Regeneration

Construction

MORGAN SINDALL GROUP

Annual Report 2017

Who we are

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

What we do

Our construction services include design, new build, fit out, refurbishment and property maintenance, working on standalone projects or through strategic alliances. In regeneration we work in close partnership with landowners, local authorities and housing associations to revive cities with mixed-use developments.

See inside front cover

An overview of our market

Four macroeconomic trends will support long-term growth in the Group: the housing shortage; investment in infrastructure; population growth; and pressure on the public sector to achieve savings in managing their assets. We target growing markets that match our expertise.

See pages 4 to 5

Our Group strategy

We specialise in construction and regeneration, investing cash from our construction activities in long-term regeneration programmes. This strategy is supported by our objectives of winning work, retaining talented people, a disciplined use of capital, maximising resources and innovating.

See pages 16 to 17

Our structure and approach

We are a decentralised organisation. Our divisions have the autonomy to meet the needs of their markets and the flexibility to innovate and react quickly to opportunities. The Group is also cohesive. Our divisions achieve synergies by sharing opportunities and collaborating on schemes.

See pages 24 to 47

Our core values and commitments

We share one set of core values throughout the Group that guide our approach to everything we do. Aligned to these values, our Group-wide Total Commitments to being a responsible business support our strategy and are measured against performance targets.

See pages 15 and 17

How we manage our business

We measure our performance using financial and non-financial performance indicators related to our strategic objectives. Principal risks are identified and managed at divisional and Group level. Our risk governance system is designed to ensure that risks are reviewed at every level.

See pages 48 to 60

Our 2017 annual report is part of a suite of publications that also includes our 2017 responsible business report and environmental, social and governance data sheet. All reports can be downloaded from our website at **morgansindall.com**. (The responsible business report and data sheet will be available from mid-April 2018.)

FRONT COVER: 55 Colmore Row, Birmingham. Three new floors and refurbishment of existing space delivered by Construction & Infrastructure, while retaining the Grade II listed Victorian terrace façade. In the same building, Fit Out completed two floors of office space for international law firm, Pinsent Masons, and in 2018 will be carrying out two further projects for RICS and Savills.

Construction

At a glance The Group is structured around our two distinct but

Construction & Infrastructure

Page 28

Revenue

£1,395m

2016: **£1,321m**

Operating profit — adjusted*

£20.4m

2016: **£8.9m**

Delivering vital UK infrastructure and construction
Provides infrastructure services in the highways, rail, aviation, energy, water and nuclear markets, including tunnel design; and construction services in education, healthcare, defence, commercial, industrial, leisure and retail. BakerHicks offers a multidisciplinary design and engineering consultancy.

Responsible business
Award-winning participant in the mental health charity, Mind's, Workplace Wellbeing Index, and launched a returnships programme to attract people back to work after a voluntary break (see page 31).

MORGAN SINDALL

BakerHicks.

Fit Out

Page 32

Revenue

£735m

2016: **£634m**

Operating profit — adjusted*

£39.1m

2016: **£27.5m**

Fit out and refurbishment expertise
Overbury specialises in fit out and refurbishment in commercial, central and local government offices, further education and retail banking.

Morgan Lovell provides office interior design and build services direct to occupiers.

Responsible business
New initiatives to keep people safe on site include a safety app developed in house and a consultant-led programme to drive behavioural change.

overbury

Morgan Lovell

Property Services

Page 36

Revenue

£66m

2016: **£55m**

Operating (loss)/profit — adjusted*

(£1.3m)

2016: **£0.7m**

Integrated property maintenance programmes
Provides response and planned maintenance to social housing and the wider public sector.

Responsible business
A recognised market leader in the social enterprise model, investing in retraining local unemployed people and helping them back into work.

MORGAN SINDALL
PROPERTY SERVICES

Investments

Page 46

Operating profit/(loss) — adjusted*

£0.5m

2016: **(£2.0m)**

Securing long-term construction and regeneration opportunities through strategic partnerships
Provides the Group with construction and regeneration opportunities through various strategic partnerships to develop under-utilised property assets.

* Adjusted is defined as before intangible amortisation of £1.2m (2016: intangible amortisation of £1.4m and (in the case of earnings per share) deferred tax credit

complementary activities, construction and regeneration.

Regeneration

Partnership Housing

Page 38

Revenue

£474m

2016: **£433m**

Operating profit — adjusted*

£14.1m

2016: **£13.4m**

Housing-led regeneration
Works in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes for open market sale and for social/affordable rent, design and build contracting and planned maintenance and refurbishment.

Responsible business
Continually develops close connections to local communities through relationships with local authorities and housing associations, particularly through apprenticeship and employment schemes.

LOVELL

Urban Regeneration

Page 42

Revenue

£175m

2016: **£156m**

Operating profit — adjusted*

£10.0m

2016: **£13.4m**

Mixed-use urban regeneration
Works with landowners and public sector partners to transform the urban landscape through the development of multi-phase sites and mixed-use regeneration, including residential, commercial, retail and leisure.

Responsible business
From Aberdeen to Plymouth, breathing life back into 14 town centres across the country in 2017.

muse

Responsible business
Working with local authorities and NHS trusts to make the best use of their estates and enable them to deliver front-line services to their local communities. Its 15-20 year programmes create long-term social value.

MORGAN SINDALL INVESTMENTS

Community Solutions

due to changes in the statutory tax rate of £0.7m). The following strategic report is given on an adjusted basis, unless otherwise stated.

Performance highlights

Sustainable growth

Order book

£**3.8**bn

2016: **£3.6bn**

+**6**%

Regeneration and development pipeline

£**3.2**bn

2016: **£3.2bn**

+**1**%

Gross margin

9.8%

2016: **9.5%**

+**30**bps

Shareholder returns

Profit before tax (adjusted*)

£**66.1**m

2016: **£45.3m**

+**46**%

Basic earnings per share (adjusted*)

121.1p

2016: **84.7p**

+**43**%

Total dividend

45.0p

2016: **35.0p**

+**29**%

Profit before tax

£**64.9**m

2016: **£43.9m**

Basic earnings per share

118.8p

2016: **83.3p**

Social responsibility

Accident frequency rate[1]

0.09

2016: **0.14**

–**36**%

Carbon intensity[2]

10.2

2016: **12.0**

–**15**%

Apprentices and new graduates

217

2016: **167**

+**30**%

1 The number of RIDDOR[3] reportable accidents multiplied by 100,000 and divided by the number of hours worked.

2 Carbon intensity is total carbon emissions divided by revenue.

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

Contents

Chairman's statement

This is my second statement since joining the Group and I am pleased to report a strong performance in 2017. We have remained committed to our values and focused on delivering our strategy, while creating long-term benefit for all our stakeholders.

Daily average cash
£118m
(2016: **£25m**)

I have now completed my first full financial year at the Group. During the year I and the non-executive directors met with the divisional managing directors and their teams, and visited a number of their projects. This provided us with valuable knowledge of operations and assisted in our reviews of the divisions' strategic plans.

