



**MORGAN
SINDALL**
GROUP

Leading the way in Construction and Regeneration

ANNUAL REPORT 2019

Notice to readers

Our 2019 annual report refers to a final dividend. Subsequent to the approval of the annual report, as announced on 25 March 2020, the Board determined that it was no longer prudent to propose the 2019 final dividend at the Group's AGM, scheduled to be held on 7 May 2020.

This page does not form part of the statutory annual report and financial statements, which are set out on pages 1 to 144.

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2019 in numbers

REVENUE

£3,071m

2018: £2,972m
+3%

PROFIT BEFORE TAX (ADJUSTED*)

£90.4m

2018: £81.6m
+11%

LOST TIME INCIDENTS¹

131

2018: 156
-16%

OPERATING PROFIT (ADJUSTED*)

£93.1m

2018: £85.5m
+9%

PROFIT BEFORE TAX

£88.6m

2018: £80.6m
+10%

CARBON INTENSITY²

8.9

2018: 9.9
-10%

OPERATING PROFIT

£91.3m

2018: £84.5m
+8%

BASIC EARNINGS PER SHARE (ADJUSTED*)

161.2p

2018: 151.8p
+6%

APPRENTICES AND NEW GRADUATES

281

2018: 265
+6%

YEAR END NET CASH

£193m

2018: £207m
-7%

BASIC EARNINGS PER SHARE

157.9p

2018: 149.8p
+5%

SECURED WORKLOAD

£7,593m

2018: £6,674m
+14%

TOTAL DIVIDEND[†]

59.0p

2018: 53.0p
+11%

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

1 Incidents resulting in absence from work for a minimum of one working day, excluding the day the incident occurred.

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

† Please refer to the notice to readers at the front of this report.

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. Baker Hicks 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 responsive repairs 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 covers our financial and non-financial performance in 2019 and includes information that is material to our business. Our 2019 responsible business report contains further detail on our responsible business strategy and performance in the year, including our progress against measurable targets and narrative on initiatives undertaken by our divisions throughout the year.

Both the 2019 annual report and responsible business report can be downloaded from our website at [morgansindall.com](https://www.morgansindall.com).

Chief Executive's statement

I am pleased to report that the Group achieved strong results in the year, reflecting the quality of the business we have won and our operational delivery together with the hard work and commitment of our people. The strength of our balance sheet and cash generation have remained high priorities for us, and a positive operating cash flow and average daily net cash* of £108.9m have enabled us to continue selecting the right construction contracts and investing in long-term regeneration schemes that secure future earnings. This provides financial security to all our stakeholders.

Our purpose is inspiring talent to deliver excellence in the built environment and our strategy is to grow organically and sustainably by staying focused on our core strengths of construction and regeneration. The UK government is committed to increasing capital spending in areas of infrastructure and social facilities such as housing, schools and healthcare. These are key markets for the Group and our specialist divisions are well positioned to play a role in meeting these needs.

We have continued to win work and grow our share in many of our markets. Significant project wins in the year included Sellafeld's decommissioning programme valued at £1.6bn over 20 years; a new 30-year joint venture with Brentwood Borough Council, with a potential contract value of up to £1bn; and a c£660m mixed-use development of Slough's North West Quadrant in partnership with Slough Borough Council. We also purchased our joint venture partner's interest in the Morgan Ashley extra care development scheme, which will increase contributions to the Group in 2020.

Our financial performance

Group revenue for the year was up 3% at £3,071m (2018: £2,972m), with adjusted* operating profit up 9% to £93.1m (2018: £85.5m). This resulted in an adjusted operating margin of 3.0%, an increase of 10bps on the prior year (2018: 2.9%).

Construction & Infrastructure's ongoing focus on contract selectivity has driven further margin improvement, with operating margin up 20bps to 2.2% and operating profit up 20% to £32.3m. Fit Out performed well, with revenue up 1% to £839m, operating profit of £36.9m (2018: £43.8m) and a robust 4.4% operating margin (2018: 5.3%). Property Services saw gains in volume and efficiency, with revenue up 15% to £115m, increased adjusted* operating margin of 3.7% (2018: 2.0%) and adjusted* operating profit up by 115% to £4.3m.

There was significant improvement in Partnership Housing, with operating profit up 50% to £18.3m, reflecting ongoing operational improvement in the division and positioning it well for future growth. Urban Regeneration delivered another strong contribution, with operating profit of £19.4m (2018: £19.6m) and return on capital employed of 19%. Investments made positive progress in its various joint ventures, generating future streams of construction opportunities for other parts of the Group, and as expected made an adjusted* operating loss in the year of £2.4m (2018: £2.4m).

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

Dividend[†]

We have increased the total dividend for the year by 11% to 59.0p per share (2018: 53.0p), which includes a proposed increase in the final dividend of 12% to 38.0p per share (2018: 34.0p). The increase reflects the improved result in the year, our strong balance sheet and the Board's confidence in the Group's future prospects. The total dividend per share is 2.7 times covered by adjusted earnings per share.

Our culture

We have a set of core values which we have embedded across the Group and drive continuously:

- 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

In other words, we recruit talented people, and develop and empower them to achieve the highest standards for our clients. These values shape our culture and support our purpose. Find out more on page 45.

Our responsibility as a business

We are committed to delivering economic, social and environmental value to our shareholders and other stakeholders. Our approach is embodied in our responsible business strategy which is built around our five Total Commitments:

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

These Commitments support the UN Sustainable Development Goals and are aligned to our purpose, the needs of our stakeholders and our obligations to society. So that we can monitor our progress, we have set key performance indicators with clear targets for each Commitment which are supported by our divisions. Details of our performance in the year can be found in our 2019 responsible business report on our website.

Our people

The diversity of the Group's offering means we can offer a wide variety of career opportunities. Our aim is to enable each and every person we employ to fulfil their potential.

Training and development

During the year we provided an average of 4.1 training days per employee and we are working to increase this figure and improve our processes to ensure all training days are reported. We sponsored 581 people completing National Vocational Qualifications (NVQs) and professional qualifications. Our divisions work with industry bodies and initiatives to attract people into the industry. These include Women into Construction and the 5% Club, a national campaign to generate opportunities for graduates and apprentices. The table below shows the percentage of Group employees making up the 5% Club.

† Please refer to the notice to readers at the front of this report.

	2019	2018
Apprentices	216	186
New graduates recruited	65	79
Sponsored students	26	13
Total structured trainees	307	278
Percentage of total workforce ¹	4.7%	4.5%

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 sponsored students and apprentices directly employed.

Diversity and inclusion

A diverse team of employees, where everyone is treated equally and fairly, brings great benefits to an organisation, such as a variety of perspectives and increased creativity. We continue to explore ways of attracting more people from underrepresented groups into our business and making working arrangements more flexible. Our nomination committee report on pages 50 to 53 contains more information about our approach to inclusion and a gender breakdown of our employees; further detail can also be found in our 2019 gender pay gap report, published on our website.

Health, safety and wellbeing

Our number of RIDDOR¹ accidents increased by two to 41 (2018: 39) although our accident frequency rate² remained unchanged from the previous year at 0.08. Since the start of 2019, we have been focusing on the number of lost time incidents, which includes any incidents that result in absence from work and therefore covers a broader range. In 2019, our lost time incidents reduced by 16% to 131 and we will keep working to drive this figure down further. Also in 2019 we started analysing incidents incurred which could potentially have resulted in serious injury in order to identify any safety trends that we can address. To date, no trends have been identified, as the number of these types of incidents has remained relatively small.

Mental health and wellbeing are supported by various initiatives at Group level and by our divisions. Construction & Infrastructure received a 'Gold' award in 2019 from the Mind charity for its promotion of mental health at work. Fit Out has become a 'keystone' member of the International WELL Building Institute member programme, committed to advancing human health in buildings and communities. Urban Regeneration has introduced a 'Muse:well' campaign that sets up events and activities for employees throughout the year. Investments supports the 'Time to Change' Employer Pledge to promote positive mental wellbeing in the workplace.

More information on our approach to health, safety and wellbeing can be found in the health, safety and environment committee report on pages 54 to 57.

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.

Environment

Over the past 10 years, we have been trying to minimise the impact of our activities on the environment and have made a concerted effort to reduce our own greenhouse gas (GHG) emissions. Our data has been externally audited since 2010. We achieved a 26% reduction in our carbon intensity ratio³ against our 2016 baseline and a 71% reduction against our 2010 results. Our total emissions reduced by 11% against our 2016 baseline and 57% against our 2010 results, which is a significant achievement. In 2019, we maintained our A- position in the CDP⁴ index for the fourth year running, one of just four companies in our sector to achieve this 'Leadership' level score. We were also one of the first construction companies to gain accreditation for our science-based GHG emission targets. Further details on how we manage our environmental impact are set out in the health, safety and environment committee report on pages 55 to 57.

³ Carbon intensity is total greenhouse gas emissions per £m of revenue.

⁴ A not-for-profit organisation that runs a global disclosure system for companies to manage their environmental impacts.

Our supply chain

We believe in treating our suppliers and subcontractors fairly and with respect. All our divisions have taken steps in 2019 to reduce the average number of days taken to pay their suppliers, in line with the Prompt Payment Code. For the regulatory payment practices reporting period 1 July to 31 December 2019, our largest division, Construction & Infrastructure, paid 97% of invoices within 60 days. Our relationships with our supply chain partners are of strategic importance and key to the Group's success, and payment practices will continue to be an area of focus. We do not use any supplier finance arrangements.

Looking to the future

We had a successful year in terms of winning new work. Opportunities have continued to flow in all markets, including a high demand for development schemes that require experience and expertise. Our total secured workload for the Group at the year end was £7,593m, an increase of 14% from the previous year. The quality of our secured workload has improved as we have continued to focus on an appropriate risk balance and retained our discipline in contract selectivity. This sets the Group up well for the year ahead and we are in a strong position to deliver on our expectations.

John Morgan

Chief Executive
20 February 2020

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 CRISIS

£128bn

required over the next 10 years to meet housing shortfall

The government's housebuilding target is 300,000 new homes a year by the mid-2020s. The National Housing Federation, in a September 2019 report, has called for 340,000 new homes a year over the next 10 years, including 145,000 social homes. Housing supply remains a high government priority, with Homes England receiving a £1bn funding boost in 2019.

The Housing, Communities and Local Government Select Committee reported in July 2019 that a significant proportion of homes must be built using modern methods of construction if the government is to reach its house-building target.

Knight Frank's Multihousing report in February 2019 forecasts that investment in the professionally-managed private rented sector will reach £75bn by 2025.

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

National Productivity Investment Fund

The government stated in March 2019 that it remained committed to improving and renewing infrastructure in the UK in order to increase productivity, boost growth and improve quality of life. The Queen's speech in October related the government's plans to bring forward a National Infrastructure Strategy focusing on digital, transport and energy infrastructure.

According to Glenigan's Construction Forecast for 2019-2020, the civil engineering sector is expected to strengthen in 2020 as road, rail and water industry investment programmes gather momentum. Increased investment in the national road network is anticipated as Highways England brings forward projects under its collaborative framework. The new water industry investment programme (AMP7) is forecast to lift industry spending from April 2020, and water sector activity will continue to benefit from major work packages for the £4bn Thames Tideway 'super-sewer' project. Network Rail has received £53bn of government funding for its 2019-2024 delivery plan.

Opportunities for the Group

- To deliver long-term infrastructure projects through Construction & Infrastructure.
- To regenerate areas around transport hubs, including residential schemes through Partnership Housing.

POPULATION GROWTH

66.4m

UK population in mid-2018

In June 2019, the Office for National Statistics reported that the UK population in mid-2018 had grown by 0.6% since the previous year, the 36th consecutive year of increase.

Between 2008 and 2018, the number of children (aged up to 15) increased by 7.8% and over-65s by 23.0%. Health and education are the largest elements of public service spending in the UK.

Universities continue to invest in their estate to attract UK and overseas students, with UCAS reporting the first rise for three years in the number of applications to UK universities and colleges.

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 elderly living and extra care housing, through Investments.

INCREASE IN PUBLIC SPENDING

Cost efficiencies

required in the public sector

The government has indicated that it will increase investment in areas such as infrastructure, the NHS, education and policing. Cost efficiencies will be necessary in order to deliver value for money for the taxpayer and to help ensure that any investment delivers good returns.

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 13 to 20).
- 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

The IHS Markit/CIPS UK construction purchasing managers' index (PMI), published in early January, reported a downturn in the construction industry during December, attributed to political uncertainty ahead of the general election. However, in contrast to subdued output trends, construction companies indicated that their optimism towards the year ahead was at a nine-month high. A number of companies suggested that greater clarity in relation to Brexit had the potential to boost order books in 2020.

The election results provided clarity around the near-term direction of Brexit and removed immediate risks. We will continue to closely monitor the potential impacts on the business.

In the medium to longer term, we believe that the markets in which we operate remain favourable and are reassured by the quality and volume of our secured workload in both regeneration and construction. We believe that these factors together with our business model should provide some insulation against any specific adverse consequences arising from the UK's departure from the EU.

Our markets

Following the Grenfell Tower tragedy we reviewed the Hackitt report and made necessary changes to our processes. We are continuing to monitor further changes to the regulatory framework and new safety guidance for builders and manufacturers.

The Construction Products Association (CPA), in its Autumn 2019 construction industry forecasts, estimates the overall UK construction market at £162.8bn in 2019 (2018: £162.9bn). The CPA forecasts overall growth of 0.5% in 2020 and 0.9% in 2021. This includes growth in infrastructure of 3.7% in 2020 and 4.1% in 2021; growth in private housing of 1.0% in 2020 and 1.0% in 2021; and a 2.0% decline in publicly-funded education construction in 2020 and 1.0% growth in 2021. The rise in online commerce is adversely impacting retail construction, however it is resulting in an increased demand for logistics and warehousing space, with the value of this industrial subsector expected to rise by 20% in 2020.

The CPA reports that new office construction output has fallen as uncertainty around Brexit stalled investment in office towers in London, although activity has remained buoyant in other cities. While availability of Grade A office space tightens, demand remains high, thereby generating opportunities for pre-lets and refurbishment of existing space. A report published by Deloitte in 2019 into foreign investment in the UK shows that despite Brexit London has remained attractive as a global city, being home to 43% of the European headquarters of the Fortune 500 companies in 2018, compared to 4% in Geneva and 2% each in Amsterdam, Brussels and Dusseldorf.

The chart below shows our key targeted markets that contributed more than 5% to the Group's revenue in 2019.

Commercial	26%
Community and other public sector excluding education and social housing	15%
Education	14%
Social housing	12%
Transport	12%
Mixed-tenure housing	10%

Business model

Our Group purpose is to inspire talented people to deliver excellence in the built environment. Our strategy, described in detail on page 10, is to focus on doing what we do well – construction and regeneration – and perform to the highest standards. Our business model shows how we generate cash through high-quality construction projects and invest in regenerating UK cities with mixed-use, community driven developments that provide long-lasting social and economic value.

Why we are different

We specialise in both construction and regeneration. Our decentralised approach means that each of our businesses remains a specialist in its core activity and is empowered to react quickly to opportunities and challenges. The diversity of our operations mitigates the impact of fluctuations in individual markets and our geographical spread provides us with local knowledge and access to local supply chains. Our divisions achieve synergies for the Group when they collaborate on large, complex schemes.

How our business model works

Our business model is designed to provide a mix of earnings across different market cycles. Our construction activities generate cash 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 longer term. We use margin and working capital to measure our performance in construction, and return on capital employed to measure regeneration performance.

Our Investments division acts mainly as a facilitator and provides opportunities in construction and regeneration. It 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 13 to 20 for their financial contributions.

Our resources

A talented team

We employ over 6,700 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. Thirty-four per cent of employees have been with the Group for six years or more and have accumulated technical experience and an in-depth understanding of our values which they can impart to newer recruits.

High-quality supply chain

Our national network of suppliers and subcontractors is aligned to our values and Perfect Delivery¹ philosophy, and works with us to deliver projects efficiently and to a high standard. We use large suppliers and smaller, local businesses where we can, occasionally sourcing specialist products overseas.

Strong client and partner relationships

Our divisions are specialists in their respective fields, and each business has a well-established brand and market position. They have formed long-term relationships and strategic alliances with clients and partners from the public and private sectors. Of our total secured workload in construction and regeneration, 75% is in frameworks and partnerships.

Technology as an enabler

We use technology to increase our operational efficiency, manage risk, improve construction methods, find new ways to keep improving our health and safety performance, and enable our employees and subcontractors to work to the highest standards. This enhances the experience of our clients and partners.

Financial strength

The Group's balance sheet remains strong. In 2019, shareholder equity was £396.8m (2018: £346.6m) with average daily net cash* of £108.9m (2018: £98.8m).

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

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

Our business model



Maintaining and enhancing our resources

Helping our employees to succeed

We recruit talented people and give them the resources they need to perform well. These include collaborative office environments and flexible working arrangements. We provide training and mentoring to help employees increase their skills and knowledge and develop their careers. Rigorous health and safety standards and a variety of mental health and wellbeing initiatives create a safe working environment. Our core value of challenging the status quo and our decentralised organisational structure mean that our people are empowered to keep finding new and better ways of doing things. We offer work experience, apprenticeships, graduate sponsorships, and returnships for people who have had a career break, all of which bring new talent into the business.

Partnering with our supply chain

We develop long-term relationships with suppliers and subcontractors who share our values and respect for quality, resulting in better project delivery for our clients and partners. We support the Supply Chain Sustainability School which helps suppliers develop their skills, and sponsor suppliers' events. Our subcontractors are monitored for performance against set criteria, and awarded preferred status when they score highly. Through Group-wide procurement agreements we can give our subcontractors access to better pricing.

Meeting our clients' and partners' needs

Our talented workforce and a supply chain aligned to our values means we can deliver to a high standard and help our clients and partners achieve their objectives. Our national coverage enables us to engage with clients and partners at a local level and tailor our services as needed. The relationships we build increase the prospect of repeat business, negotiated work and appointments to frameworks, all of which contribute to profitability and long-term growth.

Investment in technology

Investment in IT is part of a Group-wide strategy. We have a centralised team dedicated to ensuring our IT environment is secure, giving us the confidence to introduce new technology. Newly introduced software includes data analytics, workflow management, business intelligence and project-specific commercial and operational tools. More is in the pipeline, particularly around early warning metrics that flag potential project issues.

In 2019, we developed a carbon calculator to measure the carbon footprint of buildings in terms of both emissions and the embodied carbon of building materials. The tool will be piloted by the Construction business in 2020. Our divisions continually invest in business-specific technology, such as Property Services' estate management software, MSi; the system now covers all the division's contracts and enables a sophisticated analysis of data that improves customer experience. In 2019, the Group invested £5.4m in technology, including £2.7m invested in MSi.

Disciplined financial management

We monitor our cash levels daily and maintain 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

The success of our business model is driven by our culture, which is founded on our core values and Total Commitments. Our culture is characterised by a respect for our talented people, a desire to deliver the best possible outcomes for our colleagues, clients and partners, the encouragement of openness and transparency, a collaborative approach towards working with our supply chain, and a regard for the value we can bring to local communities and the environment. 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, including how we develop our people and work with our supply chain, can be found in our 2019 responsible business report.

Value created

See our key performance indicators on pages 11 and 12 for further information.

Shareholders

161.2p

Earnings per share adjusted*

19%

annual dividend growth over three years[†]

Clients and partners

85%

of projects achieved Perfect Delivery¹

75%

of secured workload 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.

[†] Please refer to the notice to readers at the front of this report.

Our people**581**trained in NVQs¹ and professional qualifications**11.7%**

voluntary employee turnover

Supply chain**389**

members of the Morgan Sindall Supply Chain Family

2,208

preferred subcontractors

¹ National Vocational Qualifications.

Local communities**401**

apprentices drawn from local communities

40.1/50

Considerate Constructors Scheme average score

Environment**26%**reduction in carbon intensity² from 2016 baseline**A-**

CDP score

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

Engaging with our stakeholders

We maintain regular dialogue with our key stakeholders so that we can take account of their views and act with regard to their interests. Detailed below are the ways in which the Group as a whole engages with our stakeholders and more information can be found in our 2019 responsible business report. Pages 48 and 49 in the directors' and corporate governance report describe how the Board engages with its direct stakeholders: the Group's shareholders, employees and funders.

Our shareholders

Our executive directors communicate regularly with institutional investors and analysts and all shareholders are invited to the Company's annual general meeting. Our non-executive directors are available to meet with shareholders at any time.

Our people

We keep our employees informed of our financial performance through newsletters, emails and briefing sessions, and let them know of any external factors and significant events that might have an impact. We offer a Savings-Related Share Option Plan ('SAYE') to encourage employees to engage with business performance and progress. In response to an SAYE offer in 2019, we were pleased that 38% of eligible employees took up the opportunity to save for three years under the scheme.

Each division updates its employees on business goals, market conditions and divisional performance. Employees are invited to give their views and feedback by taking part in forums and consultations. Annual conferences give senior divisional managers and functional heads the chance to communicate key messages and core values in an engaging way. The same events give employees the opportunity to share ideas and experiences with colleagues from different roles and regions. All new employees receive a formal induction which includes a presentation on our core values and Total Commitments.

Our divisions conduct regular employee surveys, analyse the feedback, and communicate the results to employees together with the actions to be undertaken in response. In 2019, Fit Out, Property Services and Investments carried out surveys. The remaining divisions last undertook surveys in 2018, with their next surveys due in 2020.

Our suppliers and subcontractors

We develop long-term relationships with our supply chain and work with them to achieve the best results for our clients. Sixty-seven per cent of our suppliers, by spend, were signed up to Group-wide agreements in the year (2018: 69%). We hold a networking event for suppliers every two years, with the next event scheduled in 2020, and provide learning and support through the Supply Chain Sustainability School that cover a broad range of topics including identifying and managing any incidents of modern slavery. The Morgan Sindall Supply Chain Family consists of 389 (2018: 392) manufacturers and suppliers.

Our divisions have a structured approach to managing their subcontractors, which involves reviewing and scoring their performance on criteria such as quality and safety, and providing them with constructive feedback. Subcontractors who achieve preferred status benefit from long-term relationships and repeat work.

Our policy is to treat our supply chain fairly and our divisions are working with their suppliers and subcontractors to speed up the process of receiving and paying invoices.

Our clients and partners

Our aim is to secure work where possible through partnerships, framework arrangements or repeat business. Our divisions nurture long-term relationships with their clients and partners, which can be achieved by taking the time to understand their priorities and then delivering on their project goals. Our Perfect Delivery programme is designed to ensure that we carry out our projects to the highest standards and is discussed with clients at the start of our projects. On completion, clients are asked for feedback on their experience in face-to-face interviews using detailed questionnaires. The results are shared and analysed by the divisional managing directors, in order to drive further improvements.

The divisions engage with their clients and partners outside project operations. Charity events are one example, with Fit Out organising an annual music night in which clients and professional consultants take part. Other types of events have included the Solace ('Society of Local Authority Chief Executives and Senior Managers') summit in Birmingham, where Investments presented alongside Slough Borough Council on the benefits of working in joint venture partnerships.

Local communities

Our divisions have dedicated teams responsible for liaising with local residents and communities before and during our projects. Where appropriate, they engage members of the local community in consultation on the project's development; for example, Urban Regeneration arranges planning consultations on all its projects and phases. Project teams in all divisions get involved in local events, such as school talks or careers fairs, or supporting local charities.

Our strategy

Our strategy is to maintain a disciplined focus on our core capabilities in construction and regeneration and to recruit high performers in the industry and encourage them to develop and innovate. This helps us achieve our purpose of inspiring people to deliver excellence in the built environment.

The cash generated by our fit out, construction and infrastructure activities is invested in regeneration schemes to deliver profits over the long term.

Our strategic objectives

We see the following five objectives as key to the success of our strategy and to achieving organic, sustainable growth.



Win in targeted markets

We target markets where we see opportunities arising now and in the long term. As outlined on page 4, there is demand in the UK for new housing and infrastructure, improved educational and social care facilities, and efficient use of public sector-owned land and property. Our divisions have the knowledge, expertise and established supply chains to meet these needs, each division being a specialist in its field as a result of our decentralised structure.

We take a long-term approach to relationships with our clients, working to understand their objectives and deliver exceptional results that encourage them to choose us on their next project and recommend us to others. To deliver consistent high quality, we employ talented people and work closely with our supply chain to align them to our values and standards. In 2019, 85% of our projects achieved Perfect Delivery (2018: 83%).



Develop and retain talented people

We aim to help every employee achieve their potential. This means investing in training and development plans for the individual, as well as mental health and wellbeing initiatives that will benefit everyone. We engage regularly with our employees to keep updated on their needs and interests, and commit to acting on the feedback they give us. We recruit internally wherever possible, promoting 8% of employees in 2019. Our core values of decentralisation and challenging the status quo combine to empower our people to think creatively and keep finding new and better ways of doing things.



Disciplined use of capital

Balance sheet strength and cash management remain high priorities. We rigorously manage our cash, working capital and overheads. By working in partnership with local authorities and landowners we can avoid the need to purchase land on the open market for development. We also use alternative sources of funding when 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 greenhouse gas 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 pursue, test and share their ideas. As the divisions are run independently they are able to develop or adopt innovations that best suit their markets and operations. An example is BakerHicks' introduction of a new safety component, the 'Risk Cube', into its Building Information Management model. Construction & Infrastructure has trained around 80 'innovation catalysts' to advise colleagues on thinking differently. More information can be found in our 2019 responsible business report on our website.

Key performance indicators

Our performance against our strategy

We have continued to fulfil our strategy of focusing on our core strengths, generating cash from our construction projects and achieving returns on our investment in regeneration. In 2019, our operating cash conversion (excluding investment in regeneration) was 88% (2018: 144%) and our return on capital employed in regeneration activities was 14.9% (2018: 13.1%).

We use the financial and non-financial key performance indicators (KPIs) set out below to monitor and measure our progress against our strategic objectives. For information on the principal risks to our strategic objectives and how we manage and mitigate them, see pages 23 to 32.



SECURED WORKLOAD

(£m)



See page 21 for a definition of secured workload.

Our total secured workload increased by 14% owing to strong work winning in every division. We continued to focus on quality, with a similar proportion of work secured through negotiated, framework or two-stage bidding processes. Our secured workload is long term with 56% relating to 2022 onwards. We will continue to be selective in bidding and to pursue regeneration opportunities that will contribute to workload longevity.



NUMBER OF LOST TIME INCIDENTS



The number of incidents resulting in absence from work for a minimum of one working day, excluding the day the incident occurred.

We are encouraged to see a 16% reduction in lost time incidents. Our total number of RIDDORs¹ increased from 39 to 41, while our accident frequency rate² remained unchanged at 0.08. We continue to review causes of incidents to develop our approach.

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.



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 by 1.5% against our 2018 baseline of 12%. Our voluntary employee turnover rate fell by 70bps in 2019 from 12.4% to 11.7% as we maintained our focus on employee development, engagement and health and wellbeing.



AVERAGE NUMBER OF TRAINING DAYS PER EMPLOYEE



This 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 2019, 58 (2018: 82) employees completed our leadership development programme. As well as providing individuals with tools that will help develop their leadership skills, the programme provides an opportunity for them to network with colleagues from different divisions within the Group. We have recognised that not all training days are being recorded and our objective in 2020 is to have robust systems in place to address this.

KEY

Win in targeted markets

Develop and retain talented people

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

Operating cash conversion is reported cash flow from operating activities (excluding increases in investment in regeneration activities) 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 continue to improve 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 2019 following the previous year's investment.

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

**GROSS MARGIN IN
CONSTRUCTION ACTIVITIES**

(%)



Gross margin is gross profit as a percentage of revenue.

Our gross margin in construction activities declined by 20bps, primarily due to a tightening of overall market conditions in Fit Out leading to a more competitive tendering environment. All other divisions operating construction activities improved their margins, reflecting the higher quality of work secured as well as ongoing improved operational delivery. The gross margin is expected to improve across all construction divisions in the future as margins become more normalised.

**OVERHEADS AS A PERCENTAGE OF
REVENUE IN CONSTRUCTION ACTIVITIES**

(%)



The ratio remained broadly unchanged from 2018 as the overhead base grew in line with revenue. No material change is anticipated in 2020.

KEY

Disciplined use of capital



Maximise efficiency of resources

Operating review

CONSTRUCTION & INFRASTRUCTURE

REVENUE



OPERATING PROFIT



OPERATING MARGIN



Construction & Infrastructure delivered another year of margin progression and profit growth through its continued focus on improved operational delivery, disciplined contract selectivity and risk management. Revenue increased by 11% to £1,486m and with an increase of 20bps in the operating margin, up to 2.2%, operating profit was 20% higher at £32.3m.

Of the divisional revenue split by type of activity, Construction¹ increased 4% to £619m (42% of divisional revenue), while Infrastructure¹ (which includes Design) increased 16% to £867m (58% of divisional revenue).

Construction had a particularly strong year of margin growth, with its operating margin increasing by 40bps to 2.8% and its operating profit up 22% to £17.1m. Infrastructure delivered operating profit of £15.2m, an increase of 17% which was driven mainly by revenue growth. Its operating margin of 1.8% was up 10bps from the prior year, held back primarily by a more cautious view being taken on the outcome of certain contracts.

The division also performed well in terms of winning work and growing its future workload. The secured order book at the year end was £2,271m, up 18% compared to the prior year and, of this, Construction's order book increased by 27% to £514m (23% of total value). During the year, the preferred risk balance and profile within the Construction order book has been enhanced, with 98% of the value derived through negotiated, framework or two-stage bidding procurement processes and only 2% derived through competitive tenders. In addition, Construction had c£675m of work at preferred bidder stage at the year end.

¹ Design results are reported within Infrastructure on the basis that the design activities are better aligned to the overall services provided by Infrastructure activities. In 2018 and prior years, Design results were reported within Construction and comparative numbers for 2018 for Construction and Infrastructure have been restated accordingly.

Infrastructure's order book also grew strongly, up 16% to £1,757m (77% of the total by value) and has 97% of its revenue secured for 2020, with more than 90% of the value of its order book being derived through frameworks.

Construction

In education, Construction's largest sector, work began on a c£17m project to refurbish the historic Pantycelyn halls of residence at the University of Aberystwyth, as well as the £29m Whitmore High School in Barry, South Wales, the £13m Broomhills Primary School in Edinburgh, and the £7m North Denes Primary School in Great Yarmouth. Higher education projects completed in the year included a £28m art, design and architecture facility for the University of Huddersfield; an £18m extension of the University of Birmingham's business school; and a c£21m sports facility for Solent University in Southampton. Completed school projects included the £5m Hackwood Primary Academy in Derby and a £7m sports campus for Tile Cross Academy in Birmingham. Work is ongoing on a £47m teaching hub and sports building for Liverpool John Moores University and two £18m new build primary schools for North Lanarkshire Council in Scotland.

In other sectors, Construction continues to work in partnership with Urban Regeneration to deliver pharmaceuticals company Eli Lilly's £19m headquarters in Basingstoke; and a £35m residential development for Urban Regeneration (through its joint venture) as part of the wider New Bailey development in Manchester. Completions included a c£18m leisure centre in Slough, the last of four delivered under Investments' joint venture with Slough Borough Council; the £20m Woodside Health Centre in Glasgow; and the early handover of a £50m mixed-use development scheme in Leicester, including two hotels, an office block and public realm.

