residents Management Company Limited (a) (3)	Indirect	100
Gallus Fields Residents Management Company Limited (a) (3)	Indirect	100
Heath Farm Residents Management Company Limited (a) (3)	Indirect	100
Keepers Gate (WSM) Residents Management Company Limited (a) (3)	Indirect	100
Kensington Gardens Management Limited (a) (3)	Indirect	100
Laxton Close Management Company Limited (a) (3)	Indirect	100
Lincoln Gardens Residents Management Company Limited (a) (3)	Indirect	100
Lovell Bow Limited	Indirect	100
Lovell Director Limited (a)	Indirect	100
Lovell Guf Limited (a)	Indirect	100
Lovell Plus Limited	Indirect	97
Lovell Property Rental Limited	Indirect	100
Lymington Mews Management Company Limited (a) (3)	Indirect	100
Meggeson Management Company Limited (a) (3)	Indirect	100
Minshull Way Residents Management Company Limited (a) (3)	Indirect	100
Mount View (Melton Mowbray) Residents Company Limited (a) (3)	Indirect	100
Oakfield Grange (Llantarnum) Residents Management Company Limited (a) (3)	Indirect	100
Oaktree Grange Residents Management Company Limited (a) (3)	Indirect	100
Oriel View Residents Management Company Limited (a) (3)	Indirect	100
Pich Management Company Limited (a) (3)	Indirect	100
Priory Park (Dudley) Management Limited (a) (3)	Indirect	100
Queensbury Park Management Company Limited (a) (3)	Indirect	100
Repton Grange Residents Management Company Limited (a) (3)	Indirect	100
RMC The Meadows, Clifton-upon-Teme Limited (a) (3)	Indirect	100
Ruby Brook Estate Management Company Limited (a) (3)	Indirect	100
Ruby Brook Management Company Limited (a) (3)	Indirect	100
Sevenoaks Management Company (No.1) Limited (a) (3)	Indirect	100
Sevenoaks Management Company (No.2) Limited (a) (3)	Indirect	100
Station Fields Residents Management Company Limited (a) (3)	Indirect	100
Summerfields (Farnworth) Management Company Limited (a) (3)	Indirect	100
Tennyson Fields Management Company Limited (a) (3)	Indirect	100
The Compendium Group Limited	Indirect	50

Partnership Housing continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
The Coppice (Chapel En Le Frith) Residents Management Company Limited [(a)(3)]	Indirect	100
The Edge (Warstock) Management Company Limited [(a)(3)]	Indirect	100
The East Avenue Residents Management Company Limited [(a)(3)]	Indirect	100
The Forge No. 1 Management Company Limited [(a)(3)]	Indirect	100
The Forge No. 2 Management Company Limited [(a)(3)]	Indirect	100
The Laureates Residents Management Company Limited [(a)(3)]	Indirect	100
The Mill (Site 1) Residents Management Company Limited [(a)(3)]	Indirect	100
The Mill (Site 2) Residents Management Company Limited [(a)(3)]	Indirect	100
The Spires Residents Management Company Limited [(a)(3)]	Indirect	100
The Way Beswick (Zone 1) Management Limited [(a)(3)]	Indirect	100
The Way Beswick (Zone 2) Management Limited [(a)(3)]	Indirect	100
The Way Beswick (Zone 3) Management Limited [(a)(3)]	Indirect	100
The Way Beswick (Zone 4) Management Limited [(a)(3)]	Indirect	100
The Way Beswick (Zone 5) Management Limited [(a)(3)]	Indirect	100
The Way Beswick (Zone 6) Management Limited [(a)(3)]	Indirect	100
The Way Beswick (Zone 7) Management Limited [(a)(3)]	Indirect	100
Top Valley Management Company Limited [(a)(3)]	Indirect	100
Trinity Walk Residents Management Company Limited [(a)(3)]	Indirect	100
Wensum Grange Management Company Limited [(a)(3)]	Indirect	100
Westcroft 12 Management Company Limited [(a)(3)]	Indirect	100
Yallops Yard Management Company Limited [(a)]	Indirect	50
YMYL YR Afon Residents Management Company Limited [(a)(3)]	Indirect	100