Performance
The Group achieved growth in 2017 and ended the year with a robust balance sheet which gives us flexibility to invest in the business. Revenue for the year was up 9% at £2,793m (2016: £2,562m), with adjusted profit before tax up 46% to £66.1m (2016: £45.3m).

The cash performance of the Group has also remained strong, due to a disciplined monitoring of average daily cash levels together with our tight management of working capital.

Values and strategy
Our core values and our Total Commitments to being a responsible business (set out on pages 15 and 17) are at the heart of our culture, supporting our strategic objectives and underpinning our performance. Every new employee is inducted in our core values, and encouraged to adopt them as part of their approach to work and their relations with colleagues and external stakeholders.

"We have stayed focused on our strategy of specialising in construction and regeneration."

Our Total Commitments focus primarily on our stakeholders, and the importance of engaging with them is driven by the Board. Our directors communicate regularly with institutional investors and analysts, and deliver presentations at each results announcement (see page 71). Our divisions develop stakeholder engagement programmes tailored to their individual businesses. More detail of these initiatives can be found in our operating review on pages 26 to 27, together with the results of a survey recently undertaken with our stakeholders on social and environmental issues.

We have stayed focused on our strategy of specialising in construction and regeneration, which is supported by the UK's need for new housing, improved infrastructure and urban regeneration. Operating in both the public and commercial sectors, we continue to target markets where demand is stable or growing and our divisions have the experience and the ability to deliver what is needed.

Board changes
I would like to welcome Tracey Killen to the Board, who joined us in May as a non-executive director. Tracey is director of personnel at the John Lewis Partnership and brings expertise in strategy development, business planning and corporate governance. I believe Tracey's significant commercial and HR experience will contribute valuable new skills, knowledge and insight to Board discussions. Tracey will become chair of the remuneration committee in 2018.

Simon Gulliford has decided not to stand for re-election at the 2018 annual general meeting, and will therefore be leaving the Board with effect from the conclusion of the meeting. I would like to thank Simon for his valued contribution to the Board and its committees during his time as a director.

Dividend
The total dividend for the year has been increased by 29% to 45.0p per share (2016: 35.0p), which includes a proposed increase in the final dividend of 32% to 29.0p per share (2016: 22.0p), reflecting the improved result in the year and the Board's confidence in the future prospects of the Group.

Looking ahead
Our 2017 results demonstrate our continued progress in executing our strategy and can be credited to the hard work of our 6,400 employees, who I would like to thank on behalf of the Board. To sustain these achievements, the Board will ensure that our divisions engage in continuous succession planning, training and development, as well as initiatives to increase our diversity and inclusiveness, so that we have the best people in place to deliver our strategy and growth over the long term.

Michael Findlay
Chairman

22 February 2018

Governance principles

Leadership
See pages 67 to 69

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

Culture and values
We are dedicated to running a responsible and sustainable business. See our 2017 responsible business report for more information.

Effectiveness
See pages 69 to 71 and 73 to 74

The Board's performance was scrutinised in our annual evaluation and the actions arising from the results are set out in our governance report on page 71. Succession planning and the composition of the Board and its committees have also remained a key focus.

Accountability
See pages 77 to 82

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

Relations with shareholders
See page 71

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

Remuneration
See pages 83 to 96

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

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.

Long-term trends

Housing shortages

£15.3bn
new government financial support

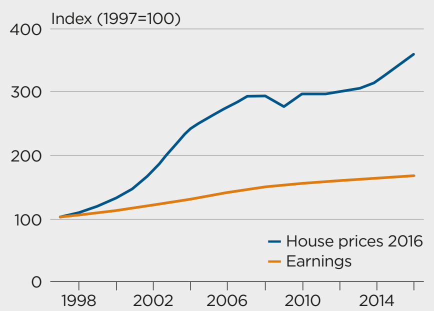
The housing shortage has made buying a new home less affordable, costing on average more than seven times annual earnings (Office for National Statistics (ONS)). In its 2017 Autumn Budget the government pledged support to build 300,000 new homes per year by the end of the current Parliament, including £15.3bn of new financial support over the next five years. As a result of the reduced affordability of new homes, more people are turning to renting, and the private rented sector market is projected to grow from 19% to 25% of all UK households by 2020 (FT).

Opportunities for the Group

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

Median price paid for property and annual earnings indices

England and Wales 1997-2016



Source: ONS

Investment in infrastructure

£8bn
increase in government investment fund

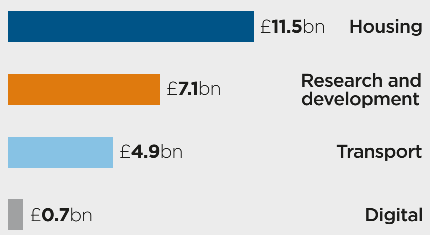
Investment in infrastructure remains a government priority to boost UK productivity. The government announced in its 2017 Autumn Budget that it will expand its National Productivity Investment Fund for 2016-2021 from £23bn to £31bn to underpin its industrial strategy, support innovation and upgrade the UK's infrastructure, including housing. The Budget also announced a £1.7bn Transforming Cities Fund to improve local transport connections.

Opportunities for the Group

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

National Productivity Investment Fund: £31bn until 2022–2023

Allocations to date:



Costs are presented on a UK basis. Further allocations will be made at future fiscal events.

Source: Industrial Strategy: building a Britain fit for the future, HM Government

Population growth

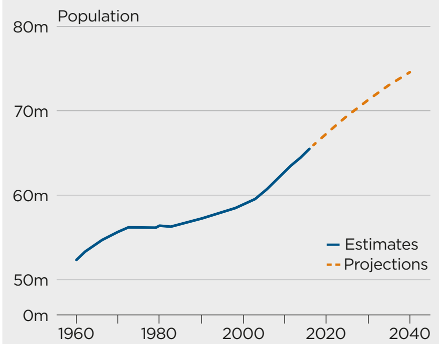
65.6m
UK population at its largest ever

The UK population is at its largest ever at 65.6m in July 2016 and is projected to grow to over 70m by 2026 (ONS July 2017). The increase on the previous year was the largest since the 12 months to mid-1947, although the annual growth rate at 0.8% is in line with the average since 2005. The population is also getting older, with 18% aged 65 and over (ONS).

Opportunities for the Group

- To develop and regenerate urban areas.
- To deliver, upgrade and maintain social infrastructure, particularly in our targeted markets of housing, education, transport and healthcare.
- To deliver supported housing for the elderly, through Investments.