Work won in the year included two schemes for Hackney Council totalling c£98m: the secondary school City of London Academy Shoreditch Park and Britannia Leisure Centre in Hackney, procured through the Southern Construction Framework (SCF); a £45m hotel and residential development for Investments' joint venture in Slough; and a £30m project to deliver new academic offices for the Royal College of Physicians at Paddington Village in Liverpool.

New framework appointments included places on: four lots of the £1bn SEWSCAP 3 framework in Wales; Lot 2 of Norfolk County Council's framework for projects valued £3.5m-£9m; three lots of the University of Glasgow's Campus Development Framework; all three lots of the University of Oxford's £1.5bn Capital Projects Partner Framework; Pagabo's £1bn, three-year medium value works framework for public sector bodies for £1m-£10m projects; the £200m Hampshire Construction Framework for £1m-£4m projects in Hampshire, Berkshire and the Isle of Wight; and a number of lots of the Crown Commercial Service's £30bn, seven-year Construction Works and Associated Services framework. The division also retained its places on all three lots of the next generation of the £5.25bn Southern Construction Framework (SCF4) and the £750m Suffolk Construction Framework.

Infrastructure

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

In aviation, the division continued operations at Heathrow under the Q6 framework, completing the Block 21 outer taxiway and works to a number of landside roads and car parks. The framework has been extended by a further two years to the end of 2021, and works have started on phase two of the southern runway.

In highways, construction began in joint venture on the M27 and M62 schemes, awarded by Highways England at the start of the year. Works also started on the redevelopment of the Old Street roundabout under a framework with Transport for London. Ongoing projects include the refurbishment of the M5 Oldbury Viaduct; preparation works for new roads and pavements as part of the Sighthill regeneration in Glasgow; and a total of six projects under the Midlands Highways Alliance and Eastern Highways Alliance.

In rail, work started on the London Overground extension to Barking Riverside for Transport for London; and, for Network Rail, work progressed on upgrades at King's Cross and a new section of railway at Werrington Junction near Peterborough. In late 2019, the division was appointed to Network Rail's CP6 framework for Buildings and Civil Engineering works in the Western region. The framework will generate contracts from £4m to £30m and will run until 2024 with the option of a year's extension.

In nuclear, the division was selected under Sellafield's Programme and Project Partners model to deliver the site's decommissioning programme, and work is underway on the first three projects. The framework is expected to generate revenues of c£1.6bn over 20 years. Work also continued at Sellafield under the £1.1bn Infrastructure Strategic Alliance.

In energy, work began on a c£80m contract in Dorset, awarded by National Grid as part of its Visual Impact Provision (VIP) project. The division also secured a further c£30m of electricity cabling and overhead lines works through two existing frameworks with Scottish and Southern Electricity Networks.

In water, Infrastructure continued its long-standing relationship with Welsh Water, securing a position on its AMP7 (2020 to 2025) framework to upgrade and enhance the water network. Work continued on the west section of the Thames Tideway 'super sewer', with the joint venture's tunnel boring machine being the first to break ground to complete a 500m section of the Frogmore Connection Tunnel.

Divisional outlook

The medium-term target for Construction is to deliver a consistent operating margin within the range of 2.5-3.0%. Infrastructure's medium-term target is to achieve an operating margin of 3.0%. Both margin targets will be complemented by revenue growth across the period and progress towards these targets is expected in 2020.

FIT OUT

REVENUE

(£m)

+1%



OPERATING PROFIT

(£m)

-16%



OPERATING MARGIN

(%)

-90bps



Fit Out delivered another good performance in the year, achieved against the predicted backdrop of a general tightening of overall market conditions compared to the prior year. Volumes and activity held up well, with revenue of £839m up 1% on the prior year, however a more competitive tendering environment impacted profit. Operating profit of £36.9m was 16% lower compared to the record prior year performance, although the operating margin remained robust at 4.4%.

Strong project delivery and a continued focus on enhanced customer experience again underpinned performance. As with previous years, there was a second half weighting to the operating margin (H1 2019: 4.0%; H2 2019: 4.7%), driven by the successful completion of a number of contracts falling into the second half.

Of the total revenue for the year, 81% related to traditional fit out work (2018: 86%), while 19% related to design and build (2018: 14%). In terms of the nature of work undertaken, the proportion of revenue generated from the fit out of existing office space increased to 73% (2018: 62%) with the remaining 27% relating to new office fit out (2018: 38%). The prior year included a small number of larger new office space projects which were not repeated in 2019 and therefore not indicative of any longer-term trend. Of the fit out of existing office space, 71% related to refurbishment 'in occupation' (2018: 76%).

By sector, the commercial office market remains the largest, contributing 85% of revenue (2018: 86%). Higher education accounted for 8% of revenue, while retail banking, government and local authority work made up the remainder.

Geographically, the London region remained the division's largest market, accounting for 70% of revenue, with no significant change from the prior year (2018: 73%). Other regions accounted for 30% of revenue.

At the year end, the secured order book was £480m, an increase of 2% on the prior year end and an increase of 3% from the position at the half year. Of the year end total of £480m, £419m (87%) relates to 2020 and this level of orders for the next 12 months is 5% lower than it was at the same time last year. There has been no significant change to the balance of the order book in terms of geographical split and type of work. The average value of enquiries received through the year remained at around £2m.

Projects won in the year included: Virgin Media's new 120,000 sq ft head office in Green Park, Reading; the fit out of four projects in one building at Station Road, Cambridge, including the offices of law firm Eversheds Sutherland; and the fit out of The Spine, a new 70,000 sq ft centre of clinical excellence in Liverpool for the Royal College of Physicians being built by Construction & Infrastructure. The division also secured a place on Pagabo's new National Framework for Refit and Refurbishment Solutions for public sector projects in England and Scotland.

Significant fit out completions included the two-year, multi-phased works across more than 220,000 sq ft for King's College London; office space and specialist broadcast areas at BBC Cymru Wales' new 155,000 sq ft headquarters in Cardiff; Microsoft's new c22,000 sq ft flagship store at Oxford Circus, London; and the UK headquarters for global flooring manufacturer Interface in Birmingham. Design and build completions included the Royal Navy's digital data and artificial intelligence laboratory in Portsmouth; office space and a Dementia Connect facility for the Alzheimer's Society in Edgbaston, Birmingham; c38,000 sq ft of office space in London for SAGE Publishing; c25,000 sq ft of office space in Guildford for global digital entertainment company Electronic Arts; and The Body Shop's c24,500 sq ft office in London. Work started in the year on a c250,000 sq ft fit out across six floors for Royal Bank of Canada at 100 Bishopsgate, London.

Divisional outlook

Notwithstanding the limited visibility of future workload which the division has at any one time, the medium-term target is for Fit Out to deliver a profit at or around £35m per year. For 2020, based on the current market conditions and year-end order book, Fit Out is expected to meet this target.

PROPERTY SERVICES

REVENUE

(£m)

+15%



OPERATING PROFIT¹

(£m)

+115%



OPERATING MARGIN¹

(%)

+170bps



Property Services performed well in the year, delivering significantly improved results. While revenue increased by 15% to £115m, operating profit¹ increased 115% to £4.3m. The operating margin¹ of 3.7% represented an increase of 170bps ahead of the prior year.

Revenue growth was driven by three new contracts awarded in January and mobilised in April and by continued growth on existing contracts. The significant increase in operating profit¹ and margin¹ reflected the increased revenue but also further stabilisation and efficiencies across the portfolio.

The three new contracts were: responsive repairs, refurbishment of void homes and planned maintenance of 10,000 properties for the London Borough of Waltham Forest; void refurbishments and planned maintenance for 4,800 homes for St Albans City and District Council; and maintenance for 6,000 homes and 1,200 garages for South Essex Homes.

During the year, Property Services has continued to focus on delivering repairs and planned maintenance with a strong social value offering, servicing public sector housing through integrated contracts with housing associations and local authorities. This has included continuing to invest in its IT platform for managing repairs and planned maintenance. Data collected through the system indicates the condition of property assets to enable the prediction and prevention of repairs and provides insight into service quality. This insight, together with data collected from the business's customer engagement platform, is helping to further improve service delivery and customer satisfaction and increase social value.

At the year end, the secured order book was up 25% to £904m. Bidding remains selective, targeting long-term contracts of 10 to 15 years. The division has a current pipeline of opportunities of £1.5bn, the majority of which will be tendered over the next 12 months.

Divisional outlook

The medium-term target for Property Services is to generate a minimum of £10m operating profit per year, which will be delivered through both revenue growth and continued margin improvement. Looking ahead to 2020, the division is expected to progress towards this target.

¹ Before intangible amortisation of £1.2m (2018: £1.0m).

PARTNERSHIP HOUSING

REVENUE

(£m)

-1%



OPERATING PROFIT

(£m)

+50%



OPERATING MARGIN

(%)

+120bps



AVERAGE CAPITAL EMPLOYED¹ (LAST 12 MONTHS)

(£m)

+£36.6m



CAPITAL EMPLOYED¹ AT YEAR END

(£m)

+£25.7m



ROCE² (LAST 12 MONTHS)

(%)



ROCE² (AVERAGE LAST THREE YEARS)

(%)



2019 was a year of significant positive progress for Partnership Housing. With the senior divisional management team appointed in 2018 now fully established within the business, a number of the immediate actions taken to improve performance, focused mainly on operational delivery and quality, were reflected in the operating result. Although revenue at £513m was down 1%, the operating profit increased 50% to £18.3m with the operating margin increasing by 120bps to 3.6%. In addition, significant strategic progress was made in re-establishing the division and its 'Lovell' brand as a trusted partner to local authorities and housing associations.

Split by type of activity, mixed-tenure revenue was up 21% to £269m (52% of divisional revenue) while contracting revenue (including planned maintenance and refurbishment) was down 18% in the year to £244m (48% of divisional total).

The secured order book at the year end was £1,093m, an increase of 6% on the prior year, demonstrating the positive progress made and the market opportunity available to the division. Of this total, although the order book relating to mixed-tenure activities decreased slightly to £740m (2018: £785m), the amount of mixed-tenure business in preferred bidder status or already under development agreement but where land has not been drawn down was in excess of £500m at the year end. The remaining £353m related to contracting and represented an increase of 41% on the prior year (2018: £250m), again evidence of progress in re-establishing the division in its market place.

The capital employed¹ at year end was £132.3m, with average capital employed for the last 12-month period of £151.6m, an increase of £36.6m on the prior year. As a result of the higher average capital employed, the overall ROCE² of 12% was only a small increase on the prior year (2018: 11%) despite the significantly higher profit. Based on the profile, schedule and type of mixed-tenure development currently anticipated, capital employed is expected to increase towards £200m in 2020.

Mixed tenure

In mixed tenure, 1,144 units were completed across open market sales and social housing compared to 952 in the prior year. The average sales price of £238,000 compared to the prior year average of £233,000.

The division currently has a total of 42 mixed-tenure sites at various stages of construction and sales, with an average of 99 open market units per site. Average site duration is 39 months, providing long-term visibility of activity.

Key project wins in the year included an £80m development at Wymondham, Norfolk to deliver 335 homes in joint venture with Flagship Housing Group; a £25m regeneration scheme at Steelhouse Lane in the West Midlands to provide 62 affordable homes for rent and 89 for open market sale; and a framework with Norfolk County Council to develop more than 400 homes. The division also entered a partnership scheme in the Eastern region: a £9.4m, 100-home development at Tennyson Fields in Louth with Acis Group; and was appointed to a position on the government's Crown Commercial Services' public works framework, whose residential lots total £4.5bn over the next seven years.

Construction began on various developments in the year including a £17m scheme with Melin Homes to deliver 100 homes on a brownfield site at Bryn Serth in Ebbw Vale, Wales.

Contracting

In contracting, a c£4m contract for 37 homes for East Lothian Council and a c£9m contract for 50 homes for Rural Stirling were secured, both new clients for Partnership Housing in Scotland. The division also negotiated a £10m contract with Together Housing to build 83 homes in Halifax and a £20m, four-year refurbishment contract with Sandwell Metropolitan Borough Council to deliver major external improvements to 3,800 homes.

Work started in the year on 80 homes for rent in Bishopton, the division's first project for Renfrewshire Council in Scotland; a £10m negotiated contract for Tirion to deliver 78 homes in Cardiff; a development in Telford to deliver 37 homes for Nuplace, a council-owned private rental company; and 39 homes for Midlands housing association whg. In King's Lynn, the first of many live sites for an £80m development for the Borough Council of King's Lynn and West Norfolk was completed, delivering 130 new homes.

Divisional outlook

Partnership Housing has two medium-term targets: firstly, to generate a return on average capital employed² of over 20% and secondly, to deliver an operating margin of 6%.

Looking ahead to 2020, it is expected that further operational improvements and the benefit of higher revenue will drive margin and profit growth. However, with the expected substantial increase in average capital employed in the year, progress towards its return on capital target is likely to be limited.

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).

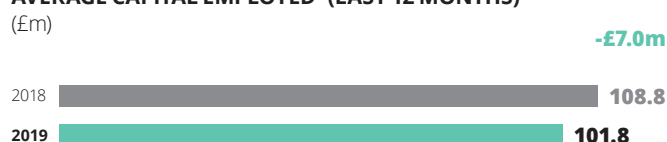
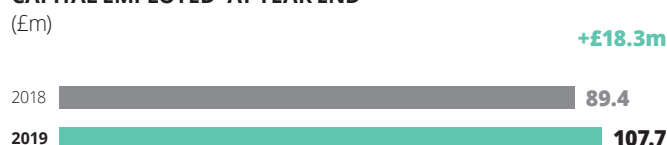
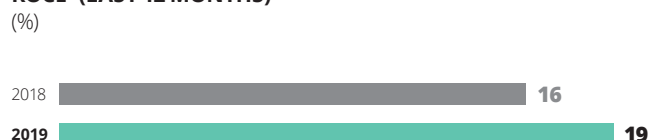
² Return on average capital employed = adjusted operating profit divided by average capital employed.

URBAN REGENERATION

REVENUE



OPERATING PROFIT

AVERAGE CAPITAL EMPLOYED¹ (LAST 12 MONTHS)CAPITAL EMPLOYED¹ AT YEAR ENDROCE² (LAST 12 MONTHS)ROCE² (AVERAGE LAST THREE YEARS)

Urban Regeneration delivered another strong performance in the year, with operating profit of £19.4m and a ROCE² of 19% based on average capital employed in the year of £101.8m. The average return on capital² over the last three years is 15%. The reduction in revenue in the year was as a result of the type of development scheme from which the profits were generated and is not indicative of the level of underlying activity.

Profit was derived from across the division's diverse and substantial development portfolio. The main contributors to profit were: the pre-let and forward sale of a 360,000 sq ft distribution hub at Logic Leeds; a hotel land sale in Chester; and the sale of new homes in Brentford, Brixton, Manchester, Plymouth and Stockton-on-Tees. In addition, development management fees were generated from the Salford Central regeneration scheme, being developed by the English Cities Fund, the division's joint venture with Legal & General and Homes England; Warrington's Time Square development; and the third phase of the Stockport Exchange development. Other significant completions included the £21m South Shields Interchange, which merged the local metro and bus stations, and a Hampton by Hilton hotel in Stockton-on-Tees.

Salford Central is Urban Regeneration's largest ongoing development, with several schemes currently on site. These include: 190,000 sq ft of offices at Two New Bailey Square, where Eversheds Sutherland have taken 55,000 sq ft and BLM 60,000 sq ft respectively; and 157,000 sq ft at Three New Bailey pre-let to HMRC. Residential schemes are progressing at Valette Square (33 townhouses), Atelier (178 apartments and townhouses), and the final phase at The Slate Yard (199 apartments). On other developments, the English Cities Fund has secured a number of deals with occupiers at Merchant Gate, Wakefield and planning consent for 802 homes (50% of which are affordable) at Manor Road, Canning Town in London.

Waterside Places, the division's joint venture with the Canal & River Trust, has signed a new development agreement with Investments' Slough Urban Renewal joint venture to redevelop Stoke Wharf with over 200 apartments and houses, along with leisure and community space overlooking the canal. Waterside Places completed 101 homes in the year and sold 99 at Islington Wharf, Manchester, and is due to start on site in Spring 2020 with the third and final phase at Brentford Lock West, which will deliver 452 mixed-tenure homes. Construction began on the first phase of Hale Wharf in Tottenham, comprising 249 new homes, a pedestrian bridge and canal-side public realm.

Urban Regeneration has also signed a development agreement to deliver Slough's North West Quadrant for Investments' Slough Urban Renewal joint venture, which will deliver more than 1,400 apartments, 250,000 sq ft of office accommodation and supporting retail and leisure space, along with extensive public realm.

The division made good progress in the year on other schemes. At Lewisham Gateway, the second and final phase is set to start in early 2020 to deliver more than 500 apartments; and the mixed-use development at Manchester Victoria station has received a grant of c£10m from the Housing Infrastructure Fund to accelerate the delivery of 520 apartments. Construction is underway on two further pre-sold units at Logic Leeds totalling 56,000 sq ft; 256 homes at Bristol's Wapping Wharf; and pre-let office space at Cheadle Royal, forward-funded by Schroders. A pre-let has been secured for a 196,000 sq ft headquarters and distribution centre at Harrier Park in Hucknall, East Midlands, as well as two residential land sales. Lettings to EY, KPMG and Chevron have been secured at Marischal Square, Aberdeen.

Urban Regeneration's development portfolio continues to be active and diverse across 38 UK-wide developments, with 17 projects on site at the year end, totalling £750m gross development value, and a further 18 projects expected to start on site in 2020. Planning consent has been obtained on eight projects with a total development value of £550m at Cheadle Royal, Canning Town, Millbay, Lewisham, Hucknall, Leeds, Brentford and Salford. New development agreements signed in the year, to deliver mixed-use schemes with local authorities in Slough, Wirral and Rotherham, total £400m in gross development value.

At the year end, the division's regeneration order book amounted to £2.3bn, an increase of 9% on the prior year end, and of this there is a diverse geographic and sector split:

- by value, 49% is in the South and London, 33% in the North West, 13% in Yorkshire and the North East and 5% in the rest of the UK; and
- by sector, 54% by value relates to residential, 30% to offices, and the remainder is broadly split between retail, leisure, and industrial.

In addition, the division has been selected as preferred developer with City of Bradford Metropolitan District Council to deliver 56,403 sq ft of Grade A office space at the award-winning City Park, Bradford.

Capital employed¹ at the year end was £107.7m and based on the current profile and type of scheme activity across the portfolio, the average capital employed for 2020 is expected to reduce to c£90m.

Divisional outlook

The medium-term target for Urban Regeneration is to increase its rolling three-year average ROCE² towards 20%. For 2020, further progress towards its target ROCE² is expected, however this is based on the expected lower amount of capital employed and a lower profit in the year.

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 less interest on non-recourse debt) divided by (average capital employed). For 2019, interest and fees on non-recourse debt was £nil (2018: £2.4m).

INVESTMENTS

OPERATING LOSS¹

(£m)



The strategic importance of Investments to the Group was demonstrated in the year by the positive progress made in its various joint ventures and by the future construction opportunities generated for other parts of the Group.

The operating loss¹ for the year of £2.4m was level with the prior year and reflected the relative immaturity of some of the division's local authority property partnerships, with insufficient development activity at an advanced stage to cover divisional overheads. As more such property partnerships are secured and progressed in the future, this position should reverse, thereby returning the division to delivering profit on a consistent basis.

During the year, Investments' major profit contribution was through the disposal of a number of long-term contracts to provide management services to projects that were developed by its hub West Scotland joint venture. Development profits were also generated from joint venture property partnerships including those in Slough and Bournemouth.

Work started on site on a number of schemes during the year. In Slough, Construction & Infrastructure began work on two Marriott hotels and 64 apartments on the site of the former library for Slough Urban Renewal (Investments' joint venture with Slough Borough Council), and in addition a fourth phase of affordable housing started on site to provide 35 new homes across the borough. Chalkdene Developments, the division's joint venture with Hertfordshire County Council, began works on its first scheme, a 21-home development in Welwyn Garden City, and has secured planning permission for an 80-home development in Stevenage; a pipeline of further schemes is being progressed. In Bournemouth, construction continued on 46 high quality homes for market rent in St Stephen's Road, through the Bournemouth Development Company joint venture. Currently, projects in Bournemouth with a gross development value of £150m have planning approval and are being progressed towards a start on site within the next 12-18 months.

Investments' 'later living' business, Morgan Sindall Later Living, reached financial close on four schemes during the year: a 75-apartment extra care project on the Isle of Wight, a 54-unit extra-care housing project in Romsey, Hampshire, an 80-bed care home in York and a 63-unit extra care development in Leeds. The business was set up in 2017 as a joint venture with Ashley House plc, and Investments purchased Ashley House's interest for £2m in October. A further strong pipeline of projects will be progressed in this growing market over the next 12 months.

In terms of new business, Investments secured its fourth local authority property partnership in the year, entering a new 30-year joint venture with Brentwood Borough Council. With a potential contract value of up to £1bn, the programme will deliver new homes, mixed-use developments, public spaces, and commercial and leisure facilities on council-owned land. In addition, a new agreement was signed, through Slough Urban Renewal, to regenerate the area known as the North West Quadrant, a mixed-use development to be led by Urban Regeneration. This will provide over 1,000 new homes, 250,000 sq ft of office accommodation, and supporting retail and leisure space.

Capital employed² at the year end was £30.9m (2018: £37.2m), with average capital employed for the last 12-month period of £33.9m (2018: £40.1m).

Divisional outlook

The medium-term target for Investments is to secure a further three local authority property partnerships, as well as continuing to provide high quality construction work for the rest of the Group. Looking ahead to 2020, based on the current portfolio of partnerships and profile of scheme completions, the division is expected to make a loss in the year.

¹ Before intangible amortisation of £0.6m (2018: £nil).

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).

Financial review

Performance

Revenue for the year was up 3% at £3,071m (2018: £2,972m), with adjusted* operating profit up 9% to £93.1m (2018: £85.5m). This resulted in an adjusted* operating margin of 3.0%, an increase of 10bps compared to the prior year (2018: 2.9%). The net finance expense decreased to £2.7m (2018: £3.9m) due to significantly lower level of non-recourse project financing in the year compared to 2018. After deducting this, the adjusted* profit before tax was £90.4m, up 11% (2018: £81.6m).

The tax charge for the year is £17.4m, which equated to an effective tax rate of 19.6% and was slightly higher than the UK statutory rate of 19% due to various adjustments for non-material adjusting items. 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 6% to 161.2p (2018: 151.8p), with the fully diluted adjusted* earnings per share of 156.3p up 9% (2018: 144.0p). Reported basic earnings per share was 157.9p (2018: 149.8p). The total dividend for the year increased 11% to 59.0p per share (2018: 53.0p).[†]

Details on performance by division are shown on pages 13 to 20.

FINANCIAL PERFORMANCE

	2019	2018
Revenue	£3,071m	£2,972m
Operating profit – adjusted*	£93.1m	£85.5m
Profit before tax – adjusted*	£90.4m	£81.6m
Earnings per share – adjusted*	161.2p	151.8p
Year-end net cash*	£192.7m	£207.0m
Average daily net cash*	£108.9m	£98.8m
Total dividend per share [†]	59.0p	53.0p
Operating profit – reported	£91.3m	£84.5m
Profit before tax – reported	£88.6m	£80.6m
Basic earnings per share – reported	157.9p	149.8p

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

NET WORKING CAPITAL

Net working capital has increased by £61.3m to (£91.9m) as shown below:

	2019 £m	2018 £m	Change £m
Inventories	338.1	334.2	+3.9
Trade and other receivables ¹	461.7	424.0	+37.7
Trade and other payables ²	(891.7)	(911.4)	+19.7
Net working capital	(91.9)	(153.2)	+61.3

¹ Adjusted to exclude capitalised arrangement fees of £0.6m (2018: £1.2m) and accrued interest receivable of £0.2m (2018: £nil).

² Adjusted to exclude accrued interest of £0.3m (2018: £0.3m) and deferred consideration payable of £0.4m (2018: £nil).

[†] Please refer to the notice to readers at the front of this report.

SECURED WORKLOAD³

	2019 £m	2018 £m	Change %
Construction & Infrastructure	2,271	1,922	+18%
Fit Out	480	470	+2%
Property Services	904	723	25%
Partnership Housing	1,093	1,035	+6%
Urban Regeneration	2,278	2,081	+9%
Investments	581	443	+31%
Inter-divisional orders	(14)	–	n/a
Total	7,593	6,674	+14%

³ Secured workload is the sum of the committed order book, the framework order book and (for the regeneration businesses only) the Group's share of the gross development value of secured schemes (including the development value of open market housing schemes). The committed 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.

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 2019, contract bonds in issue under uncommitted facilities covered £156.6m (2018: £170.8m) of our contract commitments.

Further information on the Group's capital management strategy and use of financial instruments is given in note 25 to the consolidated financial statements.

Tax strategy

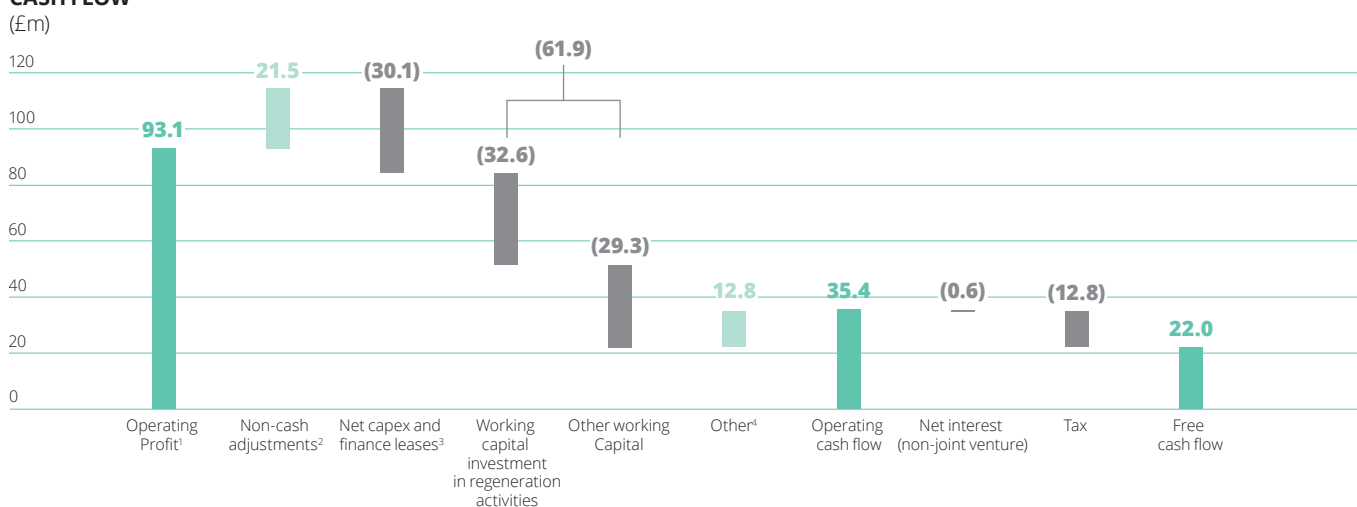
The Group's tax strategy, which is approved by the Board, is published on our website at morgansindall.com.

Net cash

Operating cash in the year was an inflow of £35.4m, after increasing the capital employed invested in regeneration activities by £44m (Partnership Housing: £26m and Urban Regeneration: £18m). The cash outflow for the year was £14.3m, resulting in closing net cash of £192.7m (2018: £207.0m).

The average daily net cash* for the year increased by £10m to £108.9m (2018: £98.8m), providing significant balance sheet strength and competitive advantage.

CASH FLOW



1 Adjusted.

2 Includes depreciation (£21.3m), share option expense (£5.9m) movement of shared equity loans receivable (£0.4m) and revaluation of investment properties (£0.4m); less share of equity accounted joint ventures (£6.5m).

3 Includes repayment of lease liabilities (£15.1m), purchase of property, plant and equipment (£12.6m) and purchase of intangible fixed assets (£2.7m) less proceeds on disposal of property, plant and equipment (£0.3m).

4 Includes provision movements (£5.0m), proceeds on disposal of service contracts (£4.4m), shared equity redemptions (£4.2m), dividend and interest from joint ventures (£3.8m); less profit from other gains and losses (£4.4m) and gain on disposal of property plant and equipment (£0.2m).

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 2019, the Group had net cash of £192.7m 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 benefit 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 33 for further information on the Group's longer-term viability.

Principal risks

The Group’s risk profile continues to be supported by a strong balance sheet and secured workload, 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. 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 60 and 61.

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

The 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 the Group risk register and reviews the Group and divisional risk registers before they are presented to the Board and audit committee. The committee ensures that inherent and emerging risks across the Group are identified and managed appropriately.

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, as to 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 schedule of delegated authorities that assigns approval of 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 2019 the Board reviewed the Group's risk appetite (see page 47) 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 of opportunities 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 workload and visible pipeline of opportunities, our outlook for 2020 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 for the earlier part of 2020.

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

This review should be read in conjunction with the viability statement on page 33.

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 or emerging 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 2018 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
<p>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.</p>	<p>No change</p> <ul style="list-style-type: none"> We will continue to monitor closely the potential impacts on the business of the UK leaving the EU, however we believe that in the medium to longer term the markets in which we operate remain favourable. We are reassured by the quality and volume of our pipeline of opportunities and secured workload in both regeneration and construction, and believe that this, together with our business model, should provide some insulation against any specific adverse consequences. Longer-term risks are associated with EU labour (to sustain construction output) and potential consumer and investor confidence, but no short-term impacts have been seen to date or are anticipated. The continued scrutiny of UK construction balance sheets remains a differentiator for us and continues to underpin our positive position in the sector, meaning that our stakeholders can engage with confidence, while allowing us to be highly selective. 	<ul style="list-style-type: none"> The UK is expected to continue investing in areas that complement our strategy, including affordable housing, infrastructure, energy, education and transport. This supports our business model, which is designed to provide a mix of earnings across different market cycles. Strategic focus on market spread, geographical capability and diversification to protect against the cyclical effect of individual markets. High proportion of secured workload with public sector and regulated entities via long-term arrangements, with a healthy level of demand and typically preferential terms. Elsewhere our strategy continues to be very selective and our procurement routes, margins, contract terms and secured workload remain favourable. An enhanced understanding of medium-term pipeline quality, assisted by insights generated from analytical software, that enables us to predict trends more accurately and adjust our strategy in response. Regular reporting on sales, opportunities pipeline and secured workload, using customer relationship management software.



Win in targeted markets continued

Risk and potential impact	Risk change in reporting period	Mitigating activities
<p>Exposure to UK housing market</p> <p>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.</p>	<p>No change</p> <ul style="list-style-type: none"> • 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 decline in the London market but with signs of stabilisation. • There is high demand for housing on our regeneration schemes. • Despite external factors, there continue to be clear government support and demand for new affordable housing, which supports our business model and market positioning. 	<ul style="list-style-type: none"> • Working closely with public sector partners and government agencies such as Homes England to provide viable development and affordable homes. • Largely non-speculative, risk-share development vehicles, subject to viability conditions that reduce any negative impact from market fluctuations. • Targeting of forward-sold and funded sections of large-scale residential schemes to institutional investors. • A geographically spread residential portfolio that offers protection against regional variations and is geared to an affordable product. • 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. • Regular forecasting and monitoring of development pipeline of opportunities and secured workload including monitoring key UK statistics such as unemployment, lending and affordability. • Rigorous three-stage approval process before committing to development schemes and capital commitments.
<p>Poor contract selection</p> <p>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.</p> <p>Failure to understand the project risks may lead to poor delivery and ultimately result in reputational damage and loss of opportunities.</p>	<p>No change</p> <ul style="list-style-type: none"> • The continued quality of our long-term secured workload should underpin future performance and provide sustainable performance and outcomes, also allowing us to remain highly selective when bidding future work. • Our order book maintains a high proportion of public sector and framework clients with typically healthier risk profiles and is secured in limited competition. 	<ul style="list-style-type: none"> • Clear selectivity, strategy and business plan to target optimal markets, sectors, clients and projects, which have proven to have delivered favourable outcomes. 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. • A proportion of construction work secured via sister company regeneration schemes, where expertise provided at an early stage can greatly influence the likelihood of project success. • Divisions selecting projects according to pre-agreed types of work, contract size and risk profile, with 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.