Urban Regeneration

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Muse Developments Limited	Direct	100
Alexandria Business Park Management Company Limited [(6)]	Indirect	100
Ashton Moss Developments Limited	Indirect	50
Bromley Park (Holdings) Limited	Indirect	50
Brook House (Brixton) Management Company Limited [(3)]	Indirect	100
Chatham Place (Building 1) Limited	Indirect	100
Chatham Place Building 1 (Commercial) Limited	Indirect	100
Chatham Place (Phase 1) Estate Manco Limited [(i)]	Indirect	100
Chatham Square Limited	Indirect	100
Cheadle Royal Management Company Limited [(i)(4)]	Indirect	28
ECF (General Partner) Limited [(j)]	Indirect	33
English Cities Fund [(j)(5)]	Indirect	13
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

Urban Regeneration continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Hulme High Street Limited [k]	Indirect	80
Hulme Management Company Limited [k] [3]	Indirect	33
ICIAN Developments Limited	Indirect	100
Intercity Developments Limited	Indirect	50
Ivor House (Brixton) Management Company Limited [3]	Indirect	100
Lewisham Gateway Developments (Holdings) Limited	Indirect	100
Lewisham Gateway Developments Limited	Indirect	100
Lewisham Gateway (Plot A&B) Management Company Limited [3]	Indirect	62
Lewisham Gateway Estate Management Company Limited [3]	Indirect	81
Lingley Mere Business Park Development Company Limited [l]	Indirect	50
Logic Leeds Management Company Limited [3]	Indirect	50
Muse (Brixton) Limited	Indirect	100
Muse (ECF) Partner Limited	Indirect	100
Muse (Warp 4) Partner Limited	Indirect	100
Muse Aberdeen Limited	Indirect	100
Muse Chester Limited	Indirect	100
Muse Developments (Northwich) Limited	Indirect	100
Muse Properties Limited	Indirect	100
North Shore Development Partnership Limited	Indirect	100
Northshore Management Company Limited [3]	Indirect	50
Rail Link Europe Limited	Indirect	100
Sovereign Leeds Limited	Indirect	100
St Andrews Brae Developments Limited	Indirect	50
Stockport Exchange Phase 3 Limited [i]	Indirect	100
Wapping Wharf (Alpha) LLP [1]	Indirect	50
Wapping Wharf (Beta) LLP [1]	Indirect	40
Warp 4 General Partner Limited	Indirect	100
Warp 4 General Partner Nominees Limited	Indirect	100
Warp 4 Limited Partnership [5]	Indirect	100
Waterside Places (General Partner) Limited [m]	Indirect	50
Waterside Places Limited Partnership [m] [5]	Indirect	50

Investments

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Investments Limited	Direct	100
Chalkdene Developments LLP [1]	Indirect	50
Claymore Roads (Holdings) Limited [c]	Indirect	50
Community Solutions for Education Limited	Indirect	100
Community Solutions for Emergency Services Limited	Indirect	100
Community Solutions for Leisure Limited	Indirect	100
Community Solutions Limited	Indirect	100
Community Solutions Living Limited	Indirect	100
Community Solutions Management Services Limited	Indirect	100
Community Solutions Management Services (Hub) Limited	Indirect	100
Community Solutions Partnership Services Limited	Indirect	100
Community Solutions for Regeneration (Bournemouth) Limited	Indirect	100
Community Solutions for Regeneration Limited	Indirect	100
Community Solutions for Regeneration (Hertfordshire) Limited	Indirect	100
Community Solutions for Regeneration (Slough) Limited	Indirect	100
Hampshire LIFT Management Services Limited [d]	Indirect	50
Hamsard 3134 Limited	Indirect	100
Hamsard 3135 Limited	Indirect	100
HB Community Solutions Holdco Limited	Indirect	79
HB Community Solutions Living Limited [2]	Indirect	50
Health Innovation Partners Limited	Indirect	50
hub West Scotland Limited [f]	Indirect	54
Morgan Ashley Care Developments LLP [o][1]	Indirect	50
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50
PSBP NW Holdco Limited [p]	Indirect	45
Slough Urban Renewal LLP [1]	Indirect	50
The Bournemouth Development Company LLP [1]	Indirect	50
Towcester Regeneration Limited	Indirect	100
WellSpring Finance Company Limited	Indirect	50
WellSpring Partnership Limited [e]	Indirect	90
Weymouth Community Sports LLP [1]	Indirect	100