UK population estimates and projections



Source: ONS

Constrained public expenditure

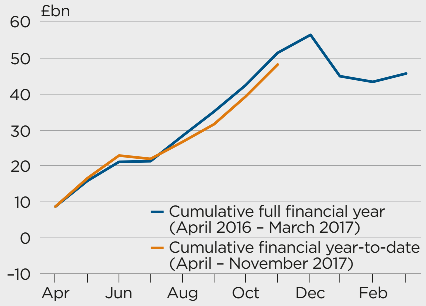
Cost efficiencies required in the public sector

Despite reduced borrowing, the government has stated that debt is still too high and "it is vital that the government continues to control public spending and improve the productivity of public bodies and services" (2017 Autumn Budget). The public sector therefore requires services that help it reduce its expenditure.

Opportunities for the Group

- To deliver increased efficiencies in public sector assets and services through all divisions, via standalone projects or positions on local and national public sector frameworks (see pages 28 to 47 for further details).
- To regenerate areas related to public sector land disposals and property consolidation.
- To provide funding solutions for local authority and NHS Trust development schemes via Investments.

Public sector net borrowing
(excluding public sector banks)
April to November 2017 compared with April 2016 to March 2017, UK



Source: ONS

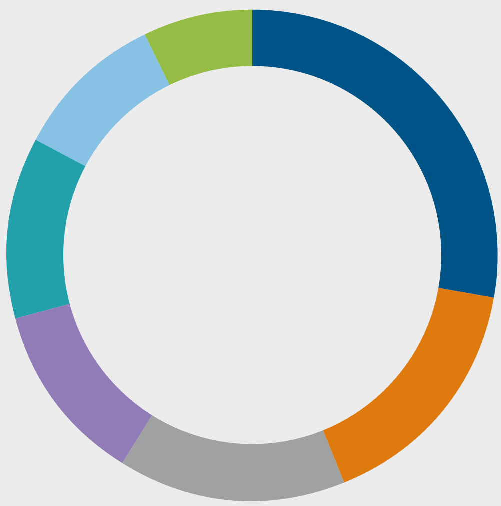
Target markets

Our markets

Estimated overall construction market up 4.6% in 2017

Current market conditions
The Construction Products Association (CPA) issued its industry forecast on 16 October 2017, estimating the overall UK construction market at £144bn in 2017 (2016: £138bn), up 4.6%. The CPA forecasts growth in the construction market to remain flat in 2018 and to rise 2.0% in 2019. This includes growth in infrastructure work of 6.4% in 2018 and 9.8% in 2019; growth in private housing of 2.0% in 2018 and 2019; decline in office construction overall in the UK of 15.0% in 2018 and 5.0% in 2019; and decline in retail construction of 5.0% in 2018 and a rise of 2.0% in 2019.

The chart below shows our key targeted markets that contributed more than 5% to the Group's revenue in 2017.



Commercial	28%
Community and defence	16%
Education	15%
Social housing	12%
Other	12%
Transport	10%
Mixed-tenure housing	7%

See pages 28 to 47 in the operating review for more detail on our divisions' markets.

Business model

We offer construction and regeneration services in the public and commercial sectors. We reinvest cash from our construction activities into regeneration schemes that maximise longer-term value for all our stakeholders. Our specialism in these mutually supportive activities makes us competitive in the industry.

Construction

Construction & Infrastructure
Vital UK infrastructure and construction

Fit Out
Fit out and refurbishment expertise

Property Services
Response and planned maintenance programmes

Investments

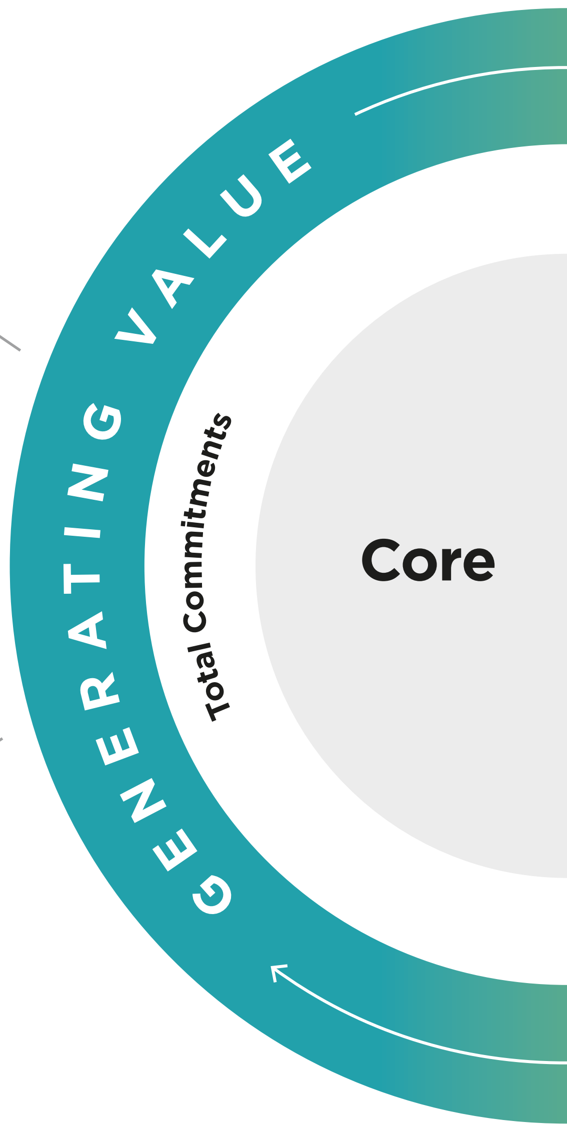
Inputs

Resources and relationships
Strong client and partner relationships
A talented workforce
Financial strength
High-quality supply chain
Technology
Our core values and Total Commitments (see pages 15 and 17)

Repeat business and negotiated work
We work closely with our clients and partners to understand their needs and obtain their feedback to continuously improve. 21% of the Group's order book is in frameworks.

High performing employees
Bespoke training and personal development plans help employees reach their potential. We communicate our values and keep everyone informed of key business developments.

Profitability and capital investment to maximise shareholder returns
We foster good relationships with financial institutions. Equity partnerships with landowners help to avoid purchasing land on the open market and where possible we forward-sell the properties we build.



See pages 28 to 47 for the financial contribution from each construction and regeneration activity within our business model.

Regeneration

Partnership Housing
Housing-led regeneration

Urban Regeneration
Mixed-use urban regeneration

Investments

A loyal and motivated supply chain
We view our suppliers and subcontractors as partners and build long-term relationships with them based on trust. We support our subcontractors with constructive feedback and motivate them to achieve preferred status.

Technology as an enabler
New technology means faster, more efficient processes, improved methods of construction, better health and safety measures, and software that enables our employees to perform at higher levels.

Investment for long-term value
We invest in high quality services for clients, motivating our employees and supply chain, driving innovation and revitalising town centres. This helps create a sustainable business that leaves lasting legacies for local communities.