Win in targeted markets continued

Risk and potential impact	Risk change in reporting period	Mitigating activities
<p>Health and safety</p> <p>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.</p> <p>Accidents could result in legal action, fines, costs and insurance claims as well as project delays and damage to reputation. Poor health and safety performance could also affect our ability to secure future work and achieve targets.</p>	<p>No change</p> <ul style="list-style-type: none"> Our health and safety performance, while industry-leading, has plateaued in terms of incidents reportable to the Health and Safety Executive with our RIDDOR accidents increasing by two to 41 (2018: 39). However, our accident frequency rate stayed at 0.08 and our number of lost time incidents (resulting in absence from work) has fallen by 16%. We continue to explore ways to improve and reduce the total number of incidents incurred. 	<ul style="list-style-type: none"> Board level health, safety and environment (HSE) committee focused on health and safety culture to drive better behaviour and performance. Individuals in each division, and on the Board and Group management team, with specific responsibility for health and safety matters. 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. Established safety systems, audits, site visits, incident investigation and root-cause analysis, monitoring and reporting procedures including near-miss and reporting of incidents that could potentially have resulted in serious injury. Regular health and safety training that includes behavioural change, housekeeping on site and leadership engagement in driving site standards. Communication of each division's health and safety policy to all employees and senior managers appointed to ensure they are implemented. Innovations such as Fit Out's award-winning health and safety app to improve safety on sites. Major incident management and business continuity plans, periodically reviewed and tested.
<p>Environment</p> <p>Our greatest environmental impact is energy use and waste generated by our activities. Climate change and governmental actions to reduce the impact could affect us in a number of ways: design solutions currently considered exceptional could become the norm (for example, protection for buildings against extreme heat or electric car charging points in all new houses); measures aimed at reducing climate change, such as a carbon tax or zero net deforestation requirements, could be introduced which could impact our business through higher costs and/or flexibility of operations; workforce and material productivity or availability may be affected by extremes of temperature or reduced availability of water, causing higher capital investment and operational expenditure, and disruption to revenues.</p> <p>Increased frequency of extreme weather, such as floods and storms, could cause increased incidence of disruption to individual developments and projects and our supply network, which could lead to reduced profitability.</p> <p>Environmental incidents that cause harm could result in legal action, fines, costs and insurance claims as well as project delays and damage to reputation. Poor environmental performance could also affect our ability to secure future work and achieve targets.</p>	<p>No change</p> <ul style="list-style-type: none"> While we have made significant reductions in our direct greenhouse gas (GHG) emissions over the last 10 years, our challenge is helping our supply chain to report and reduce their own emissions. 	<ul style="list-style-type: none"> A climate action group with representatives from each division, chaired by our Group director of sustainability and procurement. New science-based GHG measurements and targets, put in place in response to increased demand from our employees and external stakeholders to reduce emissions. Where possible, the use of onsite energy generation and design for low carbon and climate change adaptation. Alternative fuels for our vehicle fleet and generators to reduce emissions. Working with our supply chain to help them set up processes to measure and report on their own emissions. Waste management plans in place within all divisions to reduce waste generated on site and waste transferred to landfill. ISO14001-compliant environmental systems in place within all construction divisions. Compliance with all applicable environmental requirements on our projects.



Develop and retain talented people

Talented, motivated people improve our performance, contribute to growth and are key to achieving our purpose. Employee surveys carried out by our divisions show that the majority of people are happy with their places of work, culture and leadership styles.

Risk and potential impact	Risk change in reporting period	Mitigating activities
<p>Failure to attract and retain talented people</p> <p>Talented people are needed to provide excellence in project delivery and customer service.</p> <p>Skills shortages in the construction industry remain an issue for the foreseeable future.</p>	<p>No change</p> <ul style="list-style-type: none"> • Brexit complicates the skills issue as availability of EU workers may reduce. However, in the short term, our divisions have not witnessed any discernible issues. • Our current success is helping us attract and retain people, reflected in high levels of applicants and falling voluntary employee turnover rates. • In divisions whose voluntary employee turnover was higher, improvements continue to be made to the working environment and investment made in technology and leadership training. • We are responding to the challenge of an ageing workforce and undertaking work to improve our diversity, such as working with Women into Construction to encourage more women to enter the industry and a returnships programme to provide opportunities for people returning to work following a career break. 	<ul style="list-style-type: none"> • Giving people empowerment and responsibility together with clear leadership and support. • Attractive working environments, remuneration packages, technology tools and wellbeing initiatives to help improve employees' working lives. • Annual appraisals providing two-way feedback on performance. • Succession planning that includes identifying and developing future skills. • Training and development to build skills and experience, such as our leadership development and graduate, trainee and apprenticeship programmes which continue to be well received. • Employee engagement surveys that ensure we target areas to improve employee satisfaction. • Divisional 'people boards' that meet twice a year to review talent in the business. • Monthly HR reports to the Board including reporting on leavers and joiners. • Interviews with leavers and joiners to understand the reasons for their decision.



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
<p>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 significant financial loss. There is a risk that credit checks undertaken in the past may no longer be valid.</p>	<p>Slight decrease</p> <ul style="list-style-type: none"> The previously fragile main contractor market has stabilised in the period and should provide a healthier platform for our supply chain partners whose finances and performance might otherwise have been stretched. Our cash position is not supported by any form of supply chain debtor finance and gives a clear indication of our health. With this, our strong balance sheet and shorter payment days, our supply chain partners regard us as dependable and reliable. 	<ul style="list-style-type: none"> A business strategy focused on the public sector and commercial clients in sound market sectors. A high proportion of our current secured workload is public sector-focused. Rigorous due diligence on commercial clients and supply chain partners, obtaining where necessary relevant securities in the form of guarantees, bonds, escrows and/or more favourable payment terms. A formal, multi-stage approval process before entering into contracts, supported by tender review boards. Formal JV selection due diligence and approval at Board executive director level, which includes seeking protection in the event of default by one of the partners. Working with preferred or approved suppliers where possible, which aids visibility of both financial and workload commitments. Monitoring supply chain utilisation to ensure we do not overstress their finances or operational resource. Rigorous monitoring of work in progress (uninvoiced income), debts and retentions.
<p>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.</p>	<p>No change</p> <ul style="list-style-type: none"> During the reporting period and for the foreseeable future, our average net daily cash continues to be healthy and clearly indicates the cash-backed nature of the business. Our balance sheet continues to provide certainty for our employees, clients and supply chain in an increasingly uncertain market. The strength of our balance sheet allows us to explore further investment in regeneration schemes and to continue to be selective in construction. 	<ul style="list-style-type: none"> Banking facilities committed 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
<p>Mismanagement of working capital and investments Poor management of working capital and investments leads to insufficient liquidity and funding problems.</p>	<p>No change</p> <ul style="list-style-type: none"> Our continuing focus on working capital management has enabled us to maintain a similar level to 2018 while improving our supply chain payment practices during the year. No material change is expected in 2020 as we target operating cash conversion of 100%. We have maintained a positive momentum in cash management in construction due to a combination of improved returns, and cash optimisation and conversion. Our average net daily cash for the period demonstrates our disciplined working capital management, but there are still areas for improvement that we are working on. 	<ul style="list-style-type: none"> Our delegated authorities require that capital and investment commitments are notified and signed off at key stages via senior level approval. Reinforcing a culture in the bidding and project teams of focusing on generating positive cash outcomes to ensure they meet expectations. Monitoring and management of working capital with acute focus on any overdue work in progress, debtors or retentions. Daily monitoring of cash levels and weekly cash forecast reports. 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
<p>Mispricing a contract If a contract is incorrectly costed this could lead to contract losses and an overall reduction in gross margin. It might also damage the relationship with the client and supply chain.</p>	<p>No change</p> <ul style="list-style-type: none"> Contract procurement routes and terms have remained favourable, as indicated by our outturn margins. When bidding for future work we have remained focused on selecting projects that are right for the business and match our risk appetite, as reflected in the quality of our secured workload. We continue to secure projects with repeat clients via negotiation, open book and framework style arrangements, with limited, selective open market bids, thus offering a higher probability of successful outcomes. 	<ul style="list-style-type: none"> A well-established bidding process with experienced estimating teams. A continued focus on key sectors means we are experienced in pricing projects and less likely to misprice than if entering new markets or bidding bespoke procurement products. A robust review of our pipeline and bids at key stages, including rigorous due diligence and risk assessment, and obtaining senior level approval. Project provision, where appropriate, for increase in cost and/or risk that hedges against inflationary and other project-related issues. A culture and strategy in Construction of prioritising selectivity over volume when bidding. Using the tender review process to challenge and mitigate rising supply chain costs.



Maximise efficiency of resources continued

Risk and potential impact	Risk change in reporting period	Mitigating activities
<p>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.</p>	<p>No change</p> <ul style="list-style-type: none"> Construction's order book maintains a greater proportion of repeat work, which means we are more likely to achieve sustainable and predictable outcomes via sensible 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 flag potential project issues, enabling intervention earlier in the construction cycle. 	<ul style="list-style-type: none"> Reviewing contract terms at tender stage and ensuring any 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 and impact on programme, cost and quality. Continued use and development of electronic dashboards for project management and change control, and commercial metrics designed to highlight areas of focus and provide early warnings. Where legal action is necessary, notifying the Board, taking appropriate advice and making suitable provision for costs.
<p>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.</p>	<p>No change</p> <ul style="list-style-type: none"> Our continued focus on project selectivity combined with the quality of our order book reduces the probability of poor performance. There is recognised stretch in the labour market which has been manageable in the short term but could be exacerbated by Brexit if the government does not continue to allow EU skills mobility. Digital business intelligence enhancements in Construction continue to develop in our pursuit of project- and pipeline-related early warning indicators that allow us to intervene. Following the Hackitt report on building regulations and fire safety and in advance of expected regulatory changes, Construction and Urban Regeneration have reviewed and updated their methodology and approach to ensure that project specifications are compliant. 	<ul style="list-style-type: none"> Incentivising project teams on Perfect Delivery¹ outcomes to achieve high levels of client satisfaction. Various initiatives delivered in Construction and Urban Regeneration that focus on improvements in product quality, predictability and client experience. Strategic supply chain trading arrangements that help to ensure we achieve predictable outcomes in quality and behaviours. Formal internal peer reviews that highlight areas of improvement and share best practice and 'lessons learned' exercises. Regular formal and informal stakeholder feedback, allowing us to intervene when required and refine 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
<p>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.</p>	<p>No change</p> <ul style="list-style-type: none"> All divisions have continued to develop solutions to improve efficiency, client service and employee satisfaction. Examples include BakerHicks' 'Risk Cube' (see page 10) which improves safety for clients when maintaining their buildings, and Urban Regeneration's 'Muse:well' campaign which includes activities for employees under the themes of wellbeing, charity, training and development, and environmental initiatives. Infrastructure in particular continues to work with leading UK companies who encourage innovation and optimised construction techniques and share in the risk and reward. This allows us to compete in areas with high barriers to entry while sharing new ideas across the Group; examples include Highways England, Thames Tideway and Sellafield. Our regeneration divisions utilise market-leading development structures which help unlock underperforming assets and differentiates our offering. This includes working with leading investment partners to create innovative funding solutions to improve the viability of schemes and facilitate early engagement. 	<ul style="list-style-type: none"> One of our core values is to challenge the status quo and innovation is therefore strongly encouraged. New ideas are welcomed from every employee, partner and supplier, with an emphasis on efficiency over bureaucracy. Our initiatives around quality of delivery and exceptional client experiences are not just founded on process, but are integral to our culture. Our employees enjoy working on high-profile, innovative projects that provide them with the opportunity to enhance their knowledge and experience. Business and IT come together via forums that sponsor and promote new innovations across the business.
<p>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.</p>	<p>No change</p> <ul style="list-style-type: none"> All our businesses are investing in significant new technology to enhance our stakeholder experience and improve efficiency. We see this trend continuing. In order to protect against increasing levels of cyber-attack, we have continued to invest in established information security controls and engaged an external security partner who advises on strategy. 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 migrated our active directory to Microsoft Azure as part of an estate update that is now being rolled out, including Office 365 and Windows 10. This will ensure we have the latest business software and that our data is secure and protected. 	<ul style="list-style-type: none"> A dedicated team focused on providing a stable and resilient IT environment, and continued investment in core infrastructure and applications. A centralised IT service that improves efficiency, oversight, reporting, security and performance, while divisional resource provides business-specific product support. Group-wide financial software that provides a fully integrated construction platform to manage the project life cycle. A dedicated information security team certified and accredited by key industry bodies, who create awareness and address threat alerts, risk and vulnerability prioritisation and response. Government-accredited security installations and certification to store protectively marked information. Certification to the government's Cyber Essentials Plus Scheme and ISO 27001.

Viability statement

As required by provision 31 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 23 to 32) to 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 2020 with the Group's budgeting cycle. This gives good visibility of future work as the majority of the Group's workload falls within three years and enables more specific forecasting as the Group's contracts follow a life cycle of three years or fewer. Consequently, it is deemed most appropriate to perform its medium-term planning over a three-year period.

The directors have compiled cash flow projections incorporating each division's detailed business plans with an overlay of Group level contingency. At Group level, the base case financial projections assume modest revenue growth, and improvements in both profit margin and return on capital employed in line with the Group's strategy and medium-term targets.

As per the business model, operating cash flows are assumed to broadly follow forecast profitability in the Group's construction activities, but are more independently variable in regeneration, driven by the timing of construction spend and programmed completions on schemes.

The base case business plan includes the Group maintaining positive daily average net cash for the entirety of the period reviewed. The Group has £180m of committed revolving credit facilities which mature in 2022. For the purposes of testing viability, it is assumed that an equivalent facility is available past its maturity. 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. As there are no individual risks which could materially impact the Group's viability, the downside scenarios are based on focusing on risks by division in a collective worst-case scenario and modelling the subsequent financial impact on the business plan. The divisional risks included poor contract selection and delivery, downturn in the UK economy, inability to win new business, downturn in the UK housing market, and significant delays in regeneration schemes.

In the event of this severe collection of scenarios, there is still a reasonable expectation that the Group will be able to continue in operation and meet its liabilities. In addition, the Board has considered a range of potential mitigating actions that may be available if this worst-case collection of scenarios arose.

Based on the results of its review and analysis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of its assessment until 31 December 2022.

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 (the organisation that runs a global disclosure system for companies to manage their environmental impacts), 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 2. Our performance against each Total Commitment is set out in our 2019 responsible business report which is available on our website. Further information on these matters can be found in the description of our business model on pages 6 to 8 and our key performance indicators on pages 11 and 12.

	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 climate change and the communities in which we work. Each division implements ISO 14001 environmental management systems to ensure that we protect the 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 procurement from sustainable sources.	<p>Our greenhouse gas (GHG) emissions data is independently verified by supply chain risk management company Achilles (see page 56).</p> <p>From 2020, we will be working with our subcontractors to help them disclose their own GHG emissions.</p> <p>We are in the process of setting up a 'waste desk' which will give our divisions access to better waste reporting systems and provide increased visibility and control of their waste streams.</p>	<p>See pages 55 to 57 for further detail on environmental matters including our GHG emissions and waste data.</p> <p>Minimising our environmental impact increases our ability to win work and attract talented employees.</p>	See page 27.
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. More information on the Board's engagement with employees can be found on page 49 and details of how the Board manages our culture are set out on page 45 and 46.	Developing and retaining talented people is one of our strategic objectives (see page 10). A diverse and qualified workforce helps us achieve two further strategic objectives: winning in our target markets and pursuing innovation. Our performance in employee-related KPIs can be found on page 11.	See page 28.
	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.	<p>A dignity at work e-learning module was released to all employees in 2019.</p> <p>See pages 2, 3, 7, 9, 10, 28, 49, 52, 54 and 55 for further detail on how we protect, develop and engage with our employees.</p>	
	We have a policy in place that sets out the process for raising concerns and commits to protecting employees and others who report, in good faith, suspected wrongdoing.	Our raising concerns procedures are regularly monitored and reviewed by the Board (see page 46).	In 2019, we received 4.3 raised concerns 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.	

	Policies	Due diligence in pursuance of policies	Outcomes of policies and impacts of activities	Related principal risks
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. Our social value bank, developed in 2019 to measure the social value generated by our projects, was used by two divisions in the year and will be rolled out to other divisions in 2020.	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 £343,000 was raised for or donated to charities in the year by the divisions.	
Human rights	We comply 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. We share modern slavery materials produced by the Gangmasters Labour Abuse Authority with our supply chain to raise awareness.	Employees complete respective e-learning modules on modern slavery and dignity at work. No incidences in the Group of human rights abuse or modern slavery were identified in 2019.	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 including the Modern Slavery Act 2015 and to carry out checks on rights to work, and we expect that they require the same of their own suppliers.
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 promote 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. There was no evidence of any systemic bribery and corrupt activity in 2019.	We do not regard corruption and bribery as a principal risk to the Group.

Section 172 statement

Section 172 of the Companies Act 2006 requires each director to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the Company's reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board directors have complied with these requirements. Details of the Board's decisions in 2019 to promote long-term success, and how it engaged with stakeholders and considered their interests when making those decisions, can be found throughout this strategic report and in the directors' and corporate governance report.

A key Board decision is ensuring that we continue to have the right strategy in place for sustainable growth. Details of our strategy, how it is resourced and the value generated for stakeholders are set out on pages 7, 8 and 10, and the 2019 strategy review is described on page 47. The Board monitors the Group's culture to ensure that high standards of business conduct are maintained.

Open, constructive dialogue with our employees and other key stakeholders is critical to inform the Board's decisions. While the Board has overall responsibility for managing relationships with all our stakeholders, our decentralised approach has led us to define which stakeholder groups are most practicably engaged with directly by the Board and which directly by the divisions. The Board supervises the divisions' engagement with their stakeholders, principally through monthly management meetings between the divisional senior management teams and the Group executive directors. The Board has identified its and the Company's key stakeholders as our shareholders, employees and funders. Our divisions manage relationships with their employees, clients, supply chain partners and local communities. Details of how we have engaged as a Group with our stakeholders can be found on page 9 of the strategic report. The Board's direct engagement with stakeholders is described on pages 48 and 49 in the directors' and corporate governance report; the Board's key decisions and the stakeholder groups considered during the decision-making process are set out on page 47; and the Board's monitoring of the Group's culture is described on pages 45 and 46.

With regard to the environment and broader community, planning and operational decisions made by the divisions will take into account the impact of our work in construction, infrastructure and regeneration. The Board, assisted by the health, safety and environment committee, monitors the Group's performance in relation to safety and the reduction of greenhouse gas emissions and waste.

Approval of strategic report

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

John Morgan

Chief Executive

20 February 2020

Governance

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UK Corporate Governance Code

As a UK premium-listed company, we have adopted a governance structure based on the principles of the UK Corporate Governance Code published in July 2018, which is available on the Financial Reporting Council's website at frc.org.uk. Further details of how we have applied the Code's principles and complied with its provisions are set out in this report, the remuneration report and, where appropriate, cross references to our strategic report and our 2019 responsible business report.

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

The Company entered the FTSE 250 on 27 February 2020 and will report fully on our obligations as a FTSE 250 company in our 2020 annual report.

Chair's statement

DEAR SHAREHOLDER

The Group performed very well in the year, with our strategic focus on construction and regeneration resulting in continued positive momentum. We delivered a 3% increase in revenue and an 11% increase in adjusted* profit before tax. Our balance sheet has remained strong, with an increase in average daily net cash from £99m to £109m and year-end net cash of £193m. We have continued to target growth markets while being selective in the work we take on and carefully managing risk. Our secured workload has increased in the year in terms of volume and also, importantly, in terms of quality. Looking forward to 2020, we are confident of another good year of progress and believe the Group is well-positioned to deliver on expectations.

Following the publication of the UK Corporate Governance Code 2018 ('the Code') we have restructured the 2019 directors' and corporate governance report to focus on the activities we have undertaken in particular in relation to:

- ensuring our culture continues to be aligned with our purpose and strategy; and
- engagement with our shareholders, workforce and other stakeholders to ensure that their views are being captured in Board discussions and decision-making.

Our culture

As chair, promoting a culture of openness and debate in the boardroom is one of my key responsibilities. Our 2019 evaluation of the Board's effectiveness confirmed that we have a collaborative and collegiate Board whose discussions are both challenging and constructive. The evaluation process was conducted internally and included a questionnaire completed by each Board member. We looked at the relationship between the executive directors and the non-executive directors as well as the effectiveness of each of the committees. The results did not raise any issues for the Board to address in terms of the way that we operate.

With regard to the culture of the Group as a whole, we as a Board play an important leadership role by demonstrating our commitment to the Group's long-established core values and our Total Commitments to being a responsible business. These values and Commitments give strength and cohesion across our decentralised businesses to ensure that the resources fundamental to our business model are nurtured to drive long-term profit and social value, for the benefit of our stakeholders. This report provides insight on how the Board monitors culture within the Group and the various indicators we use to identify any signs of misalignment which could impact the effective delivery of our strategy.

During the year, the Board reviewed the Group's arrangements for raising concerns to ensure that they are suitably robust. In total the Group received 28 reports via our raising concerns service. As a Board, we were satisfied that all reports had been correctly investigated and that where any further actions were needed in respect of the issues raised these had been dealt with in an appropriate way. The issues raised in the reports do not indicate that there are fundamental cultural issues within the business that we need to address.

Our stakeholders

As a Group, we have always sought to maintain an open dialogue with our stakeholders. This year, in accordance with our duty under section 172 of the Companies Act 2006, as a Board, we ensured that our stakeholders' needs and concerns were considered during our discussions and decision-making, and the likely consequences of our decisions in the longer term. Later in this report we set out in detail the principal decisions we made in the year, together with the stakeholder groups we considered.

With more than 6,700 employees across the Group, our employees are one of our key stakeholder groups. The Board's number one priority is the health, safety and wellbeing of our employees and anyone who comes into contact with our projects. I am pleased that we have a health, safety and environment committee which I regularly attend, that helps provide the Board with additional focus and insight.

We value our employees' contribution to the continued success of the Group. Their talent and hard work help us achieve excellence for our clients. We are committed to developing and motivating them to achieve their full potential, and our divisions work hard to ensure that their people are kept informed and engaged.

In terms of how we as a Board engage with employees, we have decided to adopt an alternative method to the three suggested options set out in the Code for engaging with the general workforce and have agreed that responsibility for this will be shared by all the non-executive directors. Given the structure and culture of our business, the size of our Board and the way we already review each of our divisions as part of the annual strategy review process, we consider this to be the most effective arrangement for ensuring that the Board can engage with as many employees as possible.

During the year, I attended two divisional meetings and each of the non-executive directors attended either an employee conference or employee engagement panel in different divisions as part of their annual divisional strategy reviews. These meetings gave me and the non-executive directors the opportunity to meet with a broad range of employees. We have all been extremely pleased to see evidence of our strong culture which has continued to positively differentiate us in terms of performance. I personally was most encouraged that so many members of our workforce who I met during the year feel genuinely proud about working for the Group and the wide variety of projects that we deliver.

Board developments

I am very pleased to welcome Jen Tippin to the Board. Jen, who joins as a non-executive director on 1 March 2020, will contribute her expertise in driving productivity and a fresh perspective that will ensure our Board discussions continue to benefit from diversity of thought and experience. We have a good mix of skills and experience to continue to effectively challenge and support the executive directors as well as providing specialist advice.

We remain committed to having a Board that is diverse in its widest sense, and over the next 12 months, we will focus on how we can improve diversity for the Board and the Group management team. We will continue to encourage management to find ways of improving diversity and inclusion in the wider succession pipeline.

In conclusion, I believe that by remaining faithful to our culture and core values and focusing on our strategy of construction and regeneration, we will continue to drive long-term, sustainable success for the Group and create value for all our stakeholders. Our forthcoming annual general meeting will be an opportunity for you to engage with our Board, including our newly-appointed director, and I look forward to meeting you there.

Michael Findlay

Chair

20 February 2020

Read more:

- ▣ Culture, see pages 45 and 46
- ▣ Raising concerns review, see page 46
- ▣ Principal decisions, see page 47
- ▣ Stakeholder engagement, see pages 48 and 49
- ▣ Board evaluation, see page 53

Board of directors

The Board is responsible to all stakeholders for the long-term success of the Group. As at the date of this report, the Board consists of the chair, two executive directors and three non-executive directors. All of the non-executive directors, including the chair, 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.

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 a non-executive director of Royal Mail plc and Jarrold & Sons Limited, and chair of Fin Capital Limited. Michael was previously the co-head of investment banking for the UK and Ireland at Bank of America Merrill Lynch, the senior independent director at UK Mail Group PLC and a non-executive director of The International Exhibition Co-Operative Wine Society Limited.

John Morgan Chief Executive

Appointed: October 1994

Skills, competencies and experience

John co-founded Morgan Lovell in 1977 which then merged 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. John has in-depth knowledge of both the construction and regeneration markets with significant leadership skills and experience. He champions the Group's decentralised business model that empowers our divisions to challenge the status quo, and keep innovating and winning in their respective markets.

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 was chair of the audit committee and a non-executive director of Consort Medical plc until 4 February 2020.

Malcolm Cooper Non-executive Director

Appointed: November 2015

Committee membership: audit (Chair); health, safety and environment (Chair); nomination; remuneration

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, senior independent director and new issues committee chair of MORhomes plc, non-executive director and audit committee chair at Southern Water Services Limited and audit committee member of Local Pensions Partnership. 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)

Skills, competencies and experience

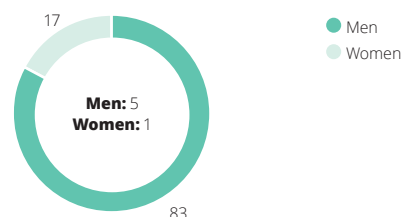
Tracey has wide-ranging expertise in the retail sector and extensive corporate and main board experience, including nominations, remuneration and corporate responsibility board sub-committees, the development of strategy and business planning and corporate governance.

Other roles

Tracey is executive director of people for the John Lewis Partnership. She is a member of the executive team and leads on shaping and delivering a distinctive and competitive employment proposition. She 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.

BOARD DIVERSITY

(as at 31 December 2019) (%)



David Lowden**Senior Independent 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, and chair of Huntsworth plc. He was formerly chair of the audit and risk committee at William Hill plc, and senior independent director of Berendsen, and was chief executive of Taylor Nelson Sofres plc having joined as group finance director in 1999.

Jen Tippin**Non-executive Director**

To be appointed: March 2020

Committee membership: nomination; remuneration

Skills, competencies and experience

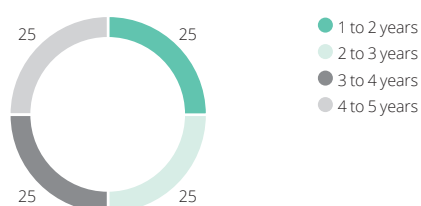
Jen has extensive strategic and commercial experience developed through her career at Lloyds Banking Group and in roles with Invensys and British Airways.

Other roles

Jen is group director of people and productivity and a member of the executive committee at Lloyds Banking Group plc. She is responsible for leading the people function, managing sourcing and supply chain management, property and divestment and development in addition to managing Lloyds Banking Group's cost base. Jen is a non-executive director of Lloyds Bank Corporate Markets and Kent Community NHS Foundation Trust.

TENURE OF NON-EXECUTIVE DIRECTORS

(as at 31 December 2019) (%)

**2019 BOARD AND COMMITTEE MEETING ATTENDANCE**

	Board	Audit	Health, safety and environment	Nomination	Remuneration
Total number of meetings in 2019	6	3	4	2	4
Michael Findlay ¹	6	3 ²	4 ²	2	4 ²
John Morgan	6			2 ²	3 ²
Steve Crummett	6	3 ²		2 ²	3 ²
Malcolm Cooper	6	3	4	2	4
Tracey Killen	6	3		2	4
David Lowden	6	3		2	4

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

² Attended by invitation.

Jen Tippin was not a member of the Board in 2019.

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 40 for biography.

Steve Crummett Finance Director

See page 40 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 its 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, where he started in 1990 as a senior development surveyor. Matt leads the division's activities across the UK. He is also on the board of the English Cities Fund (ECF), a £200m 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, investment and mixed-use regeneration.

Directors' and corporate governance report

Board leadership

The Board has ultimate responsibility for the management, governance, direction and performance of the Group as a whole. It sets the Group's strategic direction and governance framework, determines our risk appetite and works to deliver sustainable stakeholder value over the longer term. The Board ensures effective leadership through oversight and review of the business.

Board meetings are structured to allow open discussion. At each meeting the directors are made aware of the key discussions, recommendations and decisions of the Board's committees by the respective committee chairs. Minutes of Board and committee meetings are circulated to all directors after each meeting. Details of the principal decisions made by the Board during the year can be found on page 47.

The Board held six scheduled meetings during the year and additional meetings as required. All directors were present at each meeting. Further information on the attendance of each director at Board and committee meetings can be found on page 41.

The Board papers provide an overview of performance covering a range of both financial and non-financial matters. These papers are designed to assist the Board when reviewing performance against our key performance indicators (KPIs) to ensure that the resources integral to our business model are being maintained and that our performance against our strategic objectives and Total Commitments are continuously monitored. The Board is also provided with interim reports between the scheduled meetings. Sufficient time is allocated at the end of each Board meeting for the chair to meet with the senior independent director and non-executives without the executive directors present. No material issues were raised in the year at any of these meetings.

Board training and development

In order for our directors, particularly our non-executive directors, to discharge their responsibilities effectively, it is important that they understand the business of each division and how it contributes to the overall strategy of the Group. Each director undertakes a detailed induction programme on appointment and, thereafter, the chair reviews their ongoing training as part of their annual review. They also participate in Board training sessions (see page 53) and deep dives into key areas of focus which included briefings on cyber security, technology and the Task Force on Climate-related Financial Disclosures. All directors have access to the advice and services of the company secretary and there are agreed procedures by which directors can take independent professional advice, at the expense of the Company, on matters relating to their duties.

Division of responsibilities

The Board's responsibilities in respect of the Group include:

- determining overall strategy and long-term objectives;
- annual business plan and budget;
- determining risk appetite and principal risks;
- overall corporate governance arrangements including establishing a framework of prudent and effective controls which enable risk to be assessed and managed;
- approving the financial results statements, annual report and accounts and other statutory announcements; and
- considering all policy matters relating to the Company's activities including any major changes of policy.