Morgan Sindall Group

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Backbone Furniture Limited	Direct	100
Barnes & Elliott Limited	Direct	100
Bluebell Printing Limited	Direct	100
Elec-Track Installations Limited	Direct	100
Hinkins & Frewin Limited	Direct	100
Lovell Partnerships (Northern) Limited	Direct	100
Lovell Partnerships (Southern) Limited	Direct	100
Morgan Est (Scotland) Limited (e)	Direct	100
Morgan Beton And Monierbau Limited (b)	Indirect	50
Morgan Lovell London Limited	Direct	100
Morgan Sindall Trustee Company Limited	Direct	100
Morgan Utilities Group Limited	Direct	100
Newman Insurance Company Limited * (n)	Direct	100
Roberts Construction Limited	Direct	100
Sindall Eastern Limited	Indirect	100
Sindall Limited	Direct	100
SMHA Limited	Direct	100
Snape Design & Build Limited	Indirect	100
Snape Roberts Limited	Indirect	100
Stansell Limited	Direct	100
T J Braybon & Son Limited	Direct	100
The Snape Group Limited	Direct	100
Underground Professional Services Limited	Direct	100
Vivid Interiors Limited	Direct	100
Wheatley Construction Limited	Direct	100

* 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.

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) 1 Rutland Court, Edinburgh EH3 8EY
(c) Cannon Place, 78 Cannon Street, London EC4N 6AF
(d) 9th Floor, Colbalt Square, 83-85 Hagley Road, Birmingham B16 8QG
(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) Unit 1, Barnes Wallis Court Wellington Road, Cressex Business Park, High Wycombe HP12 3PS
(p) 5th Floor Aldersgate Street, London EC1A 4JQ

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
(6) Holding of special shares
(7) Community Interest Company

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).

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

	Insurance £m	Other £m	Total £m
1 January 2017	11.4	0.4	11.8
Utilised	(0.7)	–	(0.7)
Additions	1.5	–	1.5
1 January 2018	**12.2**	**0.4**	**12.6**
Utilised	(1.0)	–	(1.0)
Additions	1.5	3.7	5.2
Released	(3.1)	–	(3.1)
31 December 2018	**9.6**	**4.1**	**13.7**

Insurance provisions comprise the Group's self-insurance of certain risks. Other provisions comprise obligations to former employees other than retirement or post-retirement benefits. The majority of the provisions are expected to be utilised within 10 years.

Shareholder information

Analysis of shareholdings at 31 December 2018

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 1,000	972	58.66	469,672	1.03
1,001 to 5,000	398	24.02	885,735	1.95
5,001 to 100,000	222	13.40	5,822,104	12.81
100,001 to 1,000,000	55	3.32	15,313,359	33.68
Over 1,000,000	10	0.60	22,970,546	50.53

Useful contacts

Morgan Sindall Group plc
Registered office

Kent House, 14–17 Market Place, London W1W 8AJ
Registered in England and Wales
Company number: 00521970

General queries

Email:	cosec@morgansindall.com
Telephone:	020 7307 9200

Registrar

All administrative enquiries relating to shareholdings, such as lost certificates, changes of address, change of ownership or dividend payments and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrar and clearly state the shareholder's registered address and, if available, the full shareholder reference number:

By post:	Computershare Investor Services PLC The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
By telephone:	+44 (0) 370 707 1695 Lines are open from 8.30am to 5.30pm (UK time), Monday to Friday
By email:	webcorres@computershare.co.uk
Online:	investorcentre.co.uk

Shareholders who receive duplicate communications from the Company may have more than one account in their name on the 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.

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 in the 'Downloadable Forms' section.

Financial calendar and key dates 2019

Ex-dividend date – final dividend	25 April 2019
Record date to be eligible for final dividend	26 April 2019
Annual general meeting and trading update	8 May 2019
Payment date for final dividend	20 May 2019
Half year results announcement	August 2019
Interim dividend payable	October 2019
Trading update	November 2019

Group website and electronic communications

A wide range of Company information is available on our website including:

- financial information – annual reports and half year results, financial news and events;
- share price information;
- shareholder services information; and
- press releases – both current and historical.

Shareholder documents are made available via our website, unless a shareholder has requested hard copies from the Registrar.

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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