Outcomes

Benefits for stakeholders
Our clients and partners
Our people
Our shareholders
Our supply chain
The communities we work in

Confidence in

Construction

Rege

A vibrant new city centre development

Project
Marischal Square, Aberdeen

Division
Urban Regeneration

Marischal Square is a new development in the heart of Aberdeen, delivered in partnership with Aberdeen City Council and funded by Aviva Investors. The £107m scheme completed in 2017, providing office, leisure and civic space on a site once dominated by the former council headquarters. New facilities include two office buildings with BREEAM ‘Excellent’ and energy performance ‘A’ ratings, providing 175,000 sq ft of Grade A office space, a 126-room Residence Inn by Marriott, and restaurants and bars. Public space was created, connecting the new buildings to Marischal College. Construction & Infrastructure was the main contractor on the scheme.

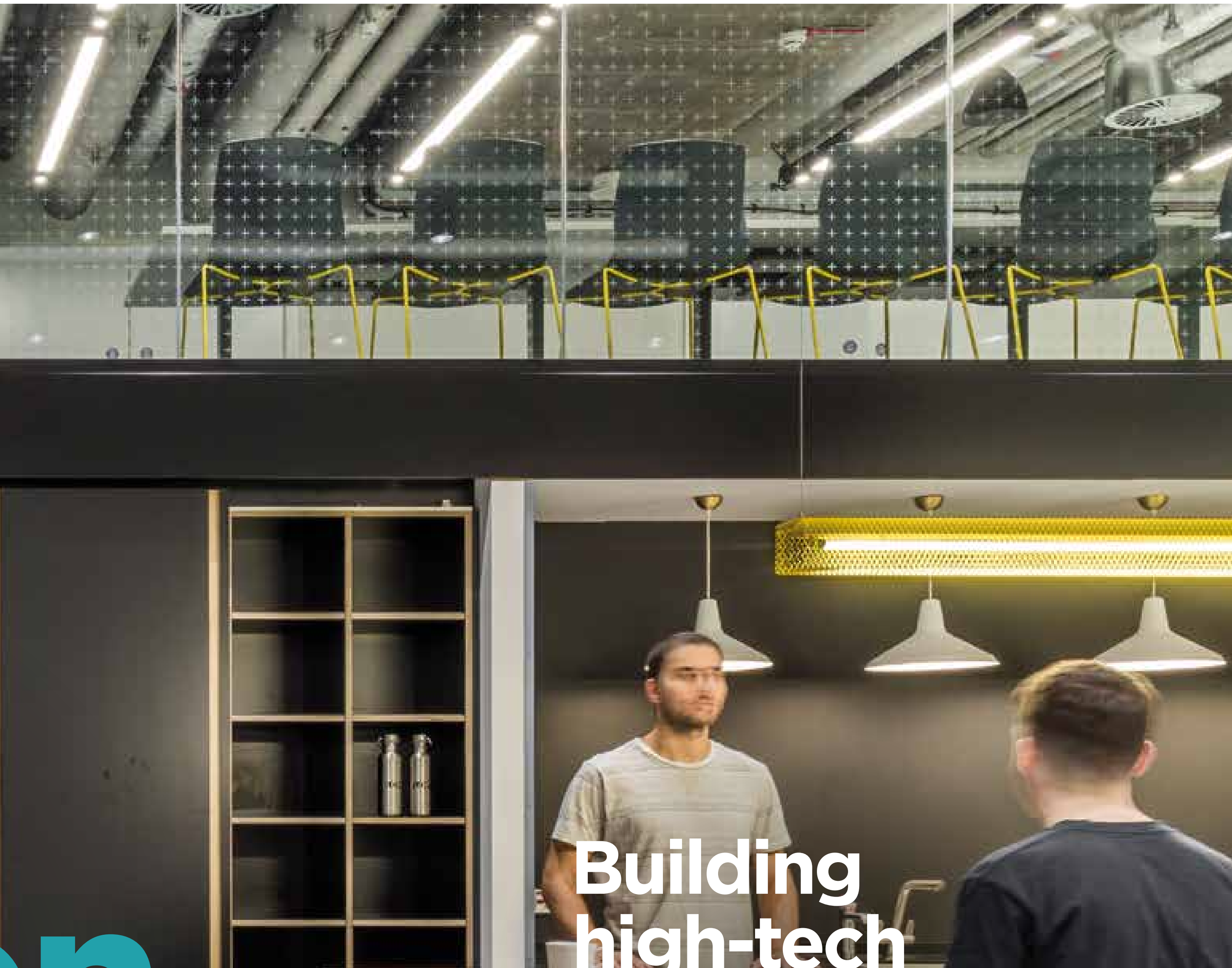
£107m
scheme

neration and

Grade A office development offering views over the city.

Constructio

Collaborative working areas at RocketSpace.



on

Building high-tech workspaces

Project
RocketSpace, North London

Division
Fit Out

Working in partnership with LOM architecture and design, a 1980s cash-handling facility was transformed into a state-of-the-art, co-working campus for tech start-up companies.

The building was stripped back to its original concrete frame and the upper floors divided into open plan accommodation, dedicated workspaces and cellular office space. The double-height basement provides a networking hub and event space with tiered seating, teaching facilities, media pods, meeting rooms and a bar. The original bank vault was retained and redesigned as a themed games room.

During the strip out, more than 1,200 tonnes of materials were removed, of which 97.5% was recycled.

1,500
flexible working spaces

111,000 sq ft

the future

Chief Executive's statement

Our strong results are evidence of the significant operational progress being made across the Group. They are testament to the quality and commitment of our people.

Construction

Revenue £m

2017 **2,133**

2016 1,960

+9%

Operating profit — adjusted* £m

2017 **58.2**

2016 37.1

+57%

Regeneration

Revenue £m

2017 **659**

2016 601

+10%

Operating profit — adjusted* £m

2017 **24.6**

2016 24.8

–1%

The figures in the above charts exclude the costs of Group activities not allocated to the divisions.

The Group has delivered another strong year of growth in 2017, providing an encouraging platform for future progress across all divisions. Our result was driven by another excellent performance from Fit Out, with revenue growth of 16% to £735m and significant margin improvement to 5.3% (2016: 4.3%), delivering operating profit of £39.1m, up 42% (2016: £27.5m). Construction & Infrastructure has made further operational progress with an improved operating margin of 1.5%, up from 0.7%, and operating profit up to £20.4m (2016: £8.9m). Progress in Property Services was impacted by restructuring costs in the year with the division making a loss of £1.3m, however this now leaves the division better placed to benefit from its secured workload in future years.

In regeneration, Partnership Housing increased its operating profit 5% to £14.1m (2016: £13.4m), although its performance was affected by lower mixed-tenure open market sales in the year and by cost escalation on a single design and build housing contract. Urban Regeneration reported operating profit of £10.0m (2016: £13.4m) which, as expected, was lower than last year but in line with its schedule of development completions. Investments made good progress with developing its portfolio of property partnerships, delivering a small profit of £0.5m in the year.