There is a clear division of responsibilities between the chair, chief executive and senior independent director, set out in writing, approved by the Board and summarised on our website at morgansindall.com. There is also a division of responsibilities between the running of the Board and the running of the business, set out in writing as follows:

- matters reserved solely for the Board's decision-making and the terms of reference of each of the Board's committees. These are reviewed by the Board annually and can be found on our website;
- a schedule of delegated authorities, setting out which significant operational decisions the divisions must refer to the Board for approval;
- directors' duties under the Companies Act 2006 and various other legislation, which are communicated via induction packs and e-learning modules; and
- clear policies for all employees on the Group's expected standards to prevent misconduct and breach of ethical practices. These are published on each division's intranet and supplementary training is provided.

One of our core values is our decentralised philosophy which allows our divisions autonomy to operate in a way that most efficiently meets the needs of their respective markets and stakeholders. This approach is facilitated by our culture of openness, transparency and individual accountability. Our Board is mindful of the importance of preserving this unique culture which therefore forms a central part of any discussions on hiring and succession. We believe this approach is fundamental to the delivery of our strategy and the continued success of the Group.

The Board, assisted by its committees, is responsible for ensuring that the divisions have the right strategies in place for their businesses and are meeting their agreed objectives. The table below shows how our governance framework is structured.

How we are governed

The Board

The Board is collectively responsible for reviewing our purpose and setting strategy to ensure the Group's long-term success.

Chief executive

The chief executive, supported by the finance director, is responsible for leadership of the Group, developing and implementing strategy, managing overall Group performance and ensuring an effective leadership team.

Board committees

The Board delegates certain matters to its committees. The Board and its committees are supported by the company secretary who provides advice and assistance, particularly in relation to corporate governance and training and induction. The appointment and removal of the company secretary is a matter for the Board as a whole.

Group management team

Meets regularly to consider operational matters affecting the Group as a whole including: health and safety; strategy; risk; the Group budget; and our responsible business strategy.

Divisional boards

Each of our six divisions operates autonomously with its own board of directors that includes the Group chief executive and finance director. See below.

Risk committee

Meets twice a year to assist the Board and audit committee in monitoring risk management and internal control. See page 23.

Audit committee

Oversees the Group's corporate financial reporting, the internal controls and risk management systems, the work, findings and effectiveness of the internal and external audit and the appointment of the external auditor. See page 58.

Health, safety and environment committee

Oversees the Group's responsible business strategy, targets and performance with a particular focus on health, safety and the environment. See page 54.

Nomination committee

Oversees Board and committee composition, Board evaluation and succession planning, giving consideration to diversity including development opportunities for all employees. See page 50.

Remuneration committee

Responsible for recommending overall remuneration policy and the setting of remuneration for our executive directors and members of the Group management team. See page 66.

Cross-divisional health and safety, HR and commercial directors' forums, and climate action group

Divisional representatives meet on a regular basis to focus on specific topics and share ideas and best practice. The forums assist the Board and Group management team in ensuring good governance is adopted at all levels of the Group.

Responsibilities of the divisional boards

The divisions are responsible for setting their own five-year strategic plans for sign-off by the Board, for their operational performance and for managing relationships with their stakeholders (see page 9). In managing their operations, the divisions adhere to the schedule of delegated authorities referred to on page 23. The schedule clearly defines all key business issues and levels of accountability, stating which decisions are significant to the Group and therefore need to be referred for approval to: divisional managing directors; designated officers of the Group; the executive directors; or the Board. Each division then sets its own detailed procedures to cover day-to-day operational matters within its own internal management systems to ensure decisions within the delegated authorities are taken at the right level within the business. The executive directors, together with the Group head of audit and assurance who reports to the audit committee, are responsible for monitoring the divisions' compliance with the schedule of delegated authorities.

The executive directors meet with the divisional boards each month to review divisional performance. In preparation for these meetings, the divisions prepare a monthly board pack detailing performance against strategy and any issues pertaining to their stakeholders.

The Board receives an executive summary of the divisional board packs as part of each set of Board meeting and interim papers. In addition, the Board holds informal meetings with the directors and senior management teams of two divisions each year. This allows the non-executive directors to meet operational managers and discuss a range of topics in a less formal setting. In June and October 2019, the Board held informal meetings with Fit Out and Partnership Housing respectively.

Culture

The Company's purpose has been refreshed as 'inspiring talent to deliver excellence in the built environment' to ensure it is clear, aligned to our culture, supported by our strategy and understood by all stakeholders. Our core values are focused on valuing our stakeholders, attracting and empowering talented people and driving the right behaviours for the Group to succeed. Our Total Commitments ensure we all work responsibly and conduct our activities ethically. Our culture provides an environment in which our workforce can operate safely, act instinctively with integrity, develop strong and long-term relationships with clients and suppliers, and are treated fairly and with respect. This way we can innovate, evolve and successfully deliver our strategic objectives.

Our executive directors promote the core values and Total Commitments throughout the Group. They run sessions on the core values at our leadership development programme and since the beginning of 2020 the finance director heads our responsible business forum.

The Board as whole is responsible for ensuring that our culture is maintained. It does this by meeting with employees and senior managers, reviewing our Group policies, monitoring the results of our e-learning programmes that, in 2019, covered competition law and dignity at work, and reading regular reports from the divisions on how they are operating their businesses.

The table below sets out how the Board monitors our culture to ensure that behaviours remain aligned with our core values.



The customer comes first

What we monitor and measure

- divisional customer satisfaction surveys including Perfect Delivery¹ statistics and net promoter scores;
- biennial stakeholder engagement surveys; and
- feedback from suppliers.

The executive directors keep the Board updated with key projects over a certain threshold. Additionally, the executive directors update the Board with any material issues arising on contracts which may impact a division or the Group as a whole.

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

Board action in 2019

Reviewed divisional board summaries which include information on key clients and suppliers and the performance of contracts.

Approved divisional strategic plans which include information on key clients and client feedback.

Strategic report and page 47



Talented people are key to our success

What we monitor and measure

- health and safety performance;
- voluntary staff turnover;
- number of apprentices and new graduates;
- average training days per employee;
- e-learning responses;
- lost time incidents;
- absence days due to sickness per person per year;
- succession planning and talent pipelines;
- results from employee engagement surveys and resulting actions taken; and
- diversity of our workforce including gender pay gap information.

Board action in 2019

Regular monitoring of health and safety performance is a priority for the Board and is the first agenda item for all Board meetings.

Approved the invitation to the all-employee Savings-Related Share Option Plan.

Reviewed and approved our gender pay gap report.

Reviewed Group succession planning including reports on how the divisions are managing employee development and addressing diversity and inclusivity in our workforce.

Reviewed and approved our modern slavery statement (see page 46).

Received reports on feedback from each division's employee engagement survey on key issues raised.

Considered wider pay across the Group to ensure it aligns with strategy and is appropriate to attract and retain the right talent.

Health, safety and environment committee report, nomination committee report, remuneration committee report and 2019 responsible business report



We must challenge the status quo

What we monitor and measure

The Board receives information on various initiatives being adopted across the divisions to support our Total Commitments.

The Board receives information on new digital systems that improve operational efficiency and mitigate risk (see page 32).

Board action in 2019

Reviewed 2018 responsible business report and monitored performance in 2019 against Total Commitments.

Members of the Board attended the senior management conference where they were able to see how the Company facilitates and encourages senior managers to engage and connect with each other within their own divisions and across divisions. This helps create new ideas and drive innovation. Further information can be found on page 49.

Strategic report and 2019 responsible business report



Consistent achievement is key to our future

What we monitor and measure

- financial performance of each division and overall Group;
- Perfect Delivery or other success measures e.g. NHBC (National House Building Council) star rating/customer experience questionnaires/Net Promoter score;
- supplier payments; and
- average daily net cash.

The executive directors monitor divisional performance on a monthly basis via divisional senior management meetings and Group management team meetings.

Board action in 2019

Reviewed payment practices reporting and divisional actions to drive down average payment days.

Reviewed and approved the going concern and long-term viability statements.

Approved full-year and half-year results announcements, and approved proposed dividend payments.

Reviewed Group and divisional performance against strategy.

Strategic report and 2019 responsible business report



We operate a decentralised philosophy

What we monitor and measure

The executive directors ensure the divisions are addressing the needs of their clients and markets and that decisions are not held up by unnecessary bureaucracy.

The Group's arrangements to allow employees and others working on our projects to raise concerns confidentially.

The Board reviews the appropriateness of the delegated authorities to ensure that the right authorities are in place so that employees can make decisions appropriate to their experience and competence.

Board action in 2019

A robust risk management process is built into our governance framework which is monitored by the audit committee.

Reviewed raising concerns procedures (see below).

Reviewed e-learning programmes.

Audit committee report

Modern slavery

The Board annually reviews and approves the Group's modern slavery statement. The 2018 statement is available on our website at morgansindall.com 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 2015.

Our 2019 statement will be published in the first half of 2020, reporting against the following KPIs:

- staff training levels;
- activities that we undertake to support the Gangmasters and Labour Abuse Authority's construction forum;
- our evaluation of the impact of the ELS BES 6002 Ethical Labour Sourcing standard on the Group; and
- investigations undertaken into any reports of modern slavery and remedial actions taken in response.

Raising concerns review










The Board reviews our arrangements for raising concerns twice a year and monitors all reports of non-compliance with our procedures. Such reports are raised predominantly through an independent hotline which enables employees and those who work on our projects to report concerns anonymously and in confidence. The hotline reporting mechanisms are explained to all employees on induction, repeated throughout our e-learning courses and publicised on our intranets and office and site notice boards. All reports raised during the year were fully investigated.

The top three issues raised related to concerns over: bullying, discrimination and harassment; unprofessional behaviour; and health and safety issues, such as substance or alcohol abuse. The Board is satisfied that none of the issues raised are systemic across the Group and that they were isolated to either individuals or specific circumstances.

Key matters considered by the Board

Board and committee activities are organised throughout the year to address the matters reserved for the Board. Due to our decentralised structure, the Board as a whole has supervisory responsibility for the Group's operations. The Board therefore made a limited number of principal decisions during the year that were material to the Group as a whole. There were no material contracts during the year that required referral to the Board under the matters reserved for it, although, each division required approval from the executive directors on certain contracts over thresholds set out in our schedule of delegated authorities.

An overview of the Board's principal decisions during the year, including how the Board has taken into account the factors set out in section 172 of the Companies Act 2006 ('the Act'), is set out below. From the Board's engagement with its stakeholders (see pages 48 and 49), there were no specific issues raised during the year that influenced these decisions.


Principal decision	Action taken	Outcome	Key stakeholder groups considered
Strategy review Related strategic objectives:    	Comprehensively reviewed progress against strategy and tracked performance against agreed KPIs. Attended presentations from each divisional managing director on their strategic plan. Monitored market trends, including the macroenvironment, supported by comparative data and customer insight. Considered the impact of the strategic plan on the retention and development of employees. Reviewed the Group's long-term financial outlook, and assessed and prioritised growth opportunities. Reviewed the Group's five-year strategic plan and divisional strategic plans and priorities to ensure they remained fit for purpose (see page 48 for detail of the process).	Approved the five-year strategic plan and divisional business plans and priorities.	In approving the strategy and business plans, the views of all our stakeholders were considered. Our success depends on good relations with members of our workforce, customers and supply chain.
Setting the annual Group budget Related strategic objectives:   	Tracked performance of the Group budget against agreed KPIs. Reviewed Group and divisional budgets which form the basis for setting the overall Group budget. Reviewed general market conditions and key trends that support the Group's future growth (see pages 4 and 5 of the strategic report). Reviewed budgeted expenditure on training, health and safety and employee wellbeing to ensure that it was broadly equivalent to the prior year's budget. Reviewed the contribution that the budget will make to delivery of the five-year strategic plan.	Approved the Group budget, ensuring that it is suitably stretching but achievable to contribute to the Group's long-term growth.	In approving the budget, the Board considered the impact on all stakeholders Prior to approving and recommending the interim and final dividend payments [†] , the Board considers the future cash requirements of the business, shareholder expectations and the need to provide our shareholders with sustainable returns over the longer term.
Determining the Group's risk appetite Related strategic objectives:  	Considered any changes to the Group's principal risks and emerging risks that could impact the Group's long-term strategic plans. Considered the balance and breadth of the Group's activities to ensure we have a reasonable level of protection against risks arising from uncertainties in the macroeconomic environment. Reviewed general market conditions and key trends to identify and assess future risks and opportunities.	Lowered the Group's risk appetite in relation to health and safety to reflect the Board's ambition to keep reducing the net risk of accidents. Updated and approved the appropriateness of the Group risk appetite including the risk management framework.	In approving the risk appetite, the Board considered the impact on all stakeholders, in particular those identified in the principal risks section on pages 23 to 32.


KEY

 Win in targeted markets

 Develop and retain talented people

 Disciplined use of capital

 Maximise efficiency of resources

 Pursue innovation

[†] Please refer to the notice to readers at the front of this report.

Strategy review process

The Board's review of the Group and divisional strategic plans follows a dedicated and structured process:



Engagement with stakeholders

The Board considers the needs and priorities of each of the Group's stakeholders during its discussions and as part of its decision-making process. This, together with considering the long-term consequences of decisions and maintaining our reputation, is integral to the way the Board operates.

The diagram below summarises the Board's understanding of the key interests of our stakeholders:

Clients	Workforce	Supply chain	Communities	Shareholders	Funders
Excellent customer service experience, with perfect delivery of projects on time and to budget.	A fair, respectful and safe environment to work in, health and wellbeing, investment in personal development and career progression, support for agile working, promoting inclusion and diversity and an open and honest culture.	Fair treatment and respect, with prompt payment for work undertaken in a safe working environment.	That we operate as a considerate contractor, causing minimal impact from our activities, creating social value through employment opportunities and helping people back to work, and investing in the local community by using local suppliers and services.	Robust financial and risk management, growth in share price, sound capital investment decisions, effective communication of strategy and a progressive dividend policy.	Robust working capital management and risk management.

Both the Board and the divisions engage directly with the Group's workforce. With regard to our clients, supply chain and communities, these groups are recognised by the Board as integral to our business model and as such are considered by the Board in its discussions. However, our decentralised structure means that in practice, our clients, supply chain and communities vary with each division and therefore the divisions manage day-to-day engagement with these groups. Our Group director of sustainability and procurement assists in managing relationships with those subcontractors and suppliers who are common to more than one division. Detailed descriptions of how the divisions engage with these stakeholders are set out on page 9 of the strategic report and in our 2019 responsible business report.

The Board engages directly with the Group's shareholders, workforce and funders, and has undertaken the following activities in 2019:

Shareholders

Providing sustainable returns to our shareholders is a key factor in the Board's decision-making. The chair and the non-executive directors are available to meet with shareholders to listen to their views. During 2019 the chair of the remuneration committee consulted with the Group's top ten institutional shareholders, the Investment Association and Institutional Shareholder Services regarding proposed changes to the Group's remuneration policy (see page 70). No shareholders requested meetings with the chair in 2019.

The executive directors undertake a programme of regular communication with institutional shareholders and analysts covering the Company's activities, performance and strategy. 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, the Investment Association and Pensions & Investment Research Consultants are circulated to the Board ahead of our annual general meeting (AGM) each year and the Company's corporate brokers present directly to the Board on shareholder views. We encourage all shareholders to attend our AGM and meet with the directors informally before and after the meeting.

Senior management forum

A reception for financial analysts and institutional investors was held in November 2019, providing an opportunity for them to meet with the divisional managing directors.

Workforce

During the year, the chair and the non-executive directors attended meetings with the employees of the divisions whose strategic plans they were reviewing. These meetings included discussions with groups of employees with no managers present, discussions during site visits and attendance at divisional staff conferences or employee forums. The chair and non-executive directors gave feedback on these meetings at two separate Board meetings where a review of employee engagement had been scheduled. In addition, the Board was provided with an overview of the results of the employee engagement surveys carried out by the divisions along with details of any actions taken to address issues raised. Most of our divisions use external agencies to undertake their employee engagement surveys and provide benchmarking data for extra context on the results. Feedback from the meetings and the employee engagement surveys re-confirmed the Group's open and transparent culture and no issues of concern were raised.

As a result of our divisional engagement surveys, we have put plans in place to:

- improve how we increase employees' understanding of our business strategy and the role they can play in delivering it; and
- more actively promote flexible working initiatives across the Group to help people improve their work-life balance.

The executive directors keep our employees informed of our financial performance through newsletters, email notifications and briefing sessions, and make them aware of any external factors and significant events that might have an impact. See page 9 for further detail on how we engage with our employees.

Senior management team conference

The chair and two of the non-executive directors attended our senior management conference in October, which gave them the opportunity to meet around 88 managers from across the Group and gain insight into how best practice is shared between the divisions. The 2019 conference focused on how to drive business improvement and stakeholder engagement and included a mix of formal sessions and networking opportunities.

Funders

The Group's finance director and director of tax and treasury meet with the Group's banks and performance bond issuers to discuss the full-year and half-year results and to update them on the Group's performance and discuss any expectations they may have. These meetings are important in ensuring that the Group has loan and bond facilities available. The finance director advised the Board that no issues or concerns had arisen during the course of these meetings that the Board needed to consider in its discussion and decision-making. See page 21 for further information.

Nomination committee report

MEMBERSHIP AND MEETINGS

Members ¹	Member since	Attended/scheduled
Michael Findlay ² (Chair)	2016	2/2
Malcolm Cooper	2015	2/2
Tracey Killen	2017	2/2
David Lowden	2018	2/2

¹ Biographies of members are set out on pages 40 and 41. John Morgan and Steve Crummett are not members of the committee although they are invited to attend meetings.

² Michael Findlay is not permitted to chair meetings where his own succession and performance are discussed.

DEAR SHAREHOLDER

The composition of the Board and its committees and succession planning for the Board and Group management team have remained a key focus. While there were no changes to the Board's composition announced during the year, the committee reviewed the combination of skills, experience, knowledge and length of tenure of the existing non-executives. As a result, the committee agreed that an expansion in the number of non-executive directors would be appropriate to further broaden the expertise and diversity of the Board.

This year, the committee again assessed the Board's effectiveness by way of performance reviews of individual directors and their contribution to the Board's decision-making and by conducting an evaluation review of the Board and the committees, with an in-depth focus on the remuneration and health, safety and environment committees.

The committee also considered progress against the recommendations and priorities from the 2018 Board evaluation review. We are pleased to report that the Board has acted on and implemented the various actions on the continuing training and development of directors resulting from the 2018 evaluation and has made further recommendations on the content of the Board papers following the 2019 evaluation.

Board composition and succession planning

The committee keeps under regular review the skills needed to deliver Group strategy. This includes ensuring that the Board and its committees have the appropriate combination of skills, relevant experience and diversity as well as considering potential skills that may be required for the future. One of the committee's main responsibilities during the latter part of the year was the process of identifying and selecting a new non-executive director.

Having considered the skills, experience and time commitment required for the non-executive role, and the length of tenure of the existing non-executive directors, the committee prepared a detailed profile for the role. 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 head hunters, the sub-committee appointed Odgers Berndtson, accredited under the Enhanced Code of Conduct 2019, to assist with the process. Odgers Berndtson were asked to provide a full and diverse list of potential candidates from a broad range of industries, which involved looking beyond more obvious candidates. The sub-committee identified a shortlist of candidates suggested by Odgers Berndtson and, following meetings with each of these candidates, identified a further shortlist for the other Board members to meet.

After completing this process in January 2020, the Board was delighted to appoint Jen Tippin as a non-executive director, to take effect from 1 March 2020. Jen's extensive strategic and commercial expertise will further broaden the expertise on the Board and will add valuable knowledge and insight to Board discussions. Jen will become a member of the nomination and remuneration committees following her appointment. Odgers Berndtson does not provide any other services to, or have any connection with, the Company.

Prior to their appointment, new directors are asked to disclose any significant commitments they have together with an indication of the time involved, so that the Board can take these external demands on their time into account. We also have a process in place whereby all existing directors will seek Board approval prior to accepting an external appointment. In accordance with this process, the Board approved during the year the appointments of Michael Findlay to Royal Mail plc, David Lowden to Huntsworth plc and Malcolm Cooper to Southern Water Services Limited.

The committee will continue to monitor the balance of the Board to ensure that broad and relevant expertise is evident in existing members and will recommend further appointments as necessary. Each director who held office at the year end was subject to the formal evaluation process described on page 53 and continues to be an effective member of the Board. In accordance with the UK Corporate Governance Code, all directors will stand for election or re-election at the forthcoming AGM (further information on the 2020 AGM can be found on page 144 and on our website).

Jen Tippin**Succession planning in action****September 2019**

Following consideration of the existing skills and experience on the Board, a candidate profile was drafted and Odgers Berndtson was appointed to identify a shortlist of candidates.

**October to December 2019**

Candidates were interviewed by the chair and chief executive, and a selection of shortlisted candidates were interviewed by other Board members.

**January 2020**

Appointment of Jen Tippin to the Board, nomination and remuneration committees announced, effective 1 March 2020.

**February 2020**

Jen to begin her formal induction programme.

Group succession planning

The committee annually reviews each division's plan for developing its talent pool. We aim to ensure we have appropriate opportunities in place to develop and retain people who are key to delivering our strategy and to ensure that diversity is considered at all levels across our business.

Each of our divisions uses succession and development planning tools appropriate to the size and requirements of its business. As part of the succession planning process, consideration is given to: contingency succession for sudden or unexpected departures; the medium term for orderly replacement of employees, for example, planned retirement; and the longer term, which considers the skills needed both now and in the future in order to deliver our strategic objectives.

Developing and retaining talented people is fundamental to achieving excellence in project delivery and customer service, and to ensuring a steady pipeline of successors. We have a leadership development programme in place which provides core and consistent leadership training for senior employees across the Group. In addition, each division has its own technical and business training programmes in place to develop the skills its business and its employees need. These programmes range from apprenticeships and graduate training to continued learning and supporting employees through professional qualifications. Where practically possible, each division considers existing employees for new roles and development opportunities, and in 2019, 8% of employees across the Group were promoted internally. See our strategic report on pages 2, 3, 9, 10 and 11 and our 2019 responsible business report on our website for more information.

During the year, the committee also reviewed the succession plans for the executive directors and the Group management team and was satisfied that appropriate succession plans are in place across the Group.

Diversity

GENDER SPLITS

	2019		2018	
	Men	Women	Men	Women
Board ¹	5	1	5	1
Senior management (Group management team) ¹	11	1	11	1
Group management team direct reports ²	68	8	64	6
Wider employees	4,936	1,561	4,743	1,448
Number of employees at 31 December, on which data is based	6,497		6,206	

¹ John Morgan and Steve Crummett are included in both the Board and senior management numbers.

² Excludes John Morgan's direct reports as these are all members of the Group management team.

We believe that a diverse Board reflecting different skills, backgrounds, perspective and experience is critical for innovation and enables us to benefit from a wider range of ideas and expertise. The Board's diversity policy sets out its commitment to inclusion and equal opportunity within the Board and among all employees in the Group. Female representation on the Board in 2019 was 17% and will increase to 29% on 1 March 2020 when Jen Tippin joins. As a committee we ensure our selection processes for directors provide access to a diverse range of candidates and we will only use executive search firms who have signed up to the UK Standard Voluntary Code of Conduct on Gender Diversity. Board appointments will be made based on merit and objective criteria such as the skills and experience needed, without resorting to quotas but with due regard for the benefits of diversity.

While Jen's appointment has improved the diversity of the Board, we recognise that we need to do more to improve diversity elsewhere in the Group, particularly with regard to senior managers. In 2020, we will focus more on talent management and succession planning in lower levels of the Group to help build a diverse pipeline for the Group management team and their direct reports.

Having a diverse team of people across the Group at all levels will help us make better decisions for our business and our stakeholders. We consider diversity in the broadest sense, including in terms of age, gender, ethnicity, culture, socio-economic background, disability and sexuality. We also value and encourage diversity of thought, perspective and experience. We recognise that the new ideas and innovations that a diverse and inclusive workforce brings are critical to our future.

We are committed to equal opportunities and fairness in our recruitment, development, promotion and reward practices. This includes 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. Our policies and procedures fully support our disabled colleagues, which includes making reasonable adjustments to roles and responsibilities and providing training and support to ensure disabled employees are treated fairly and have opportunities for promotion and career development identical to those of other employees.

Our aim is to provide all employees with opportunities to develop their careers and maintain a healthy work-life balance, in an inclusive and empowered culture underpinned by respect. As we are a decentralised organisation, each division is responsible for designing and implementing initiatives to support these aims. Through our HR forum, which is made up of the HR leads in each division, the divisions share best practice and experience of initiatives introduced to improve inclusivity. All divisions offer employees a flexible approach to working arrangements and career paths to support them in managing their work and personal lives. Across the Group, we have developed various relationships with schools and colleges to raise awareness of career opportunities within the industry and the Group. Our Construction & Infrastructure division has set up a returnship programme which offers people returning to work after an extended career break the opportunity to complete a three-month fixed term contract. During the contract, individuals undertake structured skills training to help them build their confidence in a work environment. Construction & Infrastructure has also introduced a variety of family-friendly working practices such as a parental buddy system for those returning from family leave. Further details of our divisions' initiatives can be found in our 2019 responsible business report and our gender pay gap report.

Gender pay gap

This is the third year that we have disclosed information on our gender pay gap and the information in the table below is based on amounts paid to April 2019. The definition of pay shown is an hourly pay rate for each relevant employee as at 5 April of the relevant year, reflecting base salary and certain allowances. The bonus figures shown include total variable pay over the previous 12 months (bonus paid plus any proceeds on exercise of our 2014 Share Option Plan or vesting of Long-Term Investment Plan awards). It is disappointing to note that we have made negligible progress in narrowing our gender pay gap in terms of both the mean hourly pay gap (20bps improvement since 2018) and the median hourly pay gap (80bps improvement since 2018). Unfortunately, both the median and mean bonus gaps have widened over the last 12 months (6.8% and 9% increase respectively since 2018). Our bonus gap remains high and reflects a higher number of senior male employees in the Group, who would typically receive higher levels of bonus due to their seniority.

At 24%, our female workforce is higher than the industry average but women are still under-represented in senior roles. Women make up 9% of the upper pay quartile compared to 37% in the lower quartile. Various initiatives have been introduced across the Group to attract more women into the industry at junior levels, however, it will take time for their careers to be developed into more senior roles.

GROUP GENDER PAY GAP

Pay element	Male	Female	% difference	Male	Female	% difference
	April 2019			April 2018		
Mean hourly pay	28.42	19.33	32.0	27.39	18.57	32.2
Median hourly pay	23.50	16.18	31.2	22.52	15.32	32.0
Proportion of employees receiving a bonus	74%	72%	n/a	66%	61%	n/a
Mean bonus	£15,036.55	£6,508.75	56.7	£15,554.53	£8,139.54	47.7
Median bonus	£6,000.00	£3,437.50	42.7	£5,848.16	£3,749.25	35.9

Board evaluation

The Board assesses its effectiveness by reviewing each individual director's performance, contribution and time commitment to meet their responsibilities to the Board. In addition, a formal evaluation of the Board and its effectiveness is carried out by the chair assisted by the company secretary. The 2018 evaluation involved a review of key areas of focus agreed following the 2017 evaluation. As a result of the review, the Board agreed to consider key topics for short training sessions prior to Board meetings to support the continued training and development of directors. Training sessions on corporate governance were scheduled into the Board calendar later in 2018 and throughout 2019, with topics including directors' duties under section 172 of the Act and long-term investor and shareholder trends. Each session was run by an independent third party and designed to deepen the Board's knowledge to make future decision-making more effective. In addition, all directors participate in the Group's e-learning programme.

The 2019 evaluation also reviewed the effectiveness of the committees with a particular focus on the remuneration and health, safety and environment committees and the value that the executive and non-executive directors get from each other. It was designed to provide the Board with insights into the effectiveness of the relationship between the executive and non-executive directors and the Board committees. As part of the process, 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 role and experience. The senior independent director reviewed the chair's performance with the other directors and subsequently met with him to provide feedback. Overall, no significant issues were highlighted in the feedback given to each director and the chair. The committee is satisfied with the contributions and time commitment of each of the non-executive directors and the chair and is confident that each of the non-executive directors remains independent and will be in a position to discharge their duties and responsibilities for the coming year.

The results of the 2019 evaluation confirmed that the Board and its committees had acted on and implemented the various actions resulting from the 2018 evaluation. The Board determined that the results did not highlight any concerns in the effectiveness of the committees, although it was agreed that Tracey Killen and David Lowden would attend future meetings of the health, safety and environment committee if they were available. The 2019 evaluation did not raise any issues for the Board to address in terms of its future composition and the way that it operates and confirmed that the Board has a collaborative and collegiate culture which encourages an open and respectful approach in discussions and with wide-ranging input from all directors. As part of the evaluation discussion, the Board reviewed the Board papers and agreed to change their format with standard reports being included in an appendix.

2019 evaluation process

Evaluation questionnaire developed based on the key areas of focus.



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



Whole Board discussed the results and agreed issues to address.



Chair reviewed each director's contributions with them individually.



Senior independent director led Board appraisal of chair's performance.

In discussing the 2020 evaluation, the Board considered whether or not we should adopt an externally facilitated process, as we are outside the FTSE 350. Due to the open and transparent nature of all of the directors, the Board believes that it should continue to use a formal, internal process. The agreed process for the 2020 Board evaluation will therefore be based on:

- a questionnaire for each Board member to complete, developed by the chair with the assistance of the company secretary;
- the chair identifying any issues arising from the results;
- the chair holding meetings with each director to discuss the issues raised from the results and any other concerns that they may have;
- the chair reporting back to the Board on any issues raised and potential recommendations to address them; and
- the Board as a whole discussing the issues raised and potential recommendations and agreeing any actions to be undertaken.

2020 priorities

During 2020, 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;
- reducing the Group's gender pay gap; and
- reviewing progress against our activities to further improve inclusivity and diversity across the Group.

Michael Findlay

Chair of the nomination committee
20 February 2020

Health, safety and environment committee report

MEMBERSHIP AND MEETINGS

Members ¹	Member since	Attended/scheduled
Malcolm Cooper (Chair)	2017	4/4
Andy Saul	2015	3/4
Clare Sheridan	2018	4/4

¹ Members' biographies are disclosed on pages 40 to 42. Although not a member of the committee, Michael Findlay attends the meetings on a regular basis and attended all the health, safety and environment committee meetings during 2019.

DEAR SHAREHOLDER

We are committed to protecting the health, safety and wellbeing of everyone connected with our business. We recognise that we operate in a hazardous industry with unique safety, health and environmental challenges and risks facing each of our divisions. We therefore promote a strong safety culture which encourages our workforce to do the right thing so that everyone who works on our projects can get home safely. During the year, the health, safety and environment (HSE) committee visited our joint venture project at Thames Tideway and Property Services' contract for the City of Westminster. The teams at both projects showed a real commitment to safety and to minimising the environmental impact of their work.

Despite concentrated efforts across the Group, our progress in reducing the number of RIDDOR¹ reportable accidents over the last 12 months has slowed. There were 41 incidents compared to 39 in 2018, although our accident frequency rate² of 0.08 remained unchanged. In 2019 we reduced the number of accidents that resulted in absence from work (lost time incidents) to 131 from 156 in 2018. Over the next 12 months, our divisions will continue to focus on learning from high potential incidents (those incurred that could potentially have resulted in serious injury) and reducing the higher number of incidents that occur in Spring and Autumn each year.

There were no environmental incidents in 2019 for the Group and we have been working with our supply chain to encourage them to assist us in our reporting requirements for Scope 3 greenhouse gas (GHG) emissions against our science-based targets.