Our positive cash generation and increase in average net cash in the year has further strengthened our balance sheet and provides us with the flexibility to invest in our regeneration activities while allowing us to continue being highly selective with bidding in our construction activities.

Performance against strategy

We achieved our Group strategic objectives as outlined on pages 16 to 17. We have continued to target industry sectors within the UK where there is growth, and we have the capability to service areas of particularly high demand such as housing, infrastructure and urban regeneration, all of which are underpinned by firm government commitment.

Each of our divisions has succeeded in pursuing its business strategy. Construction & Infrastructure has continued to focus on operational delivery, contract selectivity and quality of earnings in its core sectors, securing appointments to a number of new public sector frameworks. Fit Out has continued to win work in its targeted sectors and secured places on two large public sector frameworks. Through Property Services we are currently delivering planned and response maintenance services to over 25 social housing providers.

Partnership Housing made progress in developing partnerships with housing associations and local authorities, supported by its comprehensive research into development opportunities on underutilised public land. A highlight for the division was being formally awarded its largest ever project as a single phase, for the Defence Infrastructure Organisation. Urban Regeneration entered into an agreement with the Greater London Authority to develop a 2.2 hectare site in Canning Town through its English Cities Fund (ECf) joint venture and started on site with the fourth phase of its regeneration scheme in Warrington.

Investments' successful regeneration programmes in Slough and Bournemouth are growing, and it has entered a new joint venture in the extra care sector. In addition, the division is continuing to provide collaborative opportunities for other parts of the Group through its schemes. More detail on the performance of our divisions can be found on pages 28 to 47.

Our commitment to being a responsible business is integral to achieving our strategic objectives, as our activities affect a wide range of stakeholders. I am pleased to report that this year we achieved FTSE4Good Index Status. We have continued to reduce our greenhouse gas emissions and expect this trend to continue, but to avoid any complacency, we have set up a Carbon and Energy Action Group to drive best practice across the divisions.

"Positive momentum across all divisions provides an encouraging platform for future progress."

Our sustainability strategy for next year will include the adoption of science-based targets, and the UN's sustainability development goals.

Health, safety and wellbeing
We are committed to the health and safety of all who come into contact with our business. Over the past three years we have seen a significant improvement in our overall health and safety performance. In 2017 the number of RIDDOR[1] incidents fell from 62 to 43, a reduction of 31%, and our accident frequency rate[2] reduced from 0.14 to 0.09. We recognise that we need to remain focused on health and safety to try and reduce our RIDDOR incidents further.

During 2017 the Group supported a number of external UK programmes including the Health and Safety Executive's 'Helping Great Britain work well' strategy, Mental Health in Construction and a number of industry research projects including the University of East Anglia's research on distributed workforces and Caledonian University's research on worker engagement. See page 31 for examples of how we support mental wellbeing within the Group.

The Group health and safety forum met during the year to discuss key areas, including emerging technologies and the consideration of human behaviours in creating safe environments. In 2018, we will identify areas where we can develop more common approaches across the divisions, such as a Group-wide focus on how best to promote occupational health, including mental health and wellbeing, and an in-depth look at high potential incidents to improve our intelligence around learning from all significant unplanned events. We will also be considering a new framework of health and safety objectives for the divisions to consider in their business improvement plans and an improved focus on leading indicators to improve performance.

See the health, safety and environment committee report on page 75 for further information.

Looking to the future
The Group's prospects look very positive for 2018 and beyond. While focusing on an appropriate level of risk, our committed order book was £3.8bn, up 6% from the previous year and up 1% on the half year position. Our regeneration and development pipeline also grew, up 1% to £3.2bn, providing longer-term visibility of activity for the regeneration divisions.

In the year ahead we expect continued margin progression in Construction & Infrastructure, another strong performance from Fit Out, further growth from Urban Regeneration and Partnership Housing and positive contributions from Property Services and Investments. Consequently we are confident of another good year of progress and with this positive momentum, the Group is well-placed to deliver a result for the year which is slightly above our previous expectations.

John Morgan
Chief Executive

Core values

Our core values underpin the way we all behave to ensure our success.

- 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

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.

Strategic framework

We focus on five strategic objectives which we believe are fundamental to the Group's long-term success. Our divisions select strategic priorities aligned to these objectives to drive success in their respective businesses – see pages 28 to 47.

Strategic objectives

Win in targeted markets

We target growing markets and pursue opportunities that suit our experience and expertise. We take a long-term approach to relationships with our clients, aiming to deliver exceptional quality and service that encourages them to choose us on their next project and recommend us to others. In 2017 82% of our projects achieved Perfect Delivery[1] (2016: 81%).

To deliver consistently high quality, we recruit talented people and engage closely with our supply chain to ensure they are attuned to our values and standards.

Develop and retain talented people

We invest in developing and motivating our people to help them achieve their potential. Personal development plans are designed bespoke to the individual and we promote internally wherever possible. In 2017, 8.2% of employees were promoted internally across the Group. Our decentralised approach empowers our employees to innovate and take responsibility for their decisions.

Disciplined use of capital

We rigorously manage our cash, working capital and overheads.

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

Maximise efficiency of resources

Operational efficiencies are achieved through Group-wide procurement agreements, continuously improving our systems and processes and developing and deploying new technology. By working closely with our clients and subcontractors, we can ensure projects run as smoothly as possible and changes are well managed.

Energy savings are a product of our drive to reduce carbon emissions, and the reduction of waste is also regularly measured to reduce the impact of landfill tax as well as resources.

Pursue innovation

Employees are encouraged to think differently and given the opportunity to share and test their ideas. As the divisions function independently they are able to pursue innovations that best suit their markets and operations.

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

Our Total Commitments	Risks	Performance against strategic objectives		
		We have selected the following key performance indicators to monitor and measure our progress against each objective.		
■ Protecting people ■ Enhancing communities	■ Changes in the economy ■ Exposure to the UK housing market ■ Poor contract selection ■ Safety or environmental incident	**£3.8bn** Committed order book (2016: **£3.6bn**)	**£3.2bn** Regeneration and development pipeline (2016: **£3.2bn**)	**0.09** Accident frequency rate (2016: **0.14**)
■ Developing people	■ Failure to attract and retain talented people	**11%** Voluntary employee turnover (2016: **13%**)	**217** Apprentices and new graduates (2016: **167**)	**3.2** Average training days per employee (2016: **3.9**)
■ Working together with our supply chain	■ Insolvency of key client, joint venture partner, subcontractor or supplier ■ Inadequate funding ■ Mismanagement of working capital	**174%** Operating cash conversion (adjusted for investment in regeneration) (2016: **301%**)	**11.6%** Return on capital employed in regeneration activities (2016: **13.2%**)	**-13.4%** Working capital as a percentage of revenue in construction activities (2016: **-14%**)
■ Improving the environment	■ Mispricing a contract ■ Changes to contracts and contract disputes ■ Poor project delivery	**9.7%** Gross margin in construction activities (2016: **8.9%**)	**7.0%** Overheads as a percentage of revenue in construction activities (2016: **7.1%**)	**10.2** Carbon intensity (2016: **12.0**)
■ Developing people ■ Working together with our supply chain	■ Failure to innovate ■ Failure to invest in information technology	Fit Out's new health and safety app (see page 35) and Partnership Housing's research into public land (see page 40) are examples of innovative projects undertaken by the divisions.		
See our 2017 responsible business report.	See our principal risks on pages 50 to 59 for more information.	See pages 18 to 19 for further information on KPIs.		

Key performance indicators

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

Committed order book

2017 £3,849m
2016 £3,637m

See page 22 for a definition of committed order book.

Our order book increased 6% on 2016, with increases in most divisions. The quality of the order book was maintained with a similar proportion of work secured through negotiated, framework or two-stage bidding processes. We will continue to be selective in the work for which we bid in 2018.

Regeneration and development pipeline

2017 £3,233m
2016 £3,210m

See page 22 for a definition of regeneration and development pipeline.

Our pipeline was up 1% on 2016. The pipeline is long term with 67% relating to 2020 onwards. We continue to pursue regeneration opportunities which will contribute to the pipeline in future years.

Accident frequency rate (AFR)

2017 0.09
2016 0.14

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

Our health and safety performance has continued to improve. We are encouraged to see a 36% reduction in the AFR and over the last 12 months, and our accident incident rate has also fallen from 330 to 216, a reduction of 35%. We continue to review causation from incidents to develop our approach. As well as continuing our focus on safety, we have been reviewing how we can improve the wellbeing of employees through our work with the mental health charity, Mind.

Operating cash conversion (adjusted for investment in regeneration)

2017 174%
2016 301%

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

Cash conversion was strong during the year due to efficient working capital management. As expected, the percentage was lower than in the previous year, which benefited from a number of long-standing final account settlements. 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.

Return on capital employed in regeneration activities

2017 11.6%
2016 13.2%

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 decrease in return on capital employed was in line with our expectations as we invested further capital into schemes that will deliver higher profits and return on capital employed in 2018 and beyond.

Working capital as a percentage of revenue in construction activities

(13.4%) 2017
(14.0%) 2016

Working capital is defined as inventories plus trade and other receivables, less trade and other payables, adjusted to exclude deferred consideration payable, accrued interest, capitalised arrangement fees and derivative financial assets and liabilities.

Our continuing focus on working capital management has enabled us to maintain this ratio at a similar level to 2016. No material change is expected in 2018 as the Group targets operating cash conversion of 100%.

Related strategic objectives

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

Voluntary employee turnover

2017	11%
2016	13%

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

Over the last two years our employee turnover rate has improved significantly. We recognise that a certain level of turnover among employees is essential to ensure a regular injection of new ideas and approach. Our long-term target is to reduce employee turnover to 10%.

Number of apprentices and new graduates

2017	217
2016	167

We are committed to developing a succession pool of talent across the Group. Offering employment opportunities to graduates and apprentices helps us to create and further develop these pools. In 2017 we sponsored 21 undergraduates and supported 547 people through NVQs and professional qualifications.

Average number of training days per employee

2017	3.3
2016	3.9

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

We provide employees at all levels with the skills they need to advance their careers. In 2017, 94 (2016: 101) employees completed our leadership development programme. As well as providing individuals with tools that will help develop their leadership skills, the programme provides an opportunity for them to network with colleagues from different divisions within the Group.

Gross margin in construction activities

2017	9.7%
2016	8.9%

Gross margin is gross profit as a percentage of revenue.

Our gross margin improved by 80bps, reflecting the higher quality of work secured as well as ongoing improved operational delivery. This trend is expected to continue as Construction & Infrastructure continues to progress towards delivering more normalised margins.

Overheads as a percentage of revenue in construction activities

2017	7.0%
2016	7.1%

The ratio remained broadly unchanged on 2016 as the overhead base grew in line with revenue. No material change is anticipated in 2018.

Carbon intensity

2017	10.2
2016	12.0

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

We continue to effectively manage our environmental impact and in 2018 we will roll out science-based targets to help drive further improvements in our management of carbon (see page 76.)

Financial review

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

Interior of 55 Colmore Row, Birmingham (see inside front cover)

"During the year we invested £40m in our regeneration activities."

Financial performance

	2017	2016
Revenue	**£2,793m**	£2,562m
Operating profit – adjusted*	**£68.6m**	£48.8m
Profit before tax – adjusted*	**£66.1m**	£45.3m
Earnings per share – adjusted*	**121.1p**	84.7p
Year end net cash	**£193.4m**	£208.7m
Daily average net cash	**£118.0m**	£25.0m
Total dividend per share	**45.0p**	35.0p
Operating profit – reported	**£67.4m**	£47.4m
Profit before tax – reported	**£64.9m**	£43.9m
Basic earnings per share – reported	**118.8p**	83.8p

* Adjusted is defined as before intangible amortisation of £1.2m (2016: intangible amortisation of £1.4m and (in the case of earnings per share) deferred tax credit due to changes in the statutory tax rate of £0.7m). In considering the financial performance of our divisions, the principal measure used by management is operating profit adjusted to exclude intangible amortisation. We believe that this makes it easier to interpret financial performance between periods as the adjusted measure removes the distorting effect of the excluded item.

Net working capital[1]

Net working capital has increased by £39.4m to (£164.2m) as shown below:

	2017 £m	2016 £m	Change %
Inventories	**295.0**	213.9	+81.1
Trade and other receivables	**400.9**	329.6	+71.3
Trade and other payables	**(860.1)**	(747.1)	-113.0
Net working capital[1]	**(164.2)**	(203.6)	+39.4

1 Net working capital is defined as 'inventories plus trade and other receivables less trade and other payables, adjusted to exclude deferred consideration payable, capitalised arrangement fees, interest accruals and derivative financial assets and liabilities'.

Performance

Revenue for the year was up 9% at £2,793m (2016: £2,562m), with adjusted operating profit up 41% to £68.6m (2016: £48.8m). This resulted in an adjusted operating margin of 2.5%, a significant improvement of 60bps compared to the prior year. The net finance expense reduced to £2.5m (2016: £3.5m) due to a lower net interest charge on borrowings and, after deducting this, the adjusted profit before tax was £66.1m, up 46% (2016: £45.3m).

The tax charge for the year is £12.5m, which broadly equates to the UK statutory rate after adjusting for the impact of tax on joint ventures. 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 43% to 121.1p (2016: 84.7p), with the fully diluted adjusted earnings per share of 114.8p up 39% (2016: 82.3p). The total dividend for the year increased 29% to 45.0p.

Details on performance by division are shown on pages 28 to 47.