Our responsible business strategy consists of our Total Commitments, set out on page 2, which are aligned to six UN sustainable development goals. We continue to make progress in delivering social value across our projects and towards achieving our Total Commitment targets. More information on our Total Commitments targets and performance can be found in our 2019 responsible business report on our website.

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.

Activities during the year

The committee has a 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. The Group's health and safety forum, made up of the health and safety managers from each division, meets quarterly to share best practice and details of any lessons learned. The forum is responsible for providing the committee with information for its consideration at each meeting. Monthly monitoring and reporting to the Board includes a written 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 committee chair following each meeting.

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 2018, the framework was reviewed and updated by the health and safety forum and approved by the committee. During the year, the committee monitored and reviewed each division's progress in the framework's three key areas: safety trends identified within high potential incidents, occupational health and wellbeing including mental health and wellbeing, and innovative ways to further improve health and safety identified by each division, focusing predominantly on each of their top three risks. To date, no trends have been identified in the high potential incident data as the number of incidents remains small. In 2020, the health and safety framework will remain focused on the same issues.

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.

The committee recognises the work being undertaken across our divisions to improve our overall health and safety performance. However, we continuously strive for further improvement and from 1 January 2019 we introduced lost time incidents as a new health and safety performance KPI. In addition, each of our divisions is working on initiatives to reduce all accidents on site including those that do not result in any lost time.

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 2019 responsible business report.

Site visits

In March 2019, the committee visited Construction & Infrastructure's Thames Tideway project, the 'super sewer' being undertaken as a design and build contract in joint venture for Tideway. The works are being carried out to the west section of the tunnel and, when complete, will reduce the amount of pollution in the Thames. The committee met with the project director and health and safety director to discuss the project in general with a particular focus on the health and safety arrangements on site. All site workers attend an immersive health and safety session with various other work-specific induction initiatives in place. The site team is also working with seven communities across four local authorities and has provided work placement and apprenticeship opportunities as well as roles for local residents. Overall, the committee was satisfied with the health and safety arrangements, and the site appeared well presented, organised and tidy.

In September 2019, the committee visited Property Services' contract for City of Westminster which started in 2017. The committee met with the partnership director and several members of the Property Services team to focus on how they mitigate risks and how they ensure safe-by-design systems of work and that procedures are followed. The committee also met with two engineers to discuss the health and safety procedures relevant to lone working. The committee was satisfied that health and safety was a high priority within the team.

The committee intends to continue making site visits as part of its annual work programme.

Health and wellbeing

As part of its annual work plan, the committee reviewed the progress being made to further improve health and wellbeing across the Group. Each of the divisions continues to focus on supporting employees in managing their own mental health and wellbeing. The number of employees attending Mental Health First Aid (MHFA) and awareness training has increased across the Group and Construction & Infrastructure now has 307 in-house MHFA trainers. The division has taken part in the charity Mind's Workplace Wellbeing Index for three years and in 2019 was awarded a gold standard in recognition of its long-term commitment to employee mental health. Urban Regeneration has introduced a 'Muse:well' campaign which involves events throughout the year under four themes including wellbeing, and Investments supports the 'Time to Change' Employer Pledge to promote mental wellbeing in the workplace.

A monthly newsletter with news and advice on getting the most from life and work was introduced during the year. The employee assistance programme which provides confidential counselling and support on a variety of issues and a digital GP service which provides quicker and more convenient access to a medical professional continue to be available to all employees.

Improving the environment

We are committed to minimising our environmental impact, both now and in the longer term. We balance this with the need to undertake construction activities for our clients which can have a direct and indirect impact on the environment.

Where possible, our divisions encourage clients to consider more environmentally sustainable products with a longer life expectancy. We also seek to deliver projects in ways that will minimise their impact on the environment by re-using waste and reducing our carbon impact as well as extending the life cycle of the buildings that we construct. A large element of our work includes regenerating city centres and old buildings that are no longer fit for purpose. Our regeneration schemes are designed to improve the quality of the places in which people work as well as to maximise the use of public transport where possible. We advise clients on how to construct their buildings to withstand extreme weather events such as flooding and rising temperatures.

Responsibility for ensuring that our projects are undertaken with minimal impact to the environment is delegated to our divisions under the Group's schedule of delegated authorities.

Under its terms of reference, the committee is responsible for assessing the impact of climate change on the Group's operations, which includes:

- at least twice a year, consideration of reports on the Group's environmental performance; and
- at least once a year, a review of the Group's environmental strategy.

The HSE committee does not have a remit to consider the financial implications of climate change on the Group.

Our strategy

Our Total Commitment to 'improving the environment' sets out our strategy for managing our environmental impact. It was originally developed in 2008 and has been refined over the years to reflect changing priorities of the Group and our various stakeholders. Within this Commitment we focus on climate change and caring for the natural environment by reducing our carbon footprint and minimising and/or re-using and recycling our waste where possible. Our Commitment sets clear KPIs and targets for measuring our performance and driving improvement. Our GHG emissions data has been independently audited since 2008 by supply chain risk management company Achilles, under its Certified Emissions Measurement and Reduction Scheme (CEMARS). In 2018, we achieved accreditation for our science-based targets which were rolled out across the Group in 2019, one of the first construction companies to do so. These targets will help us contribute towards keeping the global average temperature increase well below 2°C and support the needs of the business in the future.

Our construction divisions have ISO 18001-accredited environmental management systems to underpin their environmental activities. The divisions are responsible for managing their environmental impact at an operational level and for identifying environmental risks and opportunities specific to their individual businesses. Their collective performance contributes to the Group's KPIs and achievement of the targets.

CDP

CDP is a not-for-profit organisation that runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Out of 478 UK companies submitting a climate change disclosure, we were one of 25 companies to achieve an A- position. We were delighted to achieve this accolade for the fourth consecutive year, as clear recognition of our efforts to reduce our emissions and manage our environmental impact.

Risks

Climate change and governmental actions to reduce the impact could affect us in a number of ways:

- design solutions currently considered exceptional could become the norm;
- measures aimed at reducing climate change, such as a carbon tax or zero net deforestation requirements, could be introduced which could impact costs and/or flexibility of operations;
- workforce and material productivity or availability may be affected by extremes of temperature or reduced availability of water, causing higher capital investment and operational expenditure; and
- increased frequency of extreme weather, such as floods and storms, could cause increased incidence of disruption to individual developments and projects and to our supply network.

Our approach to identifying and managing the environmental risks in our business is set out on page 27. In addition, we are increasingly subject to climate change regulation and requirements for us to reduce our own GHG emissions as well as helping our supply chain and clients to reduce theirs.

Our performance in 2019

Waste

Our total waste produced in 2019 increased by 20% and our waste intensity (total waste produced per £m of revenue) by 16%. Our level of waste is impacted by the nature of our activities, however, we carefully manage the waste produced on our sites and seek to reduce it where possible. In 2019, we began the process of establishing a Group-wide waste desk facility to introduce more rigour into our waste management.

WASTE

	2019	2018	2017
Total waste produced (tonnes)	1,087,246	907,539	687,803
Percentage of waste diverted from landfill	95%	95%	89%
Waste intensity	354.0	305.4	246.3
Revenue	£3,071m	£2,972m	£2,793m

GHG emissions

Reducing greenhouse gas emissions is an important area of focus for us and is one of our KPIs. We support the Paris Agreement and have committed to reduce our Scope 1 and Scope 2 emissions by 11% against our 2016 baseline of 24,136 CO₂e tonnes by 2025 and 56% by 2050.

Our 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 Achilles' recertification audit of our energy data. 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. In line with our science-based targets, we aim to reduce our Scope 1¹ and 2² emissions by 5% against our 2016 baseline by 2020. Our Group director of sustainability and procurement is responsible for overseeing the divisions' delivery of this target.

GHG EMISSIONS (CO₂E TONNES)

	2019	2018	2017	2016 baseline
Scope 1 – operation of facilities ¹	18,124	19,934	19,559	17,201
Scope 2 – indirect emissions (purchased energy) ²	2,779	3,632	5,337	6,935
Scope 3 – indirect emissions (related activities) ³	6,339	5,863	3,548	6,634
Total emissions	27,242	29,429	28,444	30,770

1 Direct emissions from owned or controlled sources.

2 Indirect emissions generated from purchased energy.

3 All indirect emissions not included in Scope 2 that occur in our value chain.

We achieved a total reduction in GHG emissions of 11% against our 2016 baseline and a 57% reduction against our 2010 results. This includes a 13% reduction in our Scope 1 and 2 emissions against our 2016 baseline, which significantly exceeds our target of 5% reduction by 2020.

In June the Board approved for submission our second report under the Energy Savings Opportunity Scheme (ESOS) which requires us to undertake an ESOS assessment every four years. The assessment included the audit of six projects that are representative of energy use across the wider Group. Cost-effective energy efficiency recommendations were identified from the audits which include:

- improve metering and record-keeping of electricity consumption;
- replace fluorescent tube lighting with LED alternatives;
- improve data gathering to understand the Group's fleet energy efficiency better;
- improve policy and procurement standards to increase the take-up of electric and hybrid vehicles under the company car scheme and in the Group's commercial vehicle fleet;
- offset business travel with high-quality web-based alternatives such as the use of video conferencing to facilitate greater online collaboration;
- apply 'switch off' software and 'last man out' policies in offices and sites and to IT equipment and use timer switches where suitable on canteen/kitchen equipment; and
- install occupancy sensors for lighting in meeting rooms and site offices.

We continue to investigate ways to reduce our GHG emissions and believe we can make the biggest impact going forward by reducing our Scope 3 emissions, which include those of our subcontractors when working on our projects. From 2020, we will be working with our subcontractors to help them manage and report their own emissions so that they can disclose them in the future.

CARBON INTENSITY

	2019	2018	2017	2016 baseline
Total emissions (CO ₂ e tonnes)	27,242	29,429	28,444	30,770
Carbon intensity	8.9	9.9	10.2	12.0
Revenue	£3,071m	£2,972m	£2,793m	£2,562m

Our total tonnes of CO₂e have reduced from 30,770 tonnes to 27,242 and our carbon intensity (GHG emissions per £m of revenue) has reduced by 26% against our 2016 baseline.

Further details of our environmental performance are contained in our 2019 responsible business report.

Responsible business strategy

The committee reviewed our responsible business strategy to ensure that our Total Commitments remain relevant and appropriate. Additionally, the committee monitored the Group's performance in the year against our Total Commitments. In 2019, two of our divisions began using the social value bank (SVB) that we developed in conjunction with Simetrica which enables us to measure the value of economic, social and environmental wellbeing generated from our activities (see our 2019 responsible business report for more information). The SVB will be rolled out across the Group in 2020. Also in 2020, we will be launching an e-learning course to all employees on our responsible business strategy and Total Commitments.

Looking ahead

In 2020, the committee will:

- continue to challenge the divisions to seek further reductions in the number of lost time incidents and all accidents;
- review the divisions' data in respect of high potential incidents;
- review continuing actions to further protect our workforce's health and wellbeing;
- continue to review the Group's environmental performance including risks and opportunities in relation to climate change;
- review how we will address the Task Force on Climate-related Financial Disclosures requirements;
- review our performance against our Total Commitments;
- review our responsible business strategy and health and safety policy framework; and
- undertake site visits.

Malcolm Cooper

Chair of the health, safety and environment committee
20 February 2020

Audit committee report

MEMBERSHIP AND MEETINGS

Members ¹	Member since	Attended/scheduled
Malcolm Cooper ² (Chair)	2015	3/3
Tracey Killen	2017	3/3
David Lowden	2018	3/3

¹ Biographies of members are set out on pages 40 and 41. In addition to committee members, meetings are regularly attended by: the 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.

² Malcolm Cooper is a qualified accountant and experienced FTSE 250 audit committee chair. He continues to have recent and relevant financial experience for the audit committee of a company in the construction and regeneration sectors.

DEAR SHAREHOLDER

During 2019, the committee's key focus was on the integrity of: the Group's financial reporting; financial judgements and shared equity loans; levels of materiality; process of risk management and internal controls; and audit tender process. 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 UK Corporate Governance Code ('the Code'), having regard to the recommendations of the Financial Reporting Council (FRC) in its guidance on audit committees.

The Board evaluation for 2019 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 Code, and the committee as a whole has the competence, diverse skills and experience relevant to the sector.

The committee's key activities during the year are set out below, and further information on its work, including full descriptions of the risk management and internal control processes, is set out on the following pages.

Key activities during the year

Activity	Actions taken	Outcomes
Financial reporting	<ul style="list-style-type: none"> Reviewed the integrity of the half-year and full-year financial and narrative statements; undertook fair, balanced and understandable review of the 2018 annual report; reviewed significant accounting judgements for the 2018 audit; reviewed the 2018 going concern and viability assessments; and conducted an initial review of the 2019 going concern and viability assessments. 	<ul style="list-style-type: none"> Advised the Board in relation to the fair, balanced and understandable assessment of the Company's position and prospects; and confirmed to the Board that the committee was satisfied with the integrity of the half-year and full-year financial statements and that the going concern and viability assessments were appropriate.
External auditor	<ul style="list-style-type: none"> Reviewed independence and effectiveness of the external audit function; evaluated performance of the auditor during the 2019 audit; and reviewed and discussed the audit tender proposal with a focus on audit quality. 	<ul style="list-style-type: none"> Recommended reappointment of Deloitte LLP; approved the audit fee for the year ended 2019; and approved the proposed audit tender process to be conducted in 2020.
Risk management and internal controls	<ul style="list-style-type: none"> Formally reviewed the risk identification process and Group and divisional risk registers; reviewed independence and effectiveness of the Group's internal financial controls; evaluated performance of the Group head of assurance in connection with the 2019 audit plan; and reviewed appropriateness of the 2020 proposed internal audit plan. 	<ul style="list-style-type: none"> Advised the Board in relation to the outcome of its risk management reviews; confirmed continuing effectiveness and independence of the internal financial controls and audit team; and approved the 2020 internal audit plan.

Financial reporting

The directors are responsible for preparing the annual report and accounts, and 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 22. In addition, the committee reviewed the significant accounting judgements for the 2019 audit (see below) and considered and approved the key assumptions in the long-term viability statement (see page 33 for further information).

Fair, balanced and understandable assessment

One of the key provisions of the 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 36). 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
<p>Contract revenue, margin, receivables and payables</p> <p>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.</p>	<p>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 clients or suppliers, the committee has reviewed the status of these key contract issues at each audit committee meeting.</p>	<p>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.</p>
<p>Impairment of goodwill</p>	<p>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.</p>	<p>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.</p>
<p>Valuation of shared equity receivables</p> <p>The valuation of shared equity receivables is reliant upon the assumptions made by the management team and the accompanying valuation model.</p>	<p>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.</p>	<p>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.</p>

External 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, the committee 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 2019 and reviewed progress against the audit plan at the meeting held in December 2019, 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 external 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 90 to 98. During the year, the company's 2017 audit was reviewed by the FRC's Audit Quality Review team having been finalised in early 2019. The committee discussed the report with the auditors and there were no significant findings. An action plan was agreed in respect of other findings. 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 concerns arose in the course of these reviews which indicated issues with 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 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 previous years' reports, while not subject to the provisions set out within the 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 2019 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 2019 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 115 and total £6,200 (0.5% of the audit fee), incurred for work in respect of the half-year report.

Risk management and internal controls

The Group's risk management process and our system of internal controls were in place for the whole year and up to the date of approval of the annual report and are in line with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The audit committee is tasked with assessing and reviewing emerging risks and keeping our internal control system under review.

Risk review

In August and December, the committee conducted a formal review of the Group and divisional risk registers, following detailed reviews by the divisions and the risk committee. This included a review of the process by which the risks were identified. Overall, the committee noted no significant changes to the Group's principal or emerging risks, although it noted an increase in the level of macroeconomic risk. The committee considers that the Group's risk profile is continuing to improve due to our strong cash performance and strengthened balance sheet.

Review of internal controls

The committee reviewed the effectiveness of the Group's system of internal controls, including: the relationship between the internal and external audit function; the results of internal audit work; and the overall effectiveness of the internal audit process.

Our internal controls:

Financial

- **Financial reporting system** – to ensure the effective safeguarding of assets, proper recognition of liabilities and accurate reporting of profits; a comprehensive budgeting and forecasting system regularly reviewed and updated; a management reporting system including monthly divisional reports to the Board; and financial reviews in the annual internal audit plan to validate the integrity of divisional management accounts.
- **Investment and capital expenditure** – detailed procedures and defined levels of authority, depending on the value and nature of the investment or contract, in relation to corporate transactions, investment, capital expenditure, significant cost commitments and asset disposals.
- **Working capital** – continual monitoring of current and forecast cash and working capital balances through a regime of daily and monthly reporting.

Operational

- **Group structure** – divisional management boards, with certain key functions such as tax, treasury, internal audit, IT, pensions and insurance retained at Company level; and a system of delegated authorities to ensure that decisions are made at the appropriate level.
- **Tender, project selection and contract controls** – tenders reviewed in detail with approval required at relevant levels and at various stages from the start of the bidding process through to contract award; assessment of the financial standing of clients and key subcontractors; and robust procedures to manage ongoing contract risks, with monthly reviews of each contract's performance.

Compliance

- **Legal compliance** – monitored by divisional commercial directors and HR managers, and the Group commercial director and general counsel; training is provided on health and safety, competition law, bribery and corruption and market abuse.
- **ISO accreditation** – includes 9001 (quality), 14001 (environmental), 18001/45001 (occupational health and safety) and 27001 (information security management).
- **Corporate governance framework and Group policies** – written guidance and policies at Group and divisional levels.

Internal audit

The internal audit function is managed by our Group head of audit and assurance, who oversees the divisional heads of internal audit and assists with risk management. Each year, following a review of divisional and Group risk registers, an audit plan is drawn up which is reviewed and approved by the committee, ensuring that it aligns to the Group's principal risks.

At each meeting, the committee receives a report from the Group head of audit and assurance that includes details of audit assignments carried out across the Group, including operational, project and financial reviews; metrics showing progress made against the audit plan; updates on Group and divisional risk registers; a log of any concerns raised; market soundings on macroeconomic and sector conditions; and an update on the internal audit resource.

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.

Each year the committee assesses the effectiveness of the internal audit function. In its 2019 assessment the committee:

- met with the Group head of audit and assurance separately without management present to discuss the effectiveness of the internal audit function; no new matters or issues were raised that had not already been reported by the executive directors;
- reviewed and assessed the audit plan;
- reviewed whether necessary actions were being taken promptly to address any failing or weakness identified by internal control audits;
- reviewed whether the causes of the failing or weakness indicates poor decision-making, a need for more extensive monitoring or a reassessment of the effectiveness of management's ongoing processes; 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 2019 and it was satisfied that the internal audit and internal controls were operating effectively and that the internal audit team was adequately staffed and remained independent, and that the risk to their independence and objectivity was low.

Looking ahead

In 2020, the committee will continue its focus on:

- the integrity of the Group's financial reporting;
- risk management and internal controls; and
- the appointment of a new external auditor.

Malcolm Cooper

Chair of the audit committee
20 February 2020

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 2019.

The strategic report is presented on pages 1 to 36 inclusive. The directors' report required under 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 Guidance and Transparency Rules (Rule 4.1) comprises the strategic report which includes the principal risks to our business.

Directors

Biographical details are shown earlier in the directors' and corporate governance report. The directors of the Company who served during the year are shown on page 82 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 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 undertakings, 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.

Conflicts of interest

The Board has an agreed approach for dealing with the directors' conflicts of interest duties under the Act. Responsibility for authorising conflicts of interest in accordance with the Articles is included in the schedule of matters reserved for the Board. In December 2019, 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 pages 40 and 41.

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, 28,569 ordinary shares were allotted to satisfy amounts under the Group's Savings-Related Share Option Plan.

As at 31 December 2019, the issued share capital totalled 45,489,985 ordinary shares of 5p each. Further details of the issued share capital are 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 8 May 2019 to allot relevant securities up to a nominal amount of £757,877. That authority will apply until the conclusion of this year's AGM or close of business on 8 August 2020, 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 8 May 2019, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,547,263 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 8 August 2020, 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 21.0p was paid on 28 October 2019 and the directors recommend a final dividend of 38.0p, making a total for the year of 59.0p[†]. Further details can be found in note 7 to the consolidated financial statements on page 117. Subject to shareholder approval at the 2020 AGM, the final dividend will be paid on 19 May 2020 to shareholders on the register at close of business on 24 April 2020.[†]

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

Zedra Trust Company (Guernsey) Limited, 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 waived its right to both the final and interim dividends payable in 2019 and abstained from voting at the AGM. Details of the shares so held may be found in the consolidated financial statements on page 103.

[†] Please refer to the notice to readers at the front of this report.

Substantial shareholdings

As at 31 December 2019 the following information has been disclosed to the Company under the FCA's Disclosure Guidance and Transparency Rules (Rule 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	4,469,168	9.83	Indirect
J O Hambro Capital Management Group Ltd	4,464,544	9.82	Indirect
Numis Nominees (Client) Limited <Morgan02> and <Morgan03> ³	4,284,519	9.42	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 20 February 2020, the following shareholders had notified the Company in accordance with DTR 5 that their indirect interest in the total voting rights of the Company was:

- Blackrock: 2,498,690 (5.47%); and
- J O Hambro Capital Management Group: 2,236,346 (4.92%).

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 2019.

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 29 and 30. 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 103 of the consolidated financial statements), there are no disclosures required to be made under UK Listing Rule 9.8.4.

Disclosure of information to the external auditor

The directors who held office at the date of approval of 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 20 February 2020.

John Morgan
Chief Executive

Remuneration committee report

MEMBERSHIP AND MEETINGS

Members ¹	Member since	Attended/scheduled
Tracey Killen (Chair) ²	2017	4/4
Malcolm Cooper	2015	4/4
David Lowden	2018	4/4

¹ Biographies of members are set out on pages 40 and 41. Michael Findlay, John Morgan and Steve Crummett attended meetings by invitation.

² Tracey Killen took over as chair on 4 May 2018.

DEAR SHAREHOLDER

I am pleased to present our remuneration report for the year ended 31 December 2019. This report aims to set out how the Group pays our directors, decisions made on their pay and how much they have received in relation to the last financial year.

Our remuneration policy is due for renewal this year and we have set out in detail a proposed updated policy which will be subject to a binding vote at the 2020 annual general meeting (AGM).

Executive remuneration in context

Our remuneration policy is designed to be sustainable and simple, and to encourage the effective stewardship that is vital to delivering our strategy of creating long-term value for all stakeholders. It promotes long-term sustainable performance through significant deferral of remuneration in shares. Executive directors are expected to build and maintain substantial personal shareholdings in the business.

Performance-related components of remuneration form a significant portion of the total remuneration opportunity, with the maximum potential reward only available through the achievement of stretching performance targets based on measures that the committee believes reflect the interests of shareholders.

The extent of their responsibilities means executive directors are well paid, but the policy is designed to, among other things, ensure that they are not overpaid. Reference points such as the ratio of the chief executive's pay to the median pay for all employees and the policy for wider workforce remuneration are important to us, in addition to the use of external benchmark data when considering executive pay levels. In determining the remuneration of the executive directors and senior managers, we consider the performance of the business during the financial year in question and over the longer term.

We are committed to being open and transparent in our approach. As a committee we strive to keep remuneration arrangements clear, consistent and simple to facilitate effective stakeholder scrutiny. We have therefore made minimal changes to the policy as the current arrangements are embedded in the business and well understood both internally and externally.

The committee has not formally consulted with employees in respect of the design of the remuneration policy, but will keep this under review.

Performance in 2019

In 2019, the Group delivered very good results, reflecting the quality of the work we have won and our operational delivery. The strength of our balance sheet and cash generation have remained high priorities for the Board, enabling us to continue selecting the right construction contracts and investing in long-term regeneration schemes that secure future earnings (see the strategic report on pages 1 to 36 for further information).

	2019	2018	change
Revenue	£3,071m	£2,972m	+3%
Profit before tax – adjusted*	£90.4m	£81.6m	+11%
Average daily net cash	£108.9m	£98.8m	+10%
Basic earnings per share – adjusted*	161.2p	151.8p	+6%
Share price at 31 December	£16.20	£10.54	54%

* See note 2 for alternative performance definitions and reconciliations.

Over 2019, the directors have continued to focus on our strategy, ensuring that the business is in the best position financially to withstand economic uncertainty and able to take advantage of opportunities as and when they arise.

Reflecting the positive results set out above, the executive directors will each receive a bonus of 116% of salary, of which 30% will be deferred in shares for three years. Long-Term Incentive Plan (LTIP) awards granted in 2017, which vest on three-year performance to 31 December 2019 (two thirds on earnings per share (EPS) and one third on relative total shareholder return (TSR)), will vest 100%. The committee satisfied itself that this outcome reflected the underlying performance of the business over the relevant period.

The committee has not exercised its discretion in respect of the annual bonus payable or LTIP awards due to the remuneration outcomes for executive directors during the year.

Key objectives of the remuneration committee:

To assess and make recommendations to the Board on the policies for executive remuneration and reward packages for the individual executive directors.

Responsibilities:

- determining, on behalf of the Board, the policy on the remuneration of the chair, the executive directors and the Group management team;
- determining the total remuneration packages for these individuals including any compensation on termination of office;
- approving the design of our annual bonus arrangements and LTIP awards, including the performance targets that apply;
- operating within recognised principles of good governance; and
- preparing an annual report on directors' remuneration.

Review of remuneration policy

The current remuneration policy was approved by shareholders at the 2017 AGM and, in accordance with the applicable regulations, the three-year term of the policy will expire at the 2020 AGM. We have therefore reviewed our remuneration arrangements with the aim of ensuring that they continue to support the Company's strategy and motivate and retain the talent we require.

In short, the committee considers that the existing remuneration structure comprising salary, pension, benefits, annual bonus and a single long-term incentive remains appropriate. We have in place a simple annual bonus plan which rewards adjusted* profit before tax (PBTA*) growth, and a long-term incentive which rewards adjusted* EPS growth and relative TSR over three years. The committee reviewed the payouts from these incentives over the last three years and believes that they have been well aligned with the Company's performance and is not proposing any substantive changes to the structure of our incentives for executive directors.

In undertaking its review, the committee has also been mindful of developments in remuneration governance best practice since the policy was last approved.

While many of the prevailing themes of the UK Corporate Governance Code 2018 are already incorporated in our policy, as part of the review we consulted with the Company's major shareholders and prominent proxy agencies on the following revisions:

- **pension arrangements** – reflecting best practice in this area, we are proposing that new executive appointees to the Board receive pension contributions of 6% of salary in line with the wider employee population. No changes have been made at this stage to pension contributions for existing executive directors which, at 10% of salary, are aligned with those available to the senior management population; and
- **post-employment share ownership** – acknowledging that this remains an evolving area, we are proposing that directors be required to maintain a shareholding for up to two years after employment ceases. In year one, they will be required to hold shares up to the value of two times their basic salary and in year two to hold shares up to the value of their basic salary.

Feedback received during the shareholder consultation process was positive and the committee therefore made no changes to the proposals which are contained in the policy report. No other changes have been made to the policy other than minor amendments for clarification purposes.

As a committee we believe that this renewed policy, inclusive of the changes noted above, is fit for purpose in terms of meeting stakeholders' requirements that directors take a longer-term approach.

Proposed remuneration arrangements for 2020

Under its amended terms of reference, the committee now has responsibility for setting pay for the Group management team as well as the executive directors. In setting the remuneration for 2020 for the executive directors and Group management team, the committee also considers the remuneration offered to the workforce as a whole and any proposed changes.

This includes considering the structure of remuneration offerings within each division to ensure there is a strong rationale for how packages evolve across the different levels of the organisation. In addition to being a core principle of the committee, there is a clear culture in our business of ensuring we offer competitive and fair pay to all employees. The committee also considers the chief executive pay ratio which we are reporting on for the first time this year. Full details of the approach taken and resulting ratios can be found on page 85.

As part of our review, we have taken account of feedback received from shareholders in relation to the AGM in May 2019 as well as any additional feedback received during the consultation with our major shareholders on the proposed changes to the policy.

Fixed pay

From 1 January 2020, 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 Group. No changes have been made to benefit provision.

Annual cash bonus

The executive directors are entitled to an annual cash bonus of up to 125% of basic salary of which 30% is subject to deferral in shares for three years. The bonus targets for 2020 are again based on PBTA*, and full details of the targets will be disclosed in the 2020 remuneration report.

Long-term incentive plan

The executive directors will each receive LTIP awards equivalent to 150% of basic salary. Any shares that vest will be subject to a two-year holding period post vesting. For 2020, EPS targets will be equivalent to a compound growth rate of 6%–13% per year over the three-year period, while the three-year 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 and 2019 awards), a target which the committee believes is broadly equivalent to an upper quartile level of performance.

We value the support which shareholders have provided, as reflected in the feedback from our engagement and the votes on remuneration at our 2019 AGM. We hope to continue to receive your support at the forthcoming AGM.

Tracey Killen

Chair of the remuneration committee
20 February 2020

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- Remuneration overview, see page 68
- Directors' remuneration policy, see page 72
- Annual report on remuneration, see page 81
- Single total figure of remuneration, see page 81
- Outstanding interests under share schemes, see page 83
- Other disclosures, see page 84
- Implementation of the remuneration policy for 2020, see page 87

Remuneration overview

Remuneration philosophy

The key principles of our approach to executive remuneration are to ensure that it:

- 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.

Remuneration across the Group

£499,107,619

spend on total pay

76%

of employees received a pay increase

3%

average pay increase across the Group

73%

of employees received a bonus

£7,851

average bonus paid

Gender pay gap reporting

32%

mean gender pay gap

31%

median gender pay gap

57%

mean bonus gap

43%

median bonus gap

For further information see page 52.

Chief executive remuneration

£2,185,744

single figure 2019

(See page 81.)

-14%

change in total remuneration from 2018

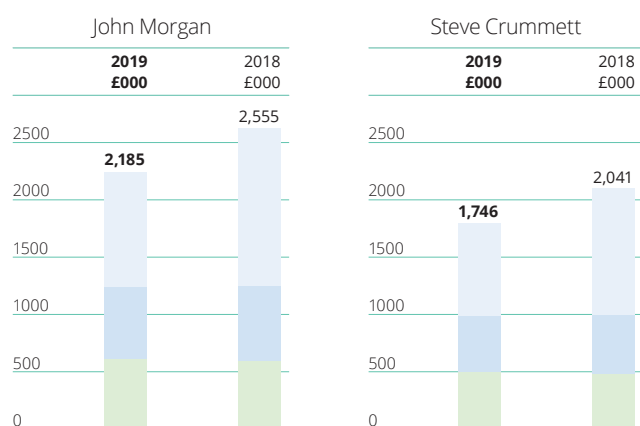
-4%

change in annual bonus received from 2018

100%

of 2017 LTIP award vesting

Summary of 2019 executive remuneration



	2019 £000	2018 £000	2019 £000	2018 £000
Basic salary	520	505	415	403
Benefits	24	24	24	23
Pension allowance	52	50	41	40
Annual cash bonus paid in cash	423	443	337	352
Annual cash bonus deferred into shares	181	189	144	151
Value of long-term incentives vested	985	1,344	785	1,072

	2019 Maximum (excluding share price growth) £000	2019 Actual (excluding share price growth) £000	2019 Actual (including share price growth) £000
John Morgan			
Fixed pay	597	597	597
Annual bonus	651	605	605
LTIP	753	753	985
Total	2,000	1,954	2,187
Steve Crummett			
Fixed pay	480	480	480
Annual bonus	519	482	482
LTIP	600	600	785
Total	1,599	1,563	1,748

2020 remuneration

The table below shows how we intend to operate the policy in 2020. The reward philosophy and principles remain unchanged and therefore the policy will renew, subject to shareholder approval, at the 2020 AGM on broadly the same basis as the previous policy. The full policy is set out on pages 72 to 80.