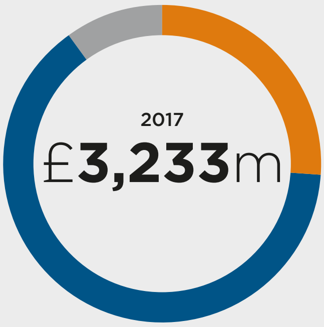
Adjusted operating profit
£68.6m
+41%

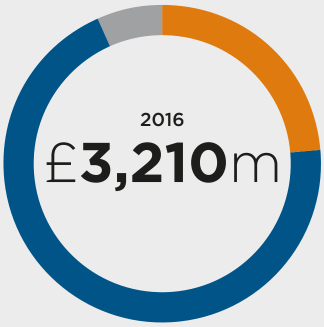
Committed order book[1]

	2017 £m	2016 £m	Change %
Construction & Infrastructure	**1,855**	1,886	–2
Fit Out	**500**	466	+7
Property Services	**836**	687	+22
Partnership Housing	**523**	445	+18
Urban Regeneration	**141**	203	–31
Investments	**7**	16	–56
Inter-divisional orders	**(13)**	(66)	
Total	**3,849**	3,637	+6

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

Regeneration and development pipeline[2]





	2017 £m	2016 £m	Change %
Partnership Housing	**851**	764	+11
Urban Regeneration	**2,063**	2,233	–8
Investments	**319**	213	+50
Total	**3,233**	3,210	+1

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

Net cash

The Group's cash performance has been strong with an operating cash inflow of £41.0m (2016: £179.9m) and free cash inflow of £27.1m (2016: £173.7m). As expected, this included further investment in inventories in regeneration activities as the Group started 2017 from a relatively low base following a large number of scheme completions in the fourth quarter of 2016. The cash outflow for the year was £15.3m, resulting in closing net cash of £193.4m (2016: £208.7m). The average daily net cash for the year was £118.0m, compared to £25.0m in the prior year. This improvement was due to our ongoing focus on working capital management.

Financing facilities

We renewed our banking facilities during the year and now have £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 2017, contract bonds in issue under uncommitted facilities covered £192.0m (2016: £227.7m) of our contract commitments.

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

Tax strategy

The Board approved the Group's tax strategy in November 2017 and a copy has been published on our website.

Revenue
£2,793m
+9%

IFRSs 15 and 16

We will adopt IFRSs 15 and 16 from 1 January 2018. The impact of these new standards on the Group is disclosed on page 116.

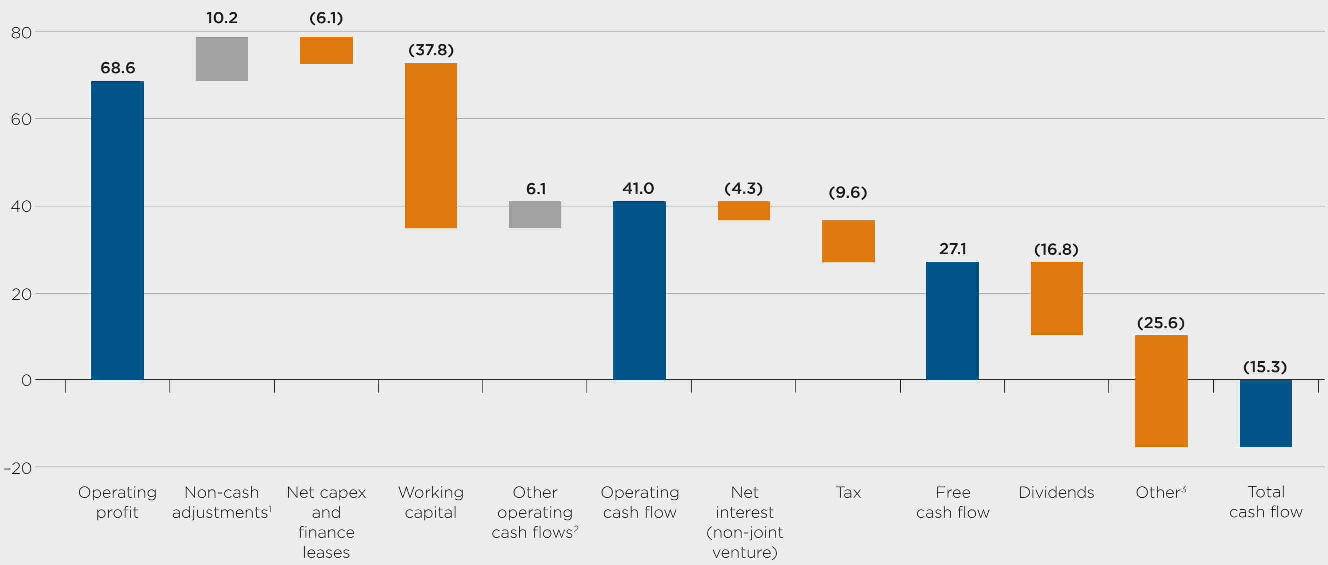
Going concern

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 2017, the Group had net cash of £193.4m and committed banking facilities of £180m which are in place for more than one year. The Group has no pension funding requirements for its small defined benefits scheme that was closed to future accrual in May 1995. The directors have reviewed the Group's forecasts and projections, which show that we will have a sufficient level of headroom within facility limits and covenants over the period of assessment. After making enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to prepare the annual financial statements on the going concern basis. See page 60 for further information on the Group's longer-term viability.

Brentford Lock West
(see page 44)

Steve Crummet
Finance Director

Cash flow £m



1 Non-cash adjustments include depreciation, share option charge, shared equity valuation movements, share of joint venture (JV) profit and non-cash provision movements.

2 Other operating cash flows include JV dividends and interest income, provision utilisations, shared equity redemptions, investment property disposals and gains on disposal of property, plant and equipment.

3 Other includes net loans advanced to JVs, consideration paid to acquire interests in JVs, proceeds from the issue of new shares, proceeds from the exercise of share options and purchase of shares in the Company by The Morgan Sindall Employee Benefit Trust.

Operating review

We believe that a commitment to operating responsibly is fundamental to the long-term success of our strategy. This has been borne out by a strong performance in the year across our divisions.

Our operating review begins with key activities we have undertaken in the year in support of our responsible business strategy. This is followed by the operational and financial performance of our divisions, including how their projects have created value for our shareholders and other stakeholders.

Operating responsibly

As a Group, we endeavour to ensure that our activities are conducted in a responsible manner. Our five Total Commitments to being a responsible business support the delivery of our strategic objectives (see page 17).

In 2017, we reviewed the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 "to end poverty, protect the planet and ensure prosperity for all". As part of our responsible business strategy, we have decided to adopt the following SDGs which are core to our Total Commitments:

Our Total Commitments	UN Sustainable Development Goals
Protecting people	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Developing people	8 DECENT WORK AND ECONOMIC GROWTH
Improving the environment	13 CLIMATE ACTION
Working together with our supply chain	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 10 REDUCED INEQUALITIES
Enhancing communities	11 SUSTAINABLE CITIES AND COMMUNITIES

For further information on our responsible business strategy and our application of the SDGs, please see our 2017 responsible business report.