	Element	Maximum	2020	2021	2022	2023	2024	2025
Fixed pay	Salary	Any increases are generally in line with those for the workforce as a whole	Salary paid: chief executive £536k (+3%) finance director £427k (+3%)					
	Benefits	Market competitive	Benefits provided					
	Pension	10% of basic salary	Pension paid					
Variable pay	Annual bonus	125% of salary with 30% of any bonus earned deferred	Targets for annual cash bonus set at start of the year	Cash element of bonus paid (up to 70% of bonus earned)			Nil cost options vest	
	LTIP	150% of salary	LTIP awards granted in March			LTIP performance conditions tested		Holding period ends
Additional governance	Recovery and withholding	All incentives	Malus and clawback: misstatement, serious misconduct, error in calculation, corporate failure.					
	Share ownership requirement	200% of salary						
	Post-employment	LTIP and deferred bonus plan shares	Holding requirement for LTIP shares and net deferred bonus nil cost options that have not vested or been exercised. Required to hold equivalent of 200% of salary for year one post-employment, reducing to 100% of salary in year two.					

Proposed changes to the remuneration policy

	Pay element	Current policy	New policy
Fixed pay	Pension	<ul style="list-style-type: none"> Directors who are members of the Morgan Sindall Retirement Savings Plan (‘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. The Company will contribute up to 10% of basic salary to the defined contribution pension scheme, the Retirement Plan or 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). 	<ul style="list-style-type: none"> New executive directors will receive an employer’s contribution in line with that offered to the majority of employees (currently 6% of basic salary).
Additional governance	Post-employment shareholdings	Not applicable.	<p>Executive directors will be required to maintain the following shareholdings after they have stepped down from the Board:</p> <p>For the first 12 months, the lower of:</p> <ul style="list-style-type: none"> their shareholding at the time of leaving the business (excluding individually-purchased shares); and 200% of basic salary (this being the current in-post shareholding guideline). <p>For the second 12 months (i.e. between 12 months and 24 months), the lower of:</p> <ul style="list-style-type: none"> their shareholding at the time of leaving the business (excluding individually-purchased shares); and 100% of basic salary (this being half of the current in-post shareholding guideline). <p>At the end of 24 months, the directors will be free to sell the remainder of their shareholding if they wish.</p>

Factors in renewing the policy

In renewing the policy, the committee considered a range of factors, one of which included alignment with pay practices across the Group. The table below illustrates how remuneration policy and practice compare across the different groups of employees.

	Salary	Benefits	Pension	Short-term incentive	Long-term incentive
Executive directors	Basic salary levels take into account market-competitive levels. Any increases are normally in line with those for the wider workforce.	A range of market competitive benefits are offered in line with the wider workforce.	10% of salary employer contribution to the Retirement Plan.	Annual cash bonus plan linked 100% to Group performance. 30% of the total award is deferred in nil cost options.	The LTIP is a share award with performance linked to three-year EPS and TSR performance.
Group management team				Annual cash bonus plan linked 100% to divisional or Group performance.	
Senior management				Divisional or Group annual cash bonus plan linked to both business and personal performance.	
Wider workforce	Basic salary levels are set in line with market requirements or subject to working rule agreements where applicable.	A range of market competitive benefits are offered. Individual benefits received depend on role and seniority.	Varies by division. Typical employer contribution of 6% of salary. Monthly-paid employees are offered the Retirement Plan and weekly-paid employees are offered the opportunity to join the B&CE's People's Pension. Both plans are defined contribution. Weekly-paid employees are offered contributions in line with the working rule agreement.	Depending on role, a proportion of employees will participate in their divisional or the Group annual cash bonus plan linked to a mix of business and/or personal performance.	Depending on role, employees may be invited to participate in the 2014 SOP which is linked to EPS performance. All employees are invited to participate in the Savings-Related Share Option Plan.

Remuneration policy

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

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

Should shareholders approve the changes which are being sought at the 2020 AGM, the new policy will be effective from the date of the AGM. The committee considers that the changes strengthen the link between the Group's strategy and executive remuneration, do not promote excessive risk-taking and increase alignment between the interests of executives and shareholders over the long term.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Base salary	<p>To provide competitive fixed remuneration.</p> <p>To attract, retain and motivate executive directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term.</p>	<p>Basic salary is reviewed annually by the committee or, if appropriate, in the event of a change in an individual's position or responsibilities.</p> <p>Salary levels are set by reference to market rates, taking into account individual performance, experience, company performance and the pay and conditions of other senior management in the Group.</p> <p>The committee will take into account the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role.</p>	<p>There is no prescribed maximum annual increase.</p> <p>Current salary levels are presented on page 81.</p>	Not applicable.
Benefits	<p>To provide market-competitive levels of benefits, including insured benefits to support the individual and their family during periods of ill health, accidents or in the event of death.</p> <p>Car or travel allowances to facilitate effective travel.</p>	<p>Current benefits include:</p> <ul style="list-style-type: none"> • travel allowance; • private medical insurance; • annual health screening; • ill health income protection insurance; • life assurance; • holiday and sick pay; • employee assistance programme; • professional advice in connection with their directorship; • travel, fuel, subsistence and accommodation as necessary; and • occasional gifts, for example appropriate long-service or leaving gifts. <p>Other benefits may be provided where appropriate in line with benefits offered to other employees.</p>	<p>The value of benefits is based on the cost to the Company and is not predetermined.</p> <p>The travel allowance is £17,000.</p>	Not applicable.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Pension	To provide a pension arrangement to contribute towards retirement planning.	<p>The Company will contribute to the defined contribution pension scheme, The Morgan Sindall Retirement Savings Plan ('the Retirement Plan') or to personal pension arrangements at the request of the individual.</p> <p>The Company may also consider a cash alternative (for example where a director has reached the HMRC's lifetime or annual allowance limit).</p>	<p>Employer contributions are 10% of base salary for existing directors. New executive directors will receive an employer's contribution in line with that offered to the majority of employees (currently 6% of salary).</p> <p>Directors who are members of the Retirement Plan may elect to exchange part of their salary or bonus award in return for pension contributions, where the Company will enhance the additional contributions by half of the saved employer's National Insurance contribution.</p>	Not applicable.
Annual bonus	Rewarding the achievement of demanding annual performance metrics.	<p>Performance measures and targets are reviewed annually by the committee.</p> <p>70% of any bonus earned is payable in cash and 30% is normally deferred for three years and satisfied in Company shares. Dividends accrue during the deferral period and may be paid in cash or shares at the time of release.</p> <p>The committee has discretion: (i) to override the formulaic outturn of the bonus to determine the appropriate level of bonus payable where it believes the outcome is not truly reflective of performance; and (ii) to ensure fairness to both shareholders and participants.</p> <p>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.</p>	<p>The maximum opportunity is 125% of base salary.</p> <p>Financial targets incorporate an appropriate sliding scale range around a challenging target.</p> <p>Target performance will typically deliver up to 50% of maximum bonus, with threshold performance typically paying up to 15% of maximum bonus.</p>	<p>All or a majority of the bonus will be based on adjusted* profit before tax (PBTA*), set relative to the Group's budget or such other financial measures as the committee deems appropriate.</p> <p>Financial targets will account for not less than 80% of the annual bonus.</p> <p>A minority of the bonus may be based on non-financial, strategic and/or personal objectives linked to the strategic objectives of the Group to provide a rounded assessment of Group and management's performance.</p>

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
<p>2014 Long-Term Incentive Plan (LTIP)</p>	<p>To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance.</p> <p>To encourage share ownership and provide further alignment with the interests of shareholders.</p>	<p>Annual awards of conditional shares or nil (or nominal) cost options are granted with vesting dependent on the achievement of performance conditions over a three-year period.</p> <p>Net LTIP shares vesting will typically be subject to a two-year holding period, creating a total of five years between the award being granted, and the first opportunity to sell.</p> <p>Performance targets are reviewed annually by the committee for each new award. Targets take account of internal strategic planning and external market expectations for the Group and are 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.</p> <p>The TSR performance condition is monitored on the committee's behalf by its advisers, while EPS is derived from the Group's audited financial statements.</p> <p>Dividends that accrue during the vesting period may, at the committee's discretion, be paid in cash or shares at the time of vesting. The calculation of the dividend equivalent may assume the reinvestment of dividends.</p> <p>The committee has discretion: (i) to override the formulaic outturn of the performance targets to determine the appropriate level of vesting of the LTIP where it believes the outcome is not truly reflective of performance; and (ii) to ensure fairness to both shareholders and participants.</p> <p>Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.</p>	<p>150% of base salary.</p>	<p>Awards are subject to performance conditions based on the Company's earnings per share (EPS) and on relative total shareholder return (TSR) compared to a group of UK-listed peers.</p> <p>The committee has discretion to introduce additional performance condition(s) (to complement EPS and TSR) for up to one third of future awards.</p> <p>For both the EPS and TSR conditions, no more than 25% of the awards will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.</p>

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
All-employee Savings-Related Share Option Plan ('SAYE')	To encourage share ownership and provide further alignment with shareholders.	<p>This is an HMRC tax-advantaged plan under which regular monthly savings can be made over a period of three years and can be used to fund the exercise of an option to purchase shares.</p> <p>Options are granted at up to a 20% discount.</p> <p>This scheme is open to all employees including executive directors.</p>	<p>Prevailing HMRC limits apply.</p> <p>The executive directors will be eligible to participate in any other HMRC all-employee share plans that may be implemented.</p>	Not applicable.
Non-executive directors' fees	Set to attract, retain and motivate talented individuals.	<p>Non-executive directors receive a basic annual fee in respect of their Board duties. Additional fees may be paid to the chairs of the committees and the senior independent director to reflect their additional responsibilities. The non-executive directors' fees are reviewed by the Board rather than the committee.</p> <p>The chair receives a fixed annual fee.</p> <p>Fees are normally reviewed annually. The committee and the Board are guided by fee levels in the non-executive director market and may recognise an increase in certain circumstances such as assumed additional responsibility or an increase in the scale or scope of the role.</p> <p>Non-executive directors are reimbursed for reasonable expenses and any tax arising on those expenses will be settled directly by the Company. To the extent that these are deemed taxable expenses, they will be included in the annual remuneration report as required.</p> <p>Non-executive directors may take independent professional advice at the expense of the Company.</p>	<p>For the non-executive directors, there is no prescribed maximum annual increase.</p> <p>The Company's articles of association ('the Articles') 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.</p>	Not applicable.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Share ownership guidelines	To provide close alignment between the longer-term interests of executive directors and shareholders in terms of the Company's growth and performance.	<p>Executive directors are expected to build up and maintain shareholdings with a value set at 200% of basic salary.</p> <p>Until this threshold is achieved there is a requirement for executive directors to retain no less than 50% of the net of tax value of vested incentive awards.</p>	Not applicable.	Not applicable.
Post-employment shareholdings	To encourage long-term alignment with shareholders.	<p>The committee requires executive directors to maintain a level of shareholding for two years after stepping down from the Board.</p> <p>The committee will retain discretion about the application of post-employment shareholding guidelines in individual cases.</p>	<p>Executive directors will maintain the following shareholdings after they have stepped down from the Board:</p> <p>For the first 12 months, the lower of:</p> <ul style="list-style-type: none"> • their shareholding at the time of leaving the business (excluding individually-purchased shares); and • 200% of basic salary (this being the current in-post shareholding guideline). <p>For the second 12 months (i.e. between 12 months and 24 months), the lower of:</p> <ul style="list-style-type: none"> • their shareholding at the time of leaving the business (excluding individually-purchased shares); and • 100% of basic salary (this being half of the current in-post shareholding guideline). <p>At the end of 24 months, the directors will be free to sell their remaining shareholding if they wish.</p>	Not applicable.

Existing arrangements

We will honour existing awards to executive directors, and incentives, benefits and contractual arrangements made to individuals prior to their promotion to the Board and/or prior to the approval and implementation of this policy. For the avoidance of doubt, this includes payments in respect of any award granted under the previous remuneration policy. This will last until the existing incentives vest (or lapse) or the benefits or contractual arrangements no longer apply. This does not apply to pension contributions for any newly-promoted executive directors which will be aligned with the rate offered to the majority of employees on promotion to the Board.

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

The Company allows executive directors to hold external non-executive directorships, subject to the prior approval of the Board and to retain fees from these roles.

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, the Listing Rules of the Financial Conduct Authority (FCA) and the relevant sections 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	October 2019	-
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.

Termination provisions

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, accrued holiday, 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.

If a director leaves under a settlement agreement, life assurance cover may continue for up to three months after a director leaves the Company, subject to the director not obtaining alternative employment. In addition, the Company may agree that a director will remain covered under the private medical scheme until the next policy renewal date or if a director is mid-treatment at their leaving date until the course of treatment is concluded. The same provisions are available to all employees in the Company who receive these benefits.

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.

Where an executive director leaves by mutual consent, the Company may reimburse reasonable legal fees and tax advice costs and pay for professional outplacement services.

Recruitment remuneration

The committee considers 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 in line with that offered to the majority of employees (currently 6% of salary).	
Benefits	New executive directors will be eligible to receive benefits which may include (but are not limited to) travel allowances, private medical insurance, ill health income protection insurance, health screening, employee assistance programme, life assurance, holiday and sick pay, professional advice in connection with their directorship, travel, subsistence and accommodation as necessary, occasional gifts, for example appropriate long-service or leaving gifts, and any necessary relocation and/or incidental expenses. The Company may offer a cash amount on recruitment to reflect the value of benefits a new recruit may have received from a former employer.	
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
SAYE	New appointees will also be eligible to participate in all-employee share schemes.	
Shareholding guidelines	New executive directors will be expected to build up a shareholding equivalent to 200% of basic salary in accordance with the terms set out in the policy table.	
Post-employment shareholding	The structure in the policy table will apply to new executive directors.	

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 act in a manner 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. Other ongoing remuneration obligations existing prior to appointment may continue, however, for the avoidance of doubt, pension contributions will be aligned with the rate offered to the majority of employees on promotion to the Board.

Shareholders will be informed of the remuneration package and all additional payments to a newly-appointed executive director at the time of their appointment.

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.

Overview of remuneration policy for other employees

While our remuneration policy follows the same fundamental principles across the Group, packages offered to employees reflect differences in role and seniority. For example, the remuneration package elements for our Group management team are essentially the same as for the executive directors with some minor differences such as lower levels of share awards and a smaller shareholding requirement. 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;
- retention of LTIP shares subject to a holding period for leavers; and
- the application of the post-employment shareholding guidelines.

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. Participants in the Company's LTIP and deferred bonus scheme are required to acknowledge their understanding and acceptance of malus and clawback provisions prior to receiving their awards. The committee is satisfied that the recovery provisions are enforceable.

Remuneration scenarios for the executive directors

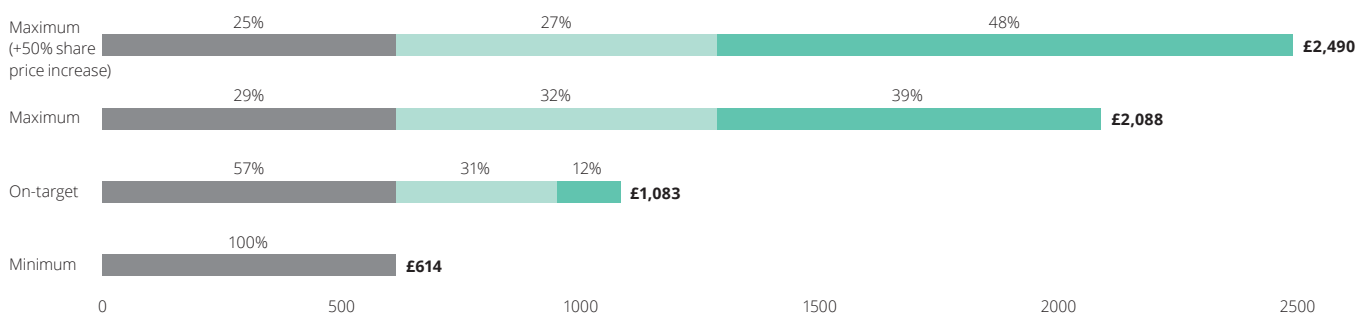
The charts below provide an indication of the level of remuneration that would be received by each executive director under the following three assumed performance scenarios.

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

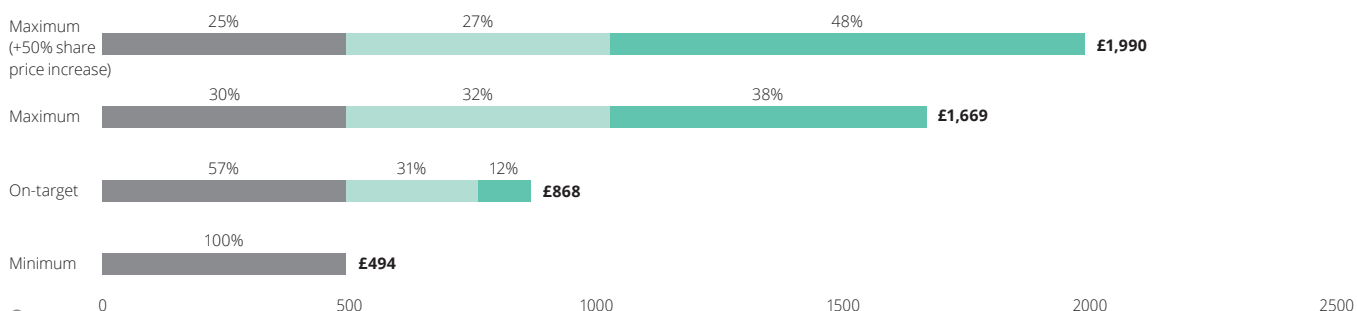
JOHN MORGAN

Chief Executive
(£000)



STEVE CRUMMETT

Finance Director
(£000)



● Fixed
● Annual bonus
● LTIP

Notes:

- Base salary levels are as at 1 January 2020.
- The value of benefits has been estimated based on amounts received in respect of 2019.
- 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.

Annual report on remuneration

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

Single total figures of remuneration (audited)

Executive directors

	Fixed pay				Variable pay			Total remuneration £000
	Fees/basic salary £000	Benefits £000	Pension contributions £000	Total fixed pay £000	Annual bonuses £000	Value of long- term incentives £000	Total variable pay £000	
John Morgan								
2019	520	24	52	596	604	985	1,589	2,186
2018	505	24	50	579	632	1,344	1,976	2,555
Steve Crummett								
2019	415	24	41	480	482	785	1,267	1,747
2018	403	23	40	466	503	1,072	1,576	2,042

Notes:

- Benefits relate to travel allowance, medical benefits, ill health income protection, employee assistance programme and life assurance.
- The 2018 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 2016, which vested based on performance to 31 December 2018, are valued using the market prices at the date of vesting (2 March 2019) of £13.20.

Annual cash bonus outturn (audited)

Annual bonus figures represent the full amount earned for 2019. Of this amount, 30% will be deferred in nil-cost share options for three years. The table below shows performance against PBTA* targets for 2019 representing 100% of the annual bonus potential:

	Threshold target £m	50% target £m	Maximum target £m	Actual performance £m	Percentage of maximum %
Group PBTA* at 31 December 2019	77.1	82.0	91.8	90.4	92.9

2014 Long-Term Incentive Plan – 2017 award outturn (audited)

LTIP awards granted in 2017 are due to vest on 6 March 2020. As set out in the table below, 100% of the 2017-2019 awards are expected to vest:

Performance condition	Weighting	Threshold target (EPS: 12.5% vest, TSR: 25% vest)	Stretch target (100% vest)	Actual performance	Percentage vesting
Adjusted* EPS	66.67%	Three-year cumulative EPS of 285p	Three-year cumulative EPS of 326p	Three-year cumulative EPS of 434.1p	66.67%
Relative TSR	33.33%	Median (equivalent to fourth position)	10% per year outperformance of median	58.1% TSR (above first position)	33.33%

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 2019 of £13.56, a 31% increase on the share price at the date of grant. Accordingly, c24% 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£232,000 and c£185,000 for John Morgan and Steve Crummett respectively. The committee has not exercised any discretion in respect of the achieved outcomes. The value of 2019 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.

The net awards received (after the deduction of tax and national insurance) will be subject to a two-year holding period in which the director will not be able to sell the shares but will be entitled to receive dividends and vote on the shares. The shares will be transferred to the director at the end of the holding period.

Non-executive directors (audited)

	Fees £000		Taxable benefits ¹ £000		Total £000	
	2019	2018	2019	2018	2019	2018
Michael Findlay	175	170	-	-	175	170
Malcolm Cooper	68	58	-	-	68	58
Tracey Killen	58	46	-	-	58	46
David Lowden ²	58	16	-	-	58	16

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 David Lowden joined the Board on 10 September 2018.

The aggregate remuneration for executive and non-executive directors in 2019 was £2.5m (2018: £2.5m). Aggregate remuneration comprises salary, fees, benefits, pension contributions and bonus payments.

Share awards granted during the year (audited)

2014 Long-Term Incentive Plan

On 4 March 2019, LTIP awards were made to the executive directors, which will vest subject to performance over the three financial years to 31 December 2021. Of these awards, 67% are subject to an EPS performance condition and 33% are 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	4 March 2019	150%	£12.74	61,272	£780,605	16.7% (12.5% for EPS element, 25% for TSR element)	Three financial years to 31 December 2021
Steve Crummett				48,857	£622,438		

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 4 March 2019 was £13.10.

Deferred bonus share options

Of the annual cash bonus earned in 2018, 30% 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	4 March 2019	30%	£12.74	14,872	£189,469	4 March 2022
Steve Crummett				11,858	£151,071	

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 4 March 2019 was £13.10.

Outstanding interests under share schemes (audited)

Details of the executive directors' interests in long-term incentive awards as at 31 December 2019 and movements during the year are as follows:

Performance shares

	Date of award	No. of shares outstanding as at 1 January 2019	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 2019	End of performance period	Date awards vest
John Morgan										
	2.3.2016	93,627	-	93,627	8,227	101,854	-	-	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
	4.3.2019	-	61,272	-	-	-	-	61,272	31.12.2021	4.3.2022
	Total	227,929	61,272	93,627	8,227	101,854	-	195,574		
Steve Crummett										
	2.3.2016	74,655	-	74,655	6,560	81,215	-	-	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
	4.3.2019	-	48,857	-	-	-	-	48,857	31.12.2021	4.3.2022
	Total	181,744	48,857	74,655	6,560	81,215	-	155,946		

Notes:

- 100% of the awards granted in 2016 vested 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.
- Of the awards granted in 2017, 100% vested due to the EPS and TSR targets being achieved. Cumulative EPS for the Group over the three years from 31 December 2016 to 31 December 2019 was 434.1p which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 28.2% per year which exceeded the median of the comparator group by 58.1% per year and resulted in 100% of the TSR element of the award vesting. The net awards received (after the deduction of tax and national insurance) will be subject to a two-year holding period in which the director will not be able to sell the shares but will be entitled to receive dividends and vote on the shares. The shares will be released to the director at the end of the holding period.
- The awards of performance shares over 150% of salary granted in 2018 and 2019 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.

Deferred bonus plan nil-cost options

	Date of grant	No. of options outstanding as at 1 January 2019	No. of options granted	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2019	End of performance period
John Morgan							
	6.3.2018	14,967	-	-	-	14,967	6.3.2021
	4.3.2019	-	14,872	-	-	14,872	4.3.2022
Total			14,967	14,872	-	29,839	
Steve Crummett							
	6.3.2018	11,934	-	-	-	11,934	6.3.2021
	4.3.2019	-	11,858	-	-	11,858	4.3.2022
Total			11,934	11,858	-	23,792	

Share options

	Date of grant	No. of options outstanding as at 1 January 2019	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2019	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:

- John Morgan exercised these options on 20 November 2019. The share price on the date of exercise was £13.64. These outstanding options granted in 2010 satisfied their performance condition in 2013 and were exercisable. If not exercised, these options would have lapsed 10 years from the date of grant on 17 March 2020.

The mid-market price of a share on 31 December 2019 was £16.20 and the range during the year was £10.46 to £16.20.

Other disclosures

Remuneration committee meetings

The committee met on four occasions during the year and all members attended each meeting. The chair of the Board and the executive directors attended all meetings of the committee and the company secretary acted as secretary to the committee. No person was present during any discussion relating to their own remuneration.

Over the course of the year, the committee received advice on remuneration matters from remuneration advisers Mercer | Kepler (Mercer). It has also relied on information and advice provided by the company secretary and has consulted the chief executive but not in relation to his own remuneration. 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. The committee is satisfied that the advice it receives is independent and objective. The fees paid by the Company to Mercer during the financial year for advice to the committee in relation to the above were £24,405 (2018: £28,155), on the basis of time and materials. Mercer also provided advice to the Company on accounting for share awards but provided no other material services to the Company or the Group.

Shareholder voting (audited)

At last year's AGM held on 8 May 2019, the remuneration report (excluding the remuneration policy) for the year ended 31 December 2018 was approved by shareholders. The following table shows the results of the advisory vote on the 2018 annual remuneration report at the 2019 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		Total votes cast	Votes withheld ¹
	Number of shares	Percentage	Number of shares	Percentage		
Annual remuneration report	35,817,332	99.93	23,528	0.07	35,840,206	3,740
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.

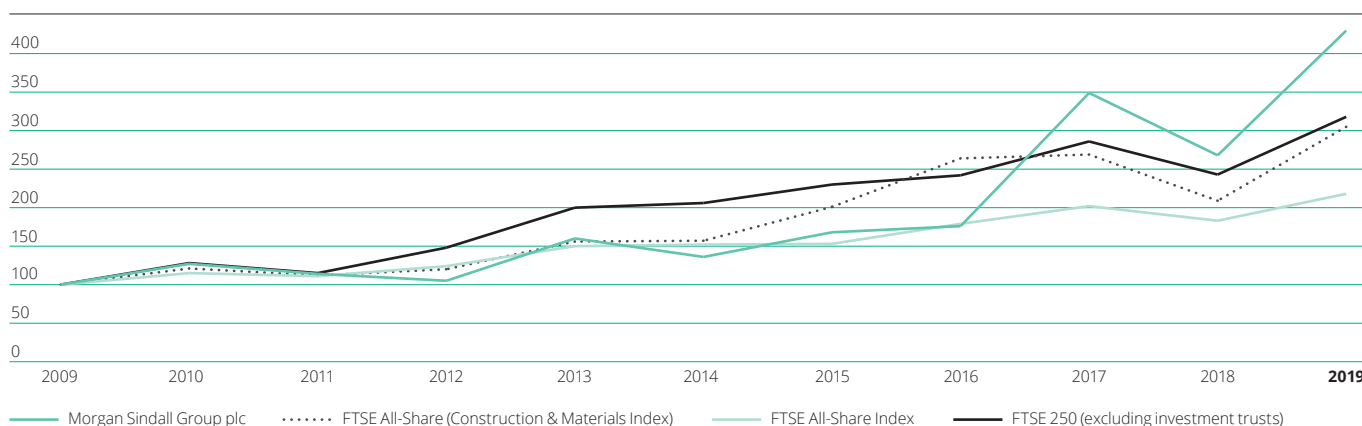
Dilution and share usage under employee share plans (audited)

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 9.58% (2018: 7.06%) of the current issued ordinary share capital under all-employee share plans, of which 0% relates to discretionary share plans.

As at 31 December 2019, the Trust held 344,185 shares (2018: 782,376), which may be used to satisfy awards.

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 2019 of £100 invested in the Company on 1 January 2010 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE All-Share (Construction & Materials Index), these being indices of which the Company has been a constituent 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 (audited)

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 payout 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
2019	John Morgan	2,186	93	100	n/a
2018	John Morgan	2,555	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	-	-

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.

Chief executive pay ratio (audited)

Financial year	Calculation methodology	Chief executive pay ratio		
		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	B	58:1	43:1	27:1

The lower quartile, median and upper quartile employees were determined based on the hourly rate data as at 5 April 2019, collected for the Group's reporting under the gender pay gap legislation (Option B). The gender pay gap data reviews the pay of all UK employees. This calculation methodology was chosen as the data was readily available from our work in determining the gender pay gap. Furthermore, with our decentralised business model and significant UK workforce, calculating the single figure of remuneration for each employee (Option A) would be prohibitively time-consuming and expensive.

The committee has considered the pay data for the three individuals identified and believes that it fairly reflects pay at the relevant quartiles among our UK workforce. The three individuals identified were full-time employees during the year. None received an exceptional incentive award which would otherwise inflate their pay figures. No adjustments or assumptions were made by the committee, with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the chief executive for the 2019 financial year.

The table below sets out the remuneration details for the individuals identified:

Salary	Chief executive	P25	P50	P75
Basic salary	520,410	29,870	37,050	63,050
Total annual pay ¹	1,200,800	37,481	50,249	80,430
Total pay ²	2,185,744	37,481	50,249	80,430

As this is the first year of reporting the chief executive pay ratio using the above methodology, there is no comparative data against which to compare the pay ratios above. The committee will consider the median pay ratio of 43:1 in the context of the ratio reported in future years as well as the figures produced by sector comparators and across the FTSE more generally.

We note that none of the median employees in each quartile identified this year received benefits under the Company's long-term incentive schemes. With a significant proportion of the pay of our chief executive linked to the Company's performance and share price movements over the longer term, it is expected that the ratio will depend a lot on long-term incentive outcomes each year, and accordingly may fluctuate. The committee has therefore also produced pay ratios for basic salary and total annual pay as shown in the table below.

Ratio	P25	P50	P75
Basic salary	17:1	14:1	8:1
Total annual pay ¹	32:1	24:1	15:1
Total pay ²	58:1	43:1	27:1

¹ Total annual pay includes, where applicable, basic salary, annual cash bonus, pension, travel or car allowance and the cash value of employee benefits received such as death in service, private medical, group income protection, EAP, etc.

² Total pay includes total annual pay plus the cash value of any long-term incentives received under either the 2014 LTIP or the 2014 SOP.

Percentage change in remuneration levels (audited)

The table below shows details of the percentage change in base salary, benefits and annual bonus for both executive directors between 31 December 2018 and 31 December 2019, 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	3	2	(4)
Finance director	3	5	(4)
All employees	3	13	(15)

The chief executive's and finance director's bonus decreased by 4.2% in 2019 with their respective salary increases being offset by the annual bonus paying out at 93% of maximum (2018: 100%). The chief executive's and finance director's salary increases of 3% were in line with the increase of the wider workforce. The average bonus for all employees decreased by 15% in 2019 due to the change in mix of divisional performances from 2018 and an increase in headcount where new employees would not have earned a full year's bonus.

Relative importance of spend on pay (audited)

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

	2019	2018	Change
Employee remuneration	£494.4m	£484.3m	2%
Basic earnings per share (adjusted*)	161.2p	151.8p	6%
Dividends paid during the year	£24.8m	£21.5m	15%
Employee headcount ¹	6,761	6,660	2%

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 114.

Shareholding guidelines (audited)

Through participation in performance-linked share-based plans, there is strong encouragement for senior executives to build and maintain a significant shareholding in the business. Shareholding guidelines are in place requiring the executive directors to build and maintain a shareholding in the Company equivalent to 200% of base salary. 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 2019
John Morgan	200	13,337%
Steve Crummett	200	513%

The share price used to value the shares as at 31 December 2019 was £16.20.

Directors' interests (audited)

The figures below set out the shareholdings beneficially owned by directors and their family interests at 31 December 2019.

	31 December 2019 No. of shares	31 December 2018 No. of shares
Michael Findlay	4,173	4,173
John Morgan	4,284,519	4,530,537
Steve Crummett	131,457	88,414
Malcolm Cooper	10,000	10,000
Tracey Killen	611	611
David Lowden	-	-

There have been no changes in the interests of the directors between 31 December 2019 and 20 February 2020.

External appointments (audited)

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 was a non-executive director and chair of the audit committee at Consort Medical plc, for which he received a fee of £49,500 in 2019. Steve stepped down as non-executive director of Consort Medical on 4 February 2020.

Payments to past directors or for loss of office (audited)

No payments were made during the year.

Implementation of the remuneration policy for 2020

Base salaries

In setting the 2020 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 2020. In considering the salary increases, the committee took account of the performance of each executive director and their respective responsibilities.

	From 1 January 2020 £	From 1 January 2019 £	Increase
John Morgan	536,022	520,410	3%
Steve Crummett	427,410	414,962	3%

Pension

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 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.

The majority of employees in the Group are entitled to a company pension contribution of up to 6% of basic salary if they contribute 6% themselves. Senior employees within the Group are entitled to a company pension contribution of up to 10% of basic salary as per the executive directors.

Annual bonus

The maximum annual bonus potential for 2020 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 2020, 100% of the bonus will continue to be based on an adjusted* profit-before-tax 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 2020.

The awards to be granted in 2020 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.

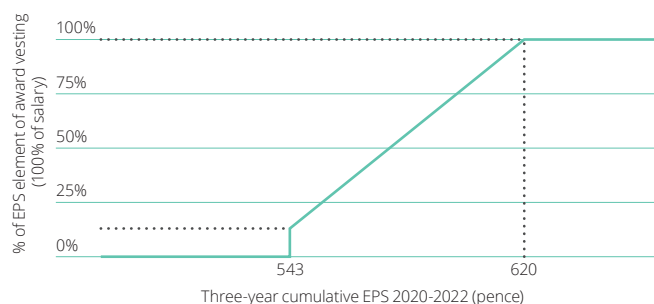
Net shares vesting under LTIP awards granted in 2020 will be subject to a mandatory two-year holding period at the end of the vesting period. All awards are subject to malus and clawback provisions.

EPS performance condition (two thirds of award)

For the awards granted in 2020, 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 2020, 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



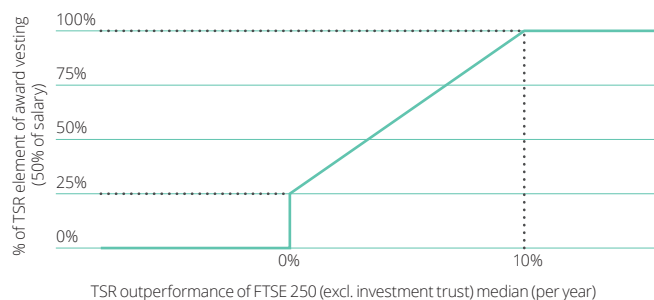
TSR performance condition (one third of award)

TSR targets for 2020 awards will be expressed as an outperformance of median as per the last three cycles.

As with the 2019 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.

The committee determined that the chair's fee for 2020 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. There will be no increases to the additional fees made in respect of committee chairmanship or for acting as the senior independent director. Accordingly, the annual fees from 1 January 2020 are as follows:

	2020 £	2019 £	Increase %
Chair	180,000	175,000	3%
Non-executive directors			
Base fee	48,953	47,528	3%
<i>Additional fees:</i>			
Audit committee chair	10,000	10,000	-
Health, safety and environment committee chair	10,000	10,000	-
Remuneration committee chair	10,000	10,000	-
Senior independent director	10,000	10,000	-

Non-executive directors do not receive pension contributions, private medical insurance, group income protection insurance or life assurance and do not participate in any short-term or long-term incentive schemes.

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

Tracey Killen

Chair of the remuneration committee
 20 February 2020

Financial statements

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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 2019 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 statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 26 and parent company notes 1 to 3.

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' (United Kingdom Generally Accepted Accounting Practice).

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	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • recognition of contract revenue, margin and related receivables and liabilities, including recoverability and valuation of work in progress; • impairment of goodwill; and • valuation of shared equity loan receivables. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> • newly identified • increased level of risk • similar level of risk • decreased level of risk
Materiality	<p>The materiality that we used for the group financial statements was £4.1 million which was determined on the basis of 5% of profit before tax for the year.</p>
Scoping	<p>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.</p> <p>Our full-scope audit of components provided coverage of 89% of the group's revenue, 86% of the group's profit before tax and 94% of the group's net assets.</p>
Significant changes in our approach	<p>The only change during the year was in relation to the key audit matters. We have determined that 'Uncertainty within the construction and business support services industry' is no longer a key audit matter. This is due to changes in the external environment, with the UK leaving the EU providing some clarity over the future of the markets thereby reducing the immediate risks in which the group operates.</p>

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 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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

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 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 23 to 32 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 33 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 33 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.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

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 related receivables and liabilities, including recoverability and valuation of work in progress (similar level of risk)

<p>Key audit matter description</p>	<p>For construction companies, there is judgement in assessing the appropriate contract revenue and margin to recognise and this is therefore a key audit matter.</p> <p>For the majority of its contracts, the group recognises revenue over time and measures the progress based upon the input method by considering the proportion of contract costs incurred for the work performed to the balance sheet date relative to the estimated total forecast costs of the contract at completion.</p> <p>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 reliably 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.</p> <p>The Audit Committee also considered this as an issue as set out in the Audit Committee Report on page 59. Management have discussed this within key sources of estimation uncertainty on page 111.</p> <p>The accounting policies are set out within the significant accounting policies on pages 106 and 107. Revenue from construction contracts at 31 December 2019 was £2,215.1 million (2018: £2,076.8 million) as set out in note 1. Work in progress was £338.1 million (2018: £334.2 million) as set out in note 14, contract assets were £186.8 million (2018: £192.0 million) as set out in note 15, and trade receivables were £244.7 million (2018: 207.6 million) as set out in note 16.</p>
<p>How the scope of our audit responded to the key audit matter</p>	<ul style="list-style-type: none"> • We evaluated the design and implementation of the relevant controls over revenue recognition, amounts due from construction contract customers and contract debtors and for certain divisions (Construction & Infrastructure, Partnership Housing and Fit Out), 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, as well as significant unagreed income. • For this sample of contracts, we observed the detailed project reviews to support the estimates and challenged the judgements underlying those reviews with senior operational, commercial and financial management. 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: <ul style="list-style-type: none"> – agreeing contract valuation positions to third party certificates and signed variations, – where necessary, reviewing insurance correspondence or legal correspondence and expert advice, – reviewing contract terms and conditions, – re-performing the key calculations behind the margin applied, the profit taken and stage of completion, as well as balance sheet exposure, – reviewing correspondence with customers, – analysing forecast costs to complete and challenging estimates within forecasts by considering cost forecasts against contract run rates, and – evaluating performance against tender and historical trends. • For the sample of contracts selected, we tested the recoverability of amounts due from construction contract customers and the related receivables by agreeing to certifications and cash receipts. • We assessed the completeness and validity of allowances recorded based upon the liabilities that may arise from disputes with customers or rectification works required. 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: <ul style="list-style-type: none"> – 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 visited sites related to significant risk contracts, inspecting physical progress on site for individual projects and identified any areas of judgement and complexity through discussion with site personnel. • We assessed the completeness of the disclosures in relation to IFRS 15. <p>We compared the final outcome on projects completed in the year to previous estimates to determine the reliability of management estimates.</p>
<p>Key observations</p>	<p>We are satisfied that the judgements applied by management in assessing the contract revenue, margin and related receivables and liabilities, including recoverability and valuation of work in progress to recognise are appropriate.</p>

Impairment of goodwill (similar level of risk)

Key audit matter description	<p>Under accounting standards, goodwill must be tested annually for impairment, which requires a comparison between the carrying amount of the cash generating unit ('CGU') and its recoverable amount.</p> <p>Determination of the recoverable amount incorporates judgements based on assumptions about future operating cash flows for the related businesses. This is calculated using certain assumptions around discount rate, growth rates, and cash flow forecasts.</p> <p>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.</p> <p>The Audit Committee also considered this as an issue as set out in the Audit Committee Report on page 59.</p> <p>The accounting policies are set out within the significant accounting policies on page 108. The carrying value of goodwill at 31 December 2019 was £217.7 million (2018: £213.9 million) as set out in note 9.</p>
How the scope of our audit responded to the key audit matter	<p>We challenged the assumptions used in the impairment model which calculates the recoverable amount of the CGUs (which includes goodwill, intangibles and other allocated assets), described in note 9 to the financial statements. Our challenge focused on:</p> <ul style="list-style-type: none"> • comparing the cash flows to the latest Board approved budgets; • assessing the appropriateness of the design and implementation of the relevant controls used in the preparation of the model; • assessing the appropriateness of the CGUs identified; • assessing and challenging the appropriateness of the discount rate used by independently benchmarking the discount rate against the wider peer group; • assessing the appropriateness of cash flow projections relative to previous performance, current order book, and Office for National Statistics guidance on construction growth rate; and • challenging management's sensitivity analysis on reasonable reductions in the cash flow projections and discount rates. <p>We tested the mechanical accuracy and integrity of the models, performed our own sensitivity analysis and worked with our internal valuation experts to assist in the assessment of the appropriateness of the discount rates.</p> <p>We also considered the adequacy of the group's disclosures including the assessment of the need to include sensitivity disclosures.</p>
Key observations	<p>We concluded that management's assumptions around future operating cash flows and the inputs to the model were appropriate. No impairment was indicated as a result of our sensitivity analysis. As a result, we have not identified that any impairment of goodwill is required.</p>

Valuation of shared equity loan receivables (similar level of risk)

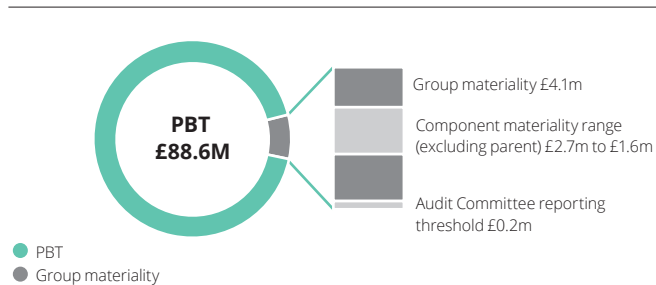
Key audit matter description	<p>The determination of the fair value of the loans issued under the shared equity schemes in the Partnership Housing division requires judgement in relation to the discount rate, rate of expected default, average redemption period and house price inflation therefore making this a key audit matter.</p> <p>The Audit Committee also considered this as an issue as set out in the Audit Committee Report on page 59.</p> <p>The accounting policies are consistent with the prior year and set out within the significant accounting policies on page 108. The carrying value of shared equity loan receivables at 31 December 2019 was £8.4 million (2018: £13.0 million) as set out in note 13.</p> <p>There has been a change in the default rate in relation to the 2010-2013 tranches from 2% to 5% following an estimate revision after consideration of the level of defaults in the year which we deem to be appropriate.</p>
How the scope of our audit responded to the key audit matter	<p>In addressing this key audit matter we have:</p> <ul style="list-style-type: none"> assessed the design and implementation of the relevant controls surrounding the preparation of the model; reviewed the mathematical accuracy of the model, including recalculating the profit or loss on redemptions to date; vouched a sample of redemptions to source documentation; discussed with the directors the rationale for the discount rate they used; challenged key assumptions, agreeing the discount rate assumption to third party support and the house price inflation assumption to market support; and performed sensitivity analyses on all three key assumptions, and assessed the change in default rate from 2% to 5% by sensitising this rate between the default rate incurred to date and that incurred in the model.
Key observations	<p>Management's valuation model is consistent year on year and we considered the overall valuation to be appropriate. The work performed on sensitivity analyses suggests that the fair value is not sensitive to the key assumptions for discount rate, average loan duration and long-term growth rate. Given work performed, we consider the change in default rate to be appropriate.</p>

Our application of materiality**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	£4.1 million (2018: £4.0 million)	£2.9 million (2018: £3.2 million)
Basis for determining materiality	5% of profit before tax (2018: 5% of profit before tax)	2.5% of net assets, capped below group materiality (2018: 2.6% 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.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- There have been no changes to the business in their operation or financial reporting process. The controls in relation to financial reporting have been deemed appropriate.
- There have been no significant risks identified (i.e. risk to going concern) which would require us to lower materiality.
- Having audited the group in previous years, we have obtained a good understanding of the entity and its environment. The control environment is deemed to be appropriate and the relevant controls are in place.
- The group has appropriate internal controls over financial reporting, hence the decreased likelihood of significant misstatements occurring.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2 million (2018: £0.2 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

Identification and scoping of components

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 89% (2018: 91%) of the group's revenue, 86% (2018: 92%) of the group's profit before tax and 94% (2018: 95%) of the group's net assets.

Our audit work on the remaining components was determined based on our assessment of the risks of material misstatement and of the materiality of the group's operations in those components. The components which had 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 £2.7 million (40%-65%) of group materiality (2018: 40%-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 the 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 participated in all 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.

Our consideration of the control environment

Our risk assessment procedures include obtaining an understanding of relevant controls to the audit.

Consistent with previous years, we have obtained an understanding of relevant controls over financial reporting. We also tested controls on the following areas:

- contract revenue and margin recognition;
- recoverability and valuation of contract work in progress; and
- carrying value of land and work in progress.

This covered some of the key accounting and reporting tools that are used by management and the interface between various systems.

We have also performed testing in relation to the automated controls surrounding the consolidation process.

Working with other auditors

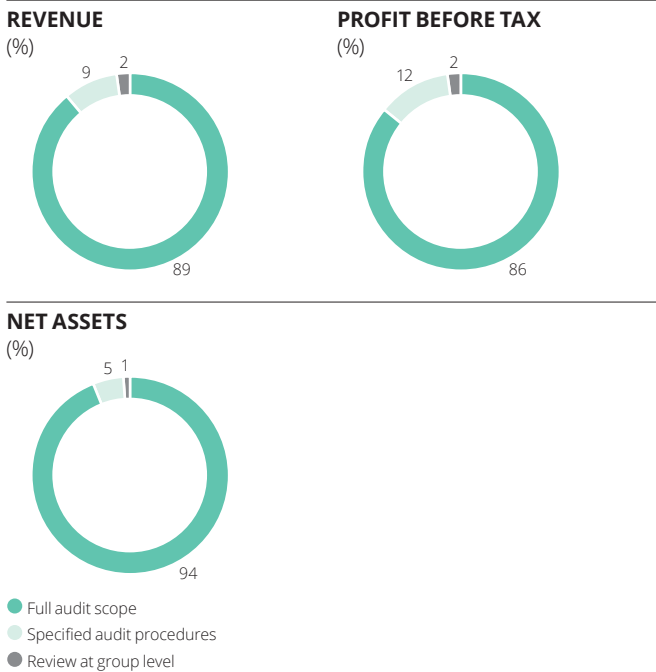
Throughout the audit, we ensured that we held frequent discussions with our component teams. In October 2019, we held a group-wide planning meeting, within which we set out the materiality and scoping for component teams, as well as considering significant risks across the group. We also held planning meetings with each of our specialists involving our component teams where relevant.

During our interim and year-end audit, we held regular catch-up meetings with components to monitor progress and highlight any issues arising. The group team have also attended the component team close meetings for interim and final.

The Senior Statutory Auditor is also the audit partner for the Construction & Infrastructure, Investments and Fit Out divisions. For the other component teams, a senior member of the group audit team has reviewed the component file. Also, the group team performed work on key areas of testing including goodwill, tax, share based payments and consolidation testing.

We note that all component auditors were from Deloitte LLP. 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.



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 include 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 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 and non-compliance with laws and regulations 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: www.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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their 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; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions, and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: recognition of contract revenue, margin and related receivables and liabilities, including recoverability and valuation of work in progress. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, and tax legislation.

In addition we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. 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, including recoverability and valuation of work in progress as a key audit matter related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 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 26 years, covering the years ending 1994 to 2019. 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
20 February 2020

Consolidated income statement

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Revenue	1	3,071.3	2,971.5
Cost of sales		(2,739.9)	(2,656.2)
Gross profit		331.4	315.3
Administrative expenses		(249.2)	(235.0)
Share of net profit of joint ventures	12	6.5	5.2
Other gains and losses	3	4.4	-
Operating profit before amortisation of intangible assets		93.1	85.5
Amortisation of intangible assets	9	(1.8)	(1.0)
Operating profit		91.3	84.5
Finance income	5	1.7	2.0
Finance expense	5	(4.4)	(5.9)
Profit before tax		88.6	80.6
Tax	6	(17.4)	(13.8)
Profit for the year	3	71.2	66.8
Attributable to:			
Owners of the Company		71.2	66.8
Earnings per share			
Basic	8	157.9p	149.8p
Diluted	8	153.1p	142.1p

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

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Profit for the year		71.2	66.8
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss arising on retirement benefit asset	18	-	(2.8)
Deferred tax on retirement benefit asset	6	-	0.5
		-	(2.3)
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange movement on translation of overseas operations		(0.2)	0.2
Reclassification from cash flow hedges to the income statement		-	(0.5)
		(0.2)	(0.3)
Other comprehensive expense		(0.2)	(2.6)
Total comprehensive income		71.0	64.2
Attributable to:			
Owners of the Company		71.0	64.2

Consolidated statement of financial position

at 31 December 2019

	Notes	2019 £m	2018 £m
Assets			
Goodwill and other intangible assets	9	223.6	216.4
Property, plant and equipment	10	79.5	62.6
Investment property	11	5.1	5.7
Investments in joint ventures	12	84.3	81.5
Other investments		1.3	1.3
Shared equity loan receivables	13	8.4	13.0
Non-current assets		402.2	380.5
Inventories	14	338.1	334.2
Contract assets	15	186.8	192.0
Trade and other receivables	16	275.7	233.2
Cash and cash equivalents	25	192.7	217.2
Current assets		993.3	976.6
Total assets		1,395.5	1,357.1
Liabilities			
Contract liabilities	15	(56.2)	(98.3)
Trade and other payables	17	(832.4)	(797.8)
Current tax liabilities		(9.6)	(5.8)
Lease liabilities	20	(12.8)	(11.2)
Borrowings	25	-	(10.2)
Provisions	19	(7.1)	-
Current liabilities		(918.1)	(923.3)
Net current assets		75.2	53.3
Trade and other payables	17	(3.8)	(15.6)
Lease liabilities	20	(46.9)	(35.7)
Deferred tax liabilities	6	(8.1)	(12.0)
Provisions	19	(21.8)	(23.9)
Non-current liabilities		(80.6)	(87.2)
Total liabilities		(998.7)	(1,010.5)
Net assets		396.8	346.6
Equity			
Share capital	22	2.3	2.3
Share premium account		38.5	38.3
Other reserves		(0.8)	(0.6)
Retained earnings		356.8	306.6
Equity attributable to owners of the Company		396.8	346.6
Total equity		396.8	346.6

The consolidated financial statements of Morgan Sindall Group plc (Company number: 00521970) were approved by the Board on 20 February 2020 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Operating activities			
Operating profit		91.3	84.5
Adjusted for:			
Amortisation of intangible assets	9	1.8	1.0
Share of net profit of equity accounted joint ventures	12	(6.5)	(5.2)
Depreciation	10	21.3	18.5
Share option expense	23	5.9	6.3
Profit on disposal of interests in joint ventures	3	(4.4)	-
Gain on disposal of property, plant and equipment		(0.2)	(0.2)
Revaluation of investment properties	11	0.4	0.2
Movement in fair value of shared equity loan receivables	13	0.4	(0.5)
Repayment of shared equity loan receivables	13	4.2	3.1
Increase in provisions	19	5.0	2.9
Proceeds on disposal of service contracts in joint ventures	3	4.4	-
Operating cash inflow before movements in working capital		123.6	110.6
Increase in inventories		(3.9)	(49.2)
Decrease/(increase) in contract assets		5.2	(13.8)
Increase in receivables		(42.9)	(7.2)
(Decrease)/increase in contract liabilities		(42.1)	40.7
Increase in payables		21.8	6.3
Movements in working capital		(61.9)	(23.2)
Cash inflow from operations		61.7	87.4
Income taxes paid		(12.8)	(13.9)
Net cash inflow from operating activities		48.9	73.5
Investing activities			
Interest received		1.6	2.1
Dividend from joint ventures	12	2.9	1.5
Proceeds on disposal of property, plant and equipment		0.3	0.4
Purchases of property, plant and equipment	10	(12.6)	(9.2)
Purchases of intangible fixed assets	9	(2.7)	(1.6)
Net increase in loans to joint ventures	12	(3.3)	(3.0)
Payment for the acquisition of subsidiaries, joint ventures and other businesses	12	(1.6)	(2.0)
Payment for other investments		-	(0.2)
Net cash outflow from investing activities		(15.4)	(12.0)
Financing activities			
Interest paid		(1.3)	(3.6)
Dividends paid	7	(24.8)	(21.5)
Repayments of lease liabilities	20	(15.1)	(13.5)
Proceeds from borrowings	25	-	0.3
Repayment of borrowings	25	(10.2)	(17.9)
Proceeds on issue of share capital	22	0.2	4.6
Payments by the Trust to acquire shares in the Company		(9.1)	(16.1)
Proceeds on exercise of share options		2.3	2.2
Net cash outflow from financing activities		(58.0)	(65.5)
Net decrease in cash and cash equivalents		(24.5)	(4.0)
Cash and cash equivalents at the beginning of the year		217.2	221.2
Cash and cash equivalents at the end of the year	25	192.7	217.2

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Notes	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2018		2.2	33.8	(0.3)	269.2	304.9
Profit for the year		-	-	-	66.8	66.8
Other comprehensive expense		-	-	(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)
1 January 2019		2.3	38.3	(0.6)	306.6	346.6
Profit for the year		-	-	-	71.2	71.2
Other comprehensive expense		-	-	(0.2)	-	(0.2)
Total comprehensive income		-	-	(0.2)	71.2	71.0
Share option expense	23	-	-	-	5.9	5.9
Tax relating to share option expense	6	-	-	-	4.7	4.7
Issue of shares at a premium	22	-	0.2	-	-	0.2
Purchase of shares in the Company by the Trust		-	-	-	(9.1)	(9.1)
Exercise of share options		-	-	-	2.3	2.3
Dividends paid	7	-	-	-	(24.8)	(24.8)
31 December 2019		2.3	38.5	(0.8)	356.8	396.8

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2018: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.8m) (2018: (£0.8m)) 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 (£0.6m) (2018: (£0.4m)) 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 2019 was 351,961 (2018: 770,599) with a cost of £2.2m (2018: £7.7m). 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 2019 of £16.20 (2018: £10.54), the market value of the shares was £5.7m (2018: £8.1m).

Significant accounting policies

for the year ended 31 December 2019

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 pages 1 to 36.

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 22 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. Their adoption has not had any significant impact on the accounts or disclosures in these financial statements.

- IFRIC 23 'Uncertainty over Income Tax Treatments'
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- IFRS 4 (amended) 'Insurance Contracts'
- IFRS 9 (amended) 'Prepayment Features with Negative Compensation'
- IAS 19 (amended) 'Employee Benefits Plan Amendment, Curtailment or Settlement'
- IAS 28 (amended) 'Long term interests in Associates and Joint Ventures'

(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 References to the Conceptual Framework in IFRS Standards
- Definition of a Business Combination – Amendments to IFRS 3 'Business Combinations'
- Definition of Material – Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- Interest Rate Benchmark Reform – Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments – recognition and measurement' and IFRS 7 'Financial Instruments: Disclosures'

The Group is currently assessing the impact of the standards but do 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. Whilst 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 whilst 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 a construction contract can be estimated reliably, 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 are not included in revenue but are 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 other than those that are less than one year in duration or of a low value. 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 assets are presented within the property, plant and equipment line in the balance sheet and 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
- 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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Residual values of property, plant and equipment are reviewed and updated annually.

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

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 is designated as at fair value through profit or loss under IFRS9. 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.

Net investment hedges are used to hedge exposure on translation of net investments in foreign operations. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. In the event of disposal of a foreign operation, the gains and losses accumulated in other comprehensive income 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 2019

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 performance obligations have been satisfied. 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 106 and 107.

Notes to the consolidated financial statements

1 Revenue

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

	2019 £m	2018 £m
Construction contracts	2,215.1	2,076.8
Other services	217.6	182.9
Construction activities revenue	2,432.7	2,259.7
Regeneration activities revenue	638.6	711.8
Total revenue	3,071.3	2,971.5

Construction activities revenue is generated from Construction & Infrastructure, Fit Out and Property Services segments. Regeneration activities revenue is generated from Partnership Housing, Urban Regeneration and Investments segments.

	2019 £m	2018 £m
Construction	618.9	593.0
Infrastructure and design	867.5	749.7
Construction & Infrastructure	1,486.4	1,342.7
Traditional fit out	680.7	714.9
Design and build	158.0	116.5
Fit Out	838.7	831.4
Property Services	115.3	99.9
Contracting	243.7	296.6
Mixed tenure	269.2	222.3
Partnership Housing	512.9	518.9
Urban Regeneration	118.8	185.3
Investments	8.0	8.8
Inter-segment revenue	(8.8)	(15.5)
Total revenue	3,071.3	2,971.5

Finance income of £1.7m (2018: £2.0m) 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:** 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. Baker Hicks 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 responsive repairs and planned maintenance for social housing and the wider public sector.
- **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.

'Group activities' represent 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.

Adjusted performance measures

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 also disclosed in the annual report. These measures are not an alternative or substitute to statutory IFRS measures but are seen by management as more useful in assessing the performance of the business on a comparable basis. These financial measures are also aligned to the measures used internally to assess business performance in the Group's budgeting process and when determining compensation. The Group also uses other non-statutory measures which cannot be derived directly from the financial statements. There are four alternative performance measures used by management and disclosure in the annual report which are:

'Adjusted'

In all cases the term 'adjusted' excludes the impact of intangible amortisation of £1.8m (2018: £1.0m). This is used to improve the comparability of information between reporting periods to aid the use of the annual report in understanding the activities across the Group's portfolio. The below segmental analysis reconciles the statutory operating profit measure to the 'adjusted' measure and is used in reviewing the segmental performance. The adjusted profit before tax is used only in monitoring the Group's performance which is the statutory measure excluding the impact of intangible amortisation of £1.8m (2018: £1.0m). Adjusted basic earnings per share and adjusted diluted earnings per share is the statutory measure excluding the post-tax impact of intangible amortisation of £1.5m (2018: £0.9m). See note 8 for a detailed reconciliation of the adjusted EPS measures.

'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, such as repayments of lease liabilities, investment in property, plant and equipment, investment in intangible assets, and returns from equity accounted joint ventures. The figures can be derived from the consolidated cash flow statement being: cash inflow from operations (£61.7m) plus dividend from joint ventures (£2.9m), interest income from joint ventures (£0.9m) and proceeds from the disposal of property, plant and equipment (£0.3m) less repayments of lease liabilities (£15.1m), purchase of property, plant and equipment (£12.6m), and purchase of intangible assets (£2.7m). Operating cash flow conversion is operating cash flow as defined above divided by adjusted operating profit as defined above.

'Return on capital employed'

Management use return on capital employed (ROCE) in assessing the performance and efficient use of capital within the Regeneration activities. ROCE is calculated as adjusted operating profit plus interest received from joint ventures divided by average capital employed. Average capital employed is the 12-month average of total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, intercompany financing and overdrafts).

2 Business segments continued

The Group reports its segmental information as presented below:

	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
2019									
External revenue	1,480.3	837.1	115.3	511.8	118.8	8.0	-	-	3,071.3
Inter-segment revenue	6.1	1.6	-	1.1	-	-	-	(8.8)	-
Total revenue	1,486.4	838.7	115.3	512.9	118.8	8.0	-	(8.8)	3,071.3
Operating profit/(loss) before amortisation of intangible assets	32.3	36.9	4.3	18.3	19.4	(2.4)	(15.7)	-	93.1
Amortisation of intangible assets	-	-	(1.2)	-	-	(0.6)	-	-	(1.8)
Operating profit/(loss)	32.3	36.9	3.1	18.3	19.4	(3.0)	(15.7)	-	91.3
Other information:									
Average number of employees	4,021	820	772	934	76	49	89		6,761
2018									
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

3 Profit for the year

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

	2019 £m	2018 £m
Gain on disposal of service contracts in joint ventures	(4.4)	–
Depreciation charge:		
Plant, equipment, fixtures and fittings	7.4	6.3
Right-of-use assets	13.9	12.2
Amortisation of intangible assets	1.8	1.0

During the year, the Group disposed of a number of long-term contracts to provide management services to projects that were developed by Investments' hub West Scotland joint venture. The gain on disposal was £4.4m.

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

Auditor's remuneration

	2019 £m	2018 £m
Audit of the Company's annual report	0.3	0.1
Audit of the Company's subsidiaries and joint ventures	1.0	0.8
Total audit fees	1.3	0.9
Total non-audit fees	–	–
Total audit and non-audit fees	1.3	0.9

Non-audit fees totalled £6,200 for the year ended 31 December 2019 (2018: £6,000). The current year non-audit fees relate to agreed-upon procedures in relation to the half-year results announcement.

4 Staff costs

	2019 £m	2018 £m
Wages and salaries	432.9	423.0
Social security costs	50.0	48.1
Other pension costs (note 18)	16.2	13.2
	499.1	484.3

5 Finance income and expense

	2019 £m	2018 £m
Interest receivable from joint ventures	1.0	1.4
Other interest income	0.7	0.6
Finance income	1.7	2.0
Interest expense on bank overdrafts and borrowings	(0.1)	(2.0)
Interest expense on lease liabilities	(1.7)	(1.4)
Loan arrangement and commitment fees	(1.6)	(2.0)
Other interest expense	(1.0)	(0.5)
Finance expense	(4.4)	(5.9)
Net finance expense	(2.7)	(3.9)

Included within other interest expense is £1.0m discount unwind on deferred land payments (2018: £0.5m).

6 Tax

Tax expense for the year

	2019 £m	2018 £m
Current tax:		
Current year	17.0	12.6
Adjustment in respect of prior years	(0.4)	(1.8)
	16.6	10.8
Deferred tax:		
Current year	0.9	2.8
Adjustment in respect of prior years	(0.1)	0.2
	0.8	3.0
Tax expense for the year	17.4	13.8

UK corporation tax is calculated at 19.00% (2018: 19.00%) 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:

	2019 £m	2018 £m
Profit before tax	88.6	80.6
Less: post tax share of profits from joint ventures	(6.5)	(5.2)
	82.1	75.4
UK corporation tax rate	19.00%	19.00%
Income tax expense at UK corporation tax rate	15.6	14.3
Tax effect of:		
Non-taxable income and expenses	0.7	0.4
Tax liability upon joint venture profits ¹	1.3	0.7
Adjustments in respect of prior years	(0.5)	(1.6)
Expected forthcoming change in tax rates upon deferred tax balance	0.1	-
Other	0.2	-
Tax expense for the year	17.4	13.8

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

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 2018	(14.5)	2.5	(0.5)	1.0	(11.5)
Charge to income statement	-	(2.3)	-	(0.7)	(3.0)
Credit to other comprehensive income	-	-	0.5	-	0.5
Credit to equity	-	-	-	2.0	2.0
1 January 2019	(14.5)	0.2	-	2.3	(12.0)
Credit/(charge) to income statement	(0.3)	1.6	-	(2.1)	(0.8)
Credit to other comprehensive income	-	-	-	-	-
Credit to equity	-	-	-	4.7	4.7
31 December 2019	(14.8)	1.8	-	4.9	(8.1)

6 Tax continued

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

At 31 December 2019, the Group had unused tax losses of £3.0m (2018: £2.9m) available for offset against future profits. A deferred tax asset has been recognised in respect of £0.5m (2018: £0.6m) of these losses. No deferred tax asset has been recognised in respect of the remaining £2.5m (2018: £2.3m) due to the unpredictability of future profit streams against which the losses may be utilised. £0.5m 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:

	2019 £m	2018 £m
Final dividend for the year ended 31 December 2018 of 34.0p per share	15.3	–
Final dividend for the year ended 31 December 2017 of 29.0p per share	–	12.9
Interim dividend for the year ended 31 December 2019 of 21.0p per share	9.5	–
Interim dividend for the year ended 31 December 2018 of 19.0p per share	–	8.6
	24.8	21.5

The proposed final dividend for the year ended 31 December 2019 of 38.0p per share is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.†

† Please refer to the notice to readers at the front of this report.

8 Earnings per share

	2019 £m	2018 £m
Profit attributable to the owners of the Company	71.2	66.8
Adjustments:		
Amortisation of intangible assets net of tax	1.5	0.9
Adjusted earnings	72.7	67.7

	2019 Number of shares (millions)	2018 Number of shares (millions)
Basic weighted average number of ordinary shares	45.1	44.6
Dilutive effect of share options and conditional shares not vested	1.4	2.4
Diluted weighted average number of ordinary shares	46.5	47.0

	2019	2018
Basic earnings per share	157.9p	149.8p
Diluted earnings per share	153.1p	142.1p
Adjusted earnings per share	161.2p	151.8p
Diluted adjusted earnings per share	156.3p	144.0p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and Long-Term Incentive Plan shares was based on quoted market prices for the year. The weighted average share price for the year was £12.51 (2018: £13.20).

A total of 3,189,945 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 2019 (2018: 1,016,473).

9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost or valuation			
1 January 2018	213.9	32.4	246.3
Additions	–	1.6	1.6
1 January 2019	213.9	34.0	247.9
Additions	3.8	5.2	9.0
31 December 2019	217.7	39.2	256.9
Accumulated amortisation			
1 January 2018	–	(30.5)	(30.5)
Amortisation	–	(1.0)	(1.0)
1 January 2019	–	(31.5)	(31.5)
Amortisation	–	(1.8)	(1.8)
31 December 2019	–	(33.3)	(33.3)
Net book value at 31 December 2019	217.7	5.9	223.6
Net book value at 31 December 2018	213.9	2.5	216.4

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 (2018: £151.1m), Partnership Housing £46.8m (2018: £46.8m), Urban Regeneration £16.0m (2018: £16.0m) and Investments £3.8m (2018: nil).

Other intangible assets relate to internally generated software in Property Services £4.0m (2018: £2.5m) and secured customer contracts from an acquisition in Investments of £1.9m (2018: nil).

During the year, the Group acquired the remaining 50% share of Morgan Ashley Care Developments LLP which created £3.8m of goodwill. The fair value of the net assets acquired included £2.5m of intangible assets in relation to existing development management service projects which are currently in progress (see note 12).

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 2.1% (2018: 1.9%). This growth rate does not exceed the long-term average for the relevant markets.

Discount rates are pre-tax and reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. The risk-adjusted nominal rates used for the cash-generating units with goodwill balances are 11.1% (2018: 12.3%) for Construction & Infrastructure, 11.6% (2018: 13.3%) for Partnership Housing and 12.1% (2018: 13.8%) for Urban Regeneration.

In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified. No reasonably foreseeable change in the assumptions used within the value-in-use calculations would cause an impairment in any of the segments.

10 Property, plant and equipment

	Freehold property and land £m	Plant, equipment, fixtures & fittings £m	Right of Use Assets		Total £m
			Leasehold property £m	Plant and equipment £m	
Cost					
1 January 2018	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)
1 January 2019	2.4	52.7	39.5	16.8	111.4
Additions	-	12.6	24.0	3.6	40.2
Disposals	-	(8.0)	(3.6)	(1.3)	(12.9)
31 December 2019	2.4	57.3	59.9	19.1	138.7
Accumulated depreciation					
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
1 January 2019	-	(38.0)	(6.0)	(4.8)	(48.8)
Depreciation charge	-	(7.4)	(8.4)	(5.5)	(21.3)
Disposals	-	7.9	1.7	1.3	10.9
31 December 2019	-	(37.5)	(12.7)	(9.0)	(59.2)
Net book value at 31 December 2019	2.4	19.8	47.2	10.1	79.5
Net book value at 31 December 2018	2.4	14.7	33.5	12.0	62.6

The carrying value of plant, equipment, fixtures & fittings which is subject to finance leases is £0.5m (2018: £0.2m).

11 Investment property

	2019 £m	2018 £m
Valuation		
1 January	5.7	5.9
Disposals	(0.2)	-
Revaluation	(0.4)	(0.2)
31 December	5.1	5.7

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 2019 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:

Anthem Lovell LLP 50% partner

Anthem Lovell LLP is a joint venture with Anthem Homes Limited (subsidiary of Walsall Housing Group Limited) and is a company formed to develop regeneration projects of a primarily residential nature.

Brentwood Development Partnership LLP 50% share

Brentwood Development Partnership LLP is a partnership with Brentwood Borough Council which is developing a series of sites in Brentwood over a 30-year period.

Chalkdene Developments LLP 50% share

Chalkdene Developments LLP is a partnership with Herts Living Ltd (a wholly-owned subsidiary of Hertfordshire County Council) which is developing a series of sites across Hertfordshire over a 15-year period.

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 22.9% 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.

12 Investments in joint ventures continued

Lingley Mere Business Park Development Company Limited 50% share

Lingley Mere Business Park Development Company Limited is a joint venture with United Utilities delivering development at a site in Warrington.

Lovell Flagship LLP 50% partner

Anthem Lovell LLP is a joint venture with Flagship Housing Group Limited and is a company formed to develop regeneration projects of a primarily residential nature.

Lovell Latimer LLP 50% partner

Lovell Latimer LLP is a joint venture with Latimer Developments Limited (subsidiary of Clarion Housing Association Limited) and is a company formed to develop regeneration projects of a primarily residential nature.

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 which is developing a series of sites in Slough over an initial term of 15 years, extendable by 10 years.

The Bournemouth Development Company LLP 50% share

The Bournemouth Development Company LLP is a partnership with BCP Council which is 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.

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.

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.

12 Investments in joint ventures continued

Investments in equity accounted joint ventures are as follows:

	2019 £m	2018 £m
1 January	81.5	74.8
Equity accounted share of net profits	6.5	5.2
Loans advanced to joint ventures	24.2	13.0
Loans repaid by joint ventures	(20.9)	(10.0)
Disposal of interest in joint venture	(4.1)	-
Dividends received	(2.9)	(1.5)
31 December	84.3	81.5

During the year, the Group acquired the remaining 50% share of Morgan Ashley Care Developments LLP for a consideration of £2.0m of which £0.4m was contingent on achieving future milestones. The £4.1m disposal of joint ventures related to the derecognition of Morgan Ashley Care Developments LLP as a joint venture. The fair value of net assets acquired was £1.4m, which included £2.5m of intangible assets in relation to existing development management service projects which are currently in progress (see note 9). The acquisition created £3.8m of goodwill which represents future development projects within the business pipeline. The disposal of the joint venture and the subsequent acquisition was within the Investments operating segment. Costs in relation to the acquisition were £0.1m and were expensed during the year. The acquisition contributed £3.6m of revenue in the year.

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

	2019 £m	2018 £m
Non-current assets (100%)	63.9	316.6
Current assets (100%)	464.9	327.4
Current liabilities (100%)	(145.4)	(159.1)
Non-current liabilities (100%)	(245.3)	(388.3)
Net assets reported by equity accounted joint ventures (100%)	138.1	96.6
Revenue (100%)	282.4	248.7
Expenses (100%)	(262.9)	(238.8)
Net profit (100%)	19.5	9.9

Results of equity accounted joint ventures:

	2019 £m	2018 £m
Group share of profit before tax	6.9	5.2
Group share of tax	(0.4)	-
Group share of profit after tax	6.5	5.2

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.

	2019 £m	2018 £m
1 January	13.0	15.6
Net change in fair value recognised in the income statement	(0.4)	0.5
Repayments by borrowers	(4.2)	(3.1)
31 December	8.4	13.0

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 (2018: £0.4m). There were two defaults during the year (2018: 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	2019	2018
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%	2.5%
Forecast default rate	11.5%	7.0%
Number of loans under the shared equity scheme outstanding at the year end	276	396

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 2019, 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 £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2019, 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 £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2019, if the forecast default rate had been 100bps higher at 12.5% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

14 Inventories

	2019 £m	2018 £m
Work in progress	338.1	334.2

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

15 Contract assets and liabilities

	2019 £m	2018 £m
Contract assets	186.8	192.0
Contract liabilities	(56.2)	(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. All contract assets held at 31 December 2019 are expected to be invoiced and transferred to trade receivables within the next 12 months.

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 2019 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:

	2019		2018	
	Contract assets £m	Contract liabilities £m	Contract assets £m	Contract liabilities £m
As at 1 January	192.0	(98.3)	178.2	(57.6)
Revenue recognised:				
performance obligations satisfied in the current year	2,973.0	98.3	2,910.1	57.6
adjustments to performance obligations satisfied in previous years	-	-	3.8	-
Cash received for performance obligations not yet satisfied	-	(56.2)	-	(98.3)
Amounts transferred to trade receivables	(2,978.8)	-	(2,900.1)	-
Changes due to business combinations	0.6	-	-	-
31 December	186.8	(56.2)	192.0	(98.3)

15 Contract assets and liabilities continued

The Group secured workload is the sum of the Construction secured order book and the Regeneration secured order book, less any inter-divisional eliminations. The 'secured order book' is the sum of the 'committed order book', the 'framework order book' and (for the Regeneration businesses only) the Group's share of the gross development value of secured schemes (including the development value of open market housing schemes). The 'committed order book' represents the Group's share of future revenue that will be derived from signed contracts or letters of intent. The 'framework order book' represents the Group's expected share of revenue from the frameworks on which the Group has been appointed. This excludes prospects where confirmation has been received as preferred bidder only, with no formal contract or letter of intent in place.

The following table sets out the Group secured workload by operating segment which is deemed to be the revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the balance sheet date:

	2020 £m	2021 £m	2022 + £m	Total £m
Construction & Infrastructure	1,212.6	1,052.8	5.6	2,271.0
Fit Out	419.0	57.5	3.4	479.9
Property Services	103.9	90.6	709.1	903.6
Partnership Housing	217.7	98.7	777.4	1,093.8
Urban Regeneration	34.3	1.5	2,242.0	2,277.8
Investments	50.7	4.4	525.7	580.8
Eliminations	(14.0)	-	-	(14.0)
	2,024.2	1,305.5	4,263.2	7,592.9

16 Trade and other receivables

	2019 £m	2018 £m
Trade receivables (note 25)	244.7	207.6
Amounts owed by joint ventures	4.9	3.5
Prepayments	14.1	12.5
Other receivables	12.0	9.6
	275.7	233.2

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 £0.6m (2018: £0.4m).

17 Trade and other payables

	2019 £m	2018 £m
Trade payables	184.0	174.7
Amounts owed to joint ventures	0.1	0.4
Other tax and social security	37.1	23.3
Accrued expenses	597.8	581.7
Deferred income	1.6	6.8
Other payables	11.8	10.9
Current	832.4	797.8
Other payables	3.8	15.6
Non-current	3.8	15.6

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 £0.3m (2018: £1.3m) to reflect the time value of money.

18 Retirement benefit schemes

Defined contribution plan

The Morgan Sindall Retirement Benefits Plan ('the Retirement Plan') was established on 31 May 1995 and currently operates on defined contribution principles for employees of the Group. The assets of the Retirement Plan are held separately from those of the Group in funds under the control of the Trustee of the Retirement Plan. The total cost charged to the income statement of £16.2m (2018: £13.2m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2019, contributions of £2.1m (2018: £1.6m) 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 was measured using the projected unit credit method. The following table shows the key assumptions used:

Key assumptions used:	2019 %	2018 %
Discount rate	2.0	2.8
Rate of inflation	2.3	2.5
Rate of future pension increases ^(a)	3.0-3.5	3.0-3.5
Average life expectancy for pensioner retiring now at age 65 years	87.0	87.2
Average life expectancy for pensioner retiring in 20 years at age 65 years	88.9	89.1

(a) depending on their date of joining, members receive pension increases of 3.0% or 3.5%.

	2019			2018		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	10.0	(10.0)	-	14.0	(11.2)	2.8
Finance income/(expense)	0.3	(0.3)	-	0.3	(0.3)	-
Actuarial (loss)/gain	1.0	(1.0)	-	(3.4)	0.6	(2.8)
Benefits paid	(0.6)	0.6	-	(0.9)	0.9	-
31 December	10.7	(10.7)	-	10.0	(10.0)	-

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.

There was no actuarial gain or loss recognised in the statement of comprehensive income during the year (2018: loss of £2.8m).

For IAS19 purposes, the buy-in asset is valued as equal to the accounting value of the liabilities covered. This results in the total plan assets being equal to the IAS19 liabilities.

No contributions are expected to be paid to the defined benefit section of the Retirement Plan during 2020.

19 Provisions

	Insurance £m	Other £m	Total £m
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)
1 January 2019	18.4	5.5	23.9
Utilised	(1.1)	(0.3)	(1.4)
Additions	5.2	3.6	8.8
Released	(2.4)	-	(2.4)
31 December 2019	20.1	8.8	28.9
Current	-	7.1	7.1
Non-current	20.1	1.7	21.8
31 December 2019	20.1	8.8	28.9

Insurance provisions comprise the Group's self-insurance of certain risks and include £10.3m (2018: £8.7m) 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 property, plant and vehicles, to enable the Group to carry out its day-to-day operations. 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 2019 is set out below:

	2019			2018		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
Within one year	7.6	5.2	12.8	6.0	5.2	11.2
Within two to five years	25.2	5.5	30.7	18.5	7.2	25.7
After more than five years	16.2	-	16.2	10.0	-	10.0
31 December	49.0	10.7	59.7	34.5	12.4	46.9

	2019			2018		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
1 January	34.5	12.4	46.9	32.2	12.1	44.3
Additions	24.0	4.0	28.0	8.8	6.1	14.9
Terminations	(1.8)	-	(1.8)	(0.1)	(0.1)	(0.2)
Repayments	(9.1)	(6.0)	(15.1)	(7.4)	(6.1)	(13.5)
Interest expense (note 5)	1.4	0.3	1.7	1.0	0.4	1.4
31 December	49.0	10.7	59.7	34.5	12.4	46.9

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 2019, contract bonds in issue under uncommitted facilities covered £168.6m (2018: £170.8m) of contract commitments of the Group.

Provision has been made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation.

22 Share capital

	2019		2018	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	45,461,416	2.3	44,723,682	2.2
Exercise of share options	28,569	-	737,734	0.1
31 December	45,489,985	2.3	45,461,416	2.3

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.

During 2019, 28,569 shares were issued in respect of options exercised under the Group's Savings-Related Share Option Plan for a total consideration of £0.2m (2018: 737,734 shares were issued for a total consideration of £4.6m).

23 Share-based payments

The Group recognised a share option expense of £5.9m (2018: £6.3m) related to equity-settled share-based payment transactions. The Group has three share option schemes with unvested options or awards at 31 December 2019:

- 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 directors' remuneration report on pages 87 and 88.

The Group also has options which are outstanding at 31 December 2019 under the 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 options under the ESOP 2007 must be exercised by 27 November 2024.

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	114,200	228,404	1,040,490
Weighted average fair value at date of grant (per share)	£8.02	£13.10	£2.50
Weighted average share price at date of grant	£13.10	£13.10	£13.10
Weighted average exercise price	n/a	n/a	£12.74
Valuation model	Monte-Carlo	Black-Scholes	Black-Scholes
Expected term (from date of grant)	2.7 years	2.7 years	6.5 years
Expected volatility	(a) 32.0%	n/a	29.0%
Expected dividend yield	(b) n/a	n/a	3.7%
Risk free rate	0.8%	n/a	1.1%

(a) Volatility has been calculated over the period of time commensurate with the expected award term immediately prior to the date of grant.

(b) Under the 2014 LTIP, award holders may receive the value of any dividends paid during the vesting period in respect of their vested shares at the end of the vesting period. Consequently, the fair value is not discounted for value lost in respect of dividends.

23 Share-based payments continued

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

	2019		2018	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	4,370,922	9.18	4,948,204	7.83
Granted during the year	2,339,640	11.43	1,070,036	12.34
Lapsed during the year	(314,649)	10.20	(346,137)	8.96
Exercised during the year	(1,035,458)	7.30	(1,301,181)	6.69
Outstanding at 31 December	5,360,455	10.47	4,370,922	9.18
Exercisable at 31 December	478,643	7.41	529,572	6.61
Weighted average remaining contractual life	5.6 years		6.4 years	

The weighted average share price at the date of exercise for share options exercised during the year was £13.39 (2018: £14.18).

The options outstanding at 31 December 2019 had exercise prices ranging from £6.40 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 £43.9m (2018: £48.2m).

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'.

	2019 £m	2018 £m
Short-term employee benefits	9.5	8.7
Post-employment benefits	0.1	0.1
Termination benefits	0.3	0.2
Share option expense	3.1	3.2
	13.0	12.2

Details of directors' remuneration are set out in the directors' remuneration report on pages 81 to 83.

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 20 February 2020.

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 20 February 2020.

25 Financial instruments

Net cash

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

	2019 £m	2018 £m
Cash and cash equivalents	192.7	217.2
Non-recourse project financing due in less than one year	-	(8.6)
Borrowings due within one year	-	(1.6)
Net cash	192.7	207.0

Included within cash and cash equivalents is £54.2m (2018: £45.0m) which is the Group's share of cash held within jointly controlled operations. There is £10.2m included within cash and cash equivalents that is held for future payment to designated suppliers (2018: £10.6m).

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £30m matures in March 2022 and £150m in May 2022. No additional project finance borrowings (2018: £8.6m) 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 2019 was £108.9m (2018: £98.8m). 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.

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 2019 were £81.9m (2018: £79.0m). 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.

25 Financial instruments continued

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:

	2019		2018	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	192.4	–	160.9	–
Past due one to 30 days	22.0	–	21.1	–
Past due 31 to 120 days	5.3	–	7.6	–
Past due 121 to 365 days	15.7	0.2	9.4	–
Past due greater than one year	9.9	0.4	9.0	0.4
	245.3	0.6	208.0	0.4

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:

	2019 £m	2018 £m
1 January	0.8	2.1
Net increase in loss allowance arising from new amounts recognised in current year, net of those derecognised upon billing	(0.2)	(1.3)
31 December	0.6	0.8

There has not been any significant change in the gross amounts of contract assets that has affected the estimation of the loss allowance.

The average credit period on revenue is 29 days (2018: 26 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts.

Included in the Group's trade receivable balance are debtors with a carrying amount of £52.3m (2018: £46.7m) 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 118 days (2018: 113 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 may be 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 whilst 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.

25 Financial instruments continued

Key risks to liquidity and cash balances are a downturn in contracting volumes, a reduction in the profitability of work, delayed receipt of cash from customers and the risk that major clients or suppliers suffer financial distress leading to non-payment of debts or costly and time-consuming reallocation and rescheduling of work. Certain measures and key performance indicators are continually monitored throughout the Group and used to quickly identify issues as they arise, enabling the Group to address them promptly.

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

The Group does not have any material derivative or non-derivative financial liabilities with the exception of trade and other payables, 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 have a nominal value of £13.1m (2018: £13.4m) and fixed interest payments at an average rate of 5.1% (2018: 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.

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 21 and 22.

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 statement of financial position

at 31 December 2019

	Notes	2019 £m	2018 £m
Assets			
Property, plant and equipment		4.0	5.0
Investments	2	440.9	446.3
Non-current assets		444.9	451.3
Trade receivables		0.9	0.4
Amounts owed by subsidiary undertakings			
due within one year		74.7	74.7
due after one year		2.9	2.9
Current tax asset		-	2.6
Deferred tax asset		6.2	2.2
Prepayments		5.3	4.4
Other receivables		4.2	3.7
Cash and cash equivalents		55.1	55.1
Current assets		149.3	146.0
Total assets		594.2	597.3
Liabilities			
Bank overdrafts		(16.9)	(20.8)
Lease liabilities		(0.6)	(0.7)
Trade payables		(3.3)	(2.0)
Amounts owed to subsidiary undertakings		(427.0)	(428.7)
Current tax liabilities		(0.5)	-
Other tax and social security		(1.9)	(0.9)
Accrued expenses		(8.7)	(10.0)
Other payables		(1.4)	(0.6)
Provisions	3	(7.1)	-
Current liabilities		(467.4)	(463.7)
Net current liabilities		(318.1)	(317.7)
Total assets less current liabilities		126.8	133.6
Lease liabilities		(1.9)	(2.4)
Provisions	3	(10.0)	(13.7)
Non-current liabilities		(11.9)	(16.1)
Net assets		114.9	117.5
Equity			
Share capital		2.3	2.3
Share premium account		38.5	38.3
Capital redemption reserve		0.6	0.6
Special reserve		13.7	13.7
Retained earnings		59.8	62.6
Total equity		114.9	117.5

The Company reported a profit for the financial year ended 31 December 2019 of £18.2m (2018: £17.0m).

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 20 February 2020 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 2019

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
1 January 2018	2.2	33.8	0.6	13.7	75.0	125.3
Profit for the year	-	-	-	-	17.0	17.0
Other comprehensive income:						
Actuarial gain 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
Issue of shares at a premium	0.1	4.5	-	-	-	4.6
Tax relating to share option expense	-	-	-	-	2.0	2.0
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)
1 January 2019	2.3	38.3	0.6	13.7	62.6	117.5
Profit for the year	-	-	-	-	18.2	18.2
Other comprehensive income:					-	-
Total comprehensive income	-	-	-	-	18.2	18.2
Share option expense	-	-	-	-	5.9	5.9
Tax relating to share options	-	-	-	-	4.7	4.7
Issue of shares at a premium	-	0.2	-	-	-	0.2
Purchase of shares in the Company by the Trust	-	-	-	-	(9.1)	(9.1)
Exercise of share options	-	-	-	-	2.3	2.3
Dividends paid	-	-	-	-	(24.8)	(24.8)
31 December 2019	2.3	38.5	0.6	13.7	59.8	114.9

Significant accounting policies

for the year ended 31 December 2019

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 22, 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 2019

1 Staff costs

	2019 £m	2018 £m
Wages and salaries	9.8	11.0
Social security costs	3.2	0.1
Other pension costs	0.4	0.4
	13.4	11.5
The average number of employees	89	91

2 Investments

	Subsidiary undertakings £m
Cost	
1 January 2019	449.8
Disposals	(8.9)
31 December 2019	440.9
Provisions	
1 January 2019	(3.5)
Utilisations	3.5
31 December 2019	-
Net book value at 31 December 2019	440.9
Net book value at 31 December 2018	446.3

The disposal of investments and utilisation of the related provisions in the year were due to a number of the Company's dormant subsidiary undertakings being put into liquidation as part of a legal entity rationalisation project.

A list of all subsidiary, associated undertakings and significant holdings owned by the Group at 31 December 2019 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 (in liquidation) ⁽ⁿ⁾	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 (in liquidation) ⁽ⁿ⁾	Indirect	100
Morgan Sindall Professional Services (Switzerland) Ltd	Indirect	100
BakerHicks AG (formally Morgan Sindall Professional Services AG) ^{*(e)}	Indirect	100
Morgan Sindall Professional Services GmbH ^{*(f)}	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
Anthem Lovell LLP ⁽¹⁾	Indirect	50
Caldon Quay Residents Management Company Limited ^{(a)(3)}	Indirect	100
Chetton Green 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 Company Limited ^{(a)(3)}	Indirect	100
Gallus Fields Residents Management Company Limited ^{(a)(3)}	Indirect	100
Golwg Y Bryn Residents Management Company Limited ^{(a)(3)}	Indirect	100
Heath Farm Residents Management Company Limited ^{(a)(3)}	Indirect	100
Ingleby View 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 Flagship LLP ⁽¹⁾	Indirect	50
Lovell Guf Limited ^(a)	Indirect	100
Lovell Latimer LLP ⁽¹⁾	Indirect	50
Lovell Plus Limited	Indirect	97
Lovell Property Rental Limited	Indirect	100
Lymington Mews Management Company Limited ^{(a)(3)}	Indirect	100
Meggesson 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 (Llantarnam) 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
Principal Point Residents Management Company Limited ^{(a)(3)}	Indirect	100
Queensbury Park Management Company Limited ^{(a)(3)}	Indirect	100

Partnership Housing continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
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
Saints Quarter (Steelhouse Lane) Residents Management Company Limited ^{(a)(3)}	Indirect	100
Saredon Gardens Residents 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
Shawbrook Manor (Residents) Management Company Limited ^{(a)(3)}	Indirect	100
St Mary's View (Residents) Management Company Limited ^{(a)(3)}	Indirect	100
Station Fields Residents Management Company Limited ^{(a)(3)}	Indirect	100
Station House (Stourbridge) 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
The Coppice (Chapel En Le Frith) Residents Management Company Limited ^{(a)(3)}	Indirect	100
The East Avenue 2 Residents 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
Waterside Quay 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
Willow Grange (Lakeside) Residents Management Company Limited ^{(a)(3)}	Indirect	100
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 ⁽⁶⁾	Indirect	100
Chatham Square Limited	Indirect	100
Cheadle Royal Management Company Limited ⁽⁶⁾⁽⁴⁾	Indirect	28
ECF (General Partner) Limited ^(h)	Indirect	33
English Cities Fund ^{(h)(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
Hulme High Street Limited ⁽ⁱ⁾	Indirect	80
Hulme Management Company Limited ⁽ⁱ⁾⁽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 ⁽ⁱ⁾	Indirect	50
Logic Leeds Management Company Limited ⁽³⁾	Indirect	50
Muse Aberdeen Limited	Indirect	100
Muse (Brixton) Limited	Indirect	100
Muse (ECF) Partner Limited	Indirect	100
Muse (Warp 4) Partner Limited	Indirect	100
Muse Chester Limited	Indirect	100
Muse Developments (Northwich) Limited	Indirect	100
Muse Properties Limited	Indirect	100
North Shore Development Partnership Limited	Indirect	100
Northshore Management Company Limited ⁽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 ⁽⁶⁾	Indirect	100

Urban Regeneration continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
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 ^(k)	Indirect	50
Waterside Places Limited Partnership ^{(k)(5)}	Indirect	50
Wirral Growth Company LLP ^{(o) (1)}	Indirect	50

Investments

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Investments Limited	Direct	100
Brentwood Development Partnership LLP ⁽¹⁾	Indirect	50
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 (in liquidation) ⁽ⁿ⁾	Indirect	100
Community Solutions for Regeneration Limited	Indirect	100
Community Solutions for Regeneration (Bournemouth) Limited	Indirect	100
Community Solutions for Regeneration (Brentwood) Limited	Indirect	100
Community Solutions for Regeneration (Hertfordshire) Limited	Indirect	100
Community Solutions for Regeneration (Slough) 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
Hamsard 3134 Limited	Indirect	100
Hamsard 3135 Limited	Indirect	100
HB Community Solutions Holdco Limited (in liquidation) ⁽ⁿ⁾	Indirect	79
HB Community Solutions Living Limited ⁽²⁾	Indirect	50
Health Innovation Partners Limited	Indirect	50
hub West Scotland Limited ^(d)	Indirect	54
Morgan Ashley Care Developments LLP ⁽¹⁾	Indirect	100
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50
MS Grimsby Winchester Limited	Indirect	100
PSBP NW Holdco Limited ^(m)	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 ^(b)	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 (in liquidation) ⁽ⁿ⁾	Direct	100
Barnes & Elliott Limited	Direct	100
Bluebell Printing Limited	Direct	100
Elec-Track Installations Limited (in liquidation) ⁽ⁿ⁾	Direct	100
Hinkins & Frewin Limited	Direct	100
Lovell Partnerships (Northern) Limited	Direct	100
Lovell Partnerships (Southern) Limited	Direct	100
Morgan Est (Scotland) Limited ^(b)	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 ^{*(l)}	Direct	100
Roberts Construction Limited	Direct	100
Sindall Eastern Limited	Indirect	100
Sindall Limited (in liquidation) ⁽ⁿ⁾	Direct	100
SMHA Limited (in liquidation) ⁽ⁿ⁾	Direct	100
Snape Design & Build Limited	Indirect	100
Snape Roberts Limited (in liquidation) ⁽ⁿ⁾	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 (in liquidation) ⁽ⁿ⁾	Direct	100
Wheatley Construction Limited	Direct	100

* With the exception of Newman Insurance Company Limited, registered and operating in Guernsey, BakerHicks 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) 6th Floor Merchant Exchange, 20 Bell Street, Glasgow G1 1LG
- (e) Badenstrasse 3, 4057, Basel, Switzerland
- (f) Albert-Nestler-Strasse 26, 73131 Karlsruhe, Germany
- (g) Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES
- (h) One Coleman Street, London EC2R 5AA
- (i) Booths Park, Chelford Road, Knutsford, Cheshire WA16 8QZ
- (j) Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP
- (k) First Floor North Station House, 500 Elder Gate, Milton Keynes MK9 1BB
- (l) Willis Management (Guernsey) Limited, PO Box 384 The Albany, South Esplanade, St Peter Port, Guernsey GY1 4NF
- (m) 5th Floor Aldersgate Street, London EC1A 4JQ
- (n) C/o Mazars LLP, Tower Bridge House, St Katharines Way, London E1W 1DD
- (o) C/o Head of Legal Wirral Borough Council, Town Hall, Brighton Street, Wallasey, Wirral, CH44 8ED

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.

3 Provisions

	Insurance £m	Other £m	Total £m
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)
1 January 2019	9.6	4.1	13.7
Utilised	(0.9)	(0.1)	(1.0)
Additions	3.0	3.4	6.4
Released	(2.0)	-	(2.0)
31 December 2019	9.7	7.4	17.1
Current	-	7.1	7.1
Non-current	9.7	0.3	10.0
31 December 2019	9.7	7.4	17.1

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 2019

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 1,000	943	59.23	448,787	0.99
1,001 to 5,000	381	23.93	861,573	1.89
5,001 to 100,000	201	12.63	5,281,241	11.61
100,001 to 1,000,000	57	3.58	16,052,569	35.29
Over 1,000,000	10	0.63	22,845,815	50.22

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 [†]	23 April 2020
Record date to be eligible for final dividend [†]	24 April 2020
Annual general meeting and trading update	7 May 2020
Payment date for final dividend [†]	19 May 2020
Half-year results announcement	August 2020
Interim dividend payable	October 2020
Trading update	November 2020

[†] Please refer to the notice to readers at the front of this report.

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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