People

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

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

	2017	2016
Apprentices	**161**	104
New graduates recruited	**56**	63
Sponsored students	**21**	116
Percentage of structured trainees	**3.8%**	4.8%

Our percentage of structured trainees in the Group has reduced in 2017, primarily due to a lower number of graduates recruited and sponsored. In addition to the structured trainees under the 5% Club, we have sponsored a further 547 people on NVQs and professional qualifications. We are committed to treating all our employees fairly and equally, without discrimination. A diverse workforce provides us with a deeper insight into different markets and the needs of our clients. Further details of our approach to inclusivity can be found in the nomination committee report on page 74.

Environment

We maintained our A- position in the CDP[1] index, the highest score for a UK construction company, and achieved a 7.6% reduction in our carbon emissions for 2017, giving a total reduction of 55% against our 2010 baseline, which is a significant achievement. Details of our carbon emissions are set out in the health, safety and environment committee report on page 76.

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

Timekeepers Square, Salford
(see page 45)

Stakeholder engagement

In order to ensure that our responsible business approach is both relevant and appropriate, we engage in continuous dialogue with our different stakeholders to help us understand their various needs. This is supported by formal stakeholder materiality and employee engagement surveys.

Materiality survey

We conduct regular surveys with our stakeholders to find out which issues are material to them. The results of the last survey were published in 2016. At the beginning of 2018, we surveyed all employees and over 1,300 external stakeholders (including customers and supply chain partners). Over a third of employees and a fifth of external stakeholders responded to the survey and early indications from the results identify the issues set out below as material to them.

Over the next few months we will be considering the impact of these results on our responsible business strategy. See our 2017 responsible business report for further information.

Issues material to our stakeholders

Issues that have remained material since the last survey	Issues newly identified as material in 2018
Waste	How we manage operations efficiently and add value
Our approach to health and safety	How we demonstrate advocacy and leadership on responsible business
Development and training of our employees	Corporate governance and integrity
How we are engaging with our employees	Respecting human rights
How we are recruiting and retaining our employees	How we help employees achieve work-life balance
How we are engaging with our customers	How we are creating opportunities for young people

Investors

The executive directors undertake a programme of regular communication with institutional shareholders and analysts covering the Company's activities, performance and strategy. In particular, presentations are made to institutional investors and analysts following the announcements of the full year and half year results. All shareholders are invited to the Company's annual general meeting and the non-executive directors are available to meet with shareholders at any time.

Employees

We use regular newsletters, email notifications and briefing sessions to make our employees aware of our financial performance, including external factors and significant events and the potential impact of these on the Group's performance. The Group has a 'Next Generation' panel of about 20 young people from across the Group who undertake two projects each year to help drive improvements in key areas. In 2017, the panel focused on how to improve employee retention among the Group's younger employees. Their proposal of developing an induction video to explain the breadth of opportunities across the Group was adopted by the Group management team.

In addition, the divisions use a variety of ways to communicate with their teams about their divisional progress and ensure that they are aware of key business priorities. Employees are actively involved in driving continuous improvement using briefing groups and consultative meetings where open dialogue and feedback is encouraged. To reinforce this two-way approach, our divisions undertake employee surveys of their teams every two years. The results of the surveys are reviewed, shared with employees and acted on. All new employees receive a formal induction during which we explain the pivotal role of our core values in driving everything we do.

In 2017, our Fit Out and Investments divisions completed their employee engagement surveys. Together these surveys covered 13% of the Group's employees. Feedback from these surveys and the subsequent action plans have been communicated to the employees of each division. Construction & Infrastructure, Partnership Housing, Urban Regeneration and Property Services will all undertake employee engagement surveys in 2018.

77%
of materials and plant spend covered by Group-wide supply chain agreements

Supply chain and subcontractors

We are committed to developing long-term partnerships with high-quality suppliers and subcontractors. The Morgan Sindall Supply Chain Family consists of 379 (2016: 330) manufacturers and suppliers, and around 80% of materials used by the Group can now be traced back to members of the Supply Chain Family, which guarantees that they are responsibly sourced. Of the Group's total spend on materials and plant 77% (2016: 71%) is covered by Group-wide agreements with our supply chain. We agree payment terms with our supply chain and have procedures in place to minimise late payments.

Each of our divisions operates preferred partner status programmes for their subcontractors. We aim to work with a smaller number of preferred partners in long-term relationships. Preferred partner status sets our expected standards and governs how we manage our supply chain performance, including both assessment and reward. It is only offered to those subcontractors that meet our high standards.

Customers

Our Perfect Delivery[1] programme helps to ensure that we deliver our projects to the standard expected by customers as well as driving continuous improvement in our delivery. Each of our divisions actively engages with its customers and aims where possible to secure work on frameworks or from repeat business. On completion of each project, customers are asked to complete a questionnaire providing feedback on their experience of the division's performance, the results of which are used to drive further improvements.

Local communities

Each of our divisions has dedicated engagement teams that are responsible for liaising with local communities and residents before and during our projects. Where appropriate, members of the local community are engaged in the development of particular projects. Our divisions also participate in various local outreach programmes which may include talks in schools or refurbishing community centres or public parks.

The following pages set out our operational and financial performance by division, including how their activities have created value for our stakeholders.

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

Women in construction
Students from St Anne's Catholic High School for Girls in Enfield were given a tour of Partnership Housing's regeneration development in Ponders End and an insight into careers available in construction. They met women with successful careers in the industry, and Partnership Housing employees from a range of disciplines. Priya Halai, assistant surveyor for Partnership Housing and construction ambassador for the CITB, spoke to the students about her own career progression after joining the division as a graduate.

One student commented: "The morning taught me that the glass ceilings are non-existent if you work at Lovell. Women were undertaking roles normally perceived as being male-dominated. It made me realise there are no boundaries."

The grand atrium at Anglia Ruskin University, a social space for students to mingle and study.

Construction & Infrastructure

Further progress was made in the year, with disciplined contract selectivity and improved operational delivery enhancing the quality of earnings.

Revenue £m

2017 **1,395**

2016 1,321

+6%

Operating profit — adjusted* £m

2017 **20.4**

2016 8.9

+129%

Operating margin — adjusted* %

2017 **1.5**

2016 0.7

+80bps

- Operating profit more than doubled
- Construction operating margin up to 1.3% from break-even
- Significant new framework appointments
- Voluntary staff turnover down

Revenue of £1,395m was up 6% on the prior year (2016: £1,321m). Split by type of activity, Construction (including Design) was up 2% at £807m (58% of divisional revenue), while Infrastructure increased 10% to £588m (42% of divisional revenue).

Profitability improved significantly, driven by the continued focus on contract selection and project delivery. The divisional operating margin of 1.5% was up from 0.7% in the prior year and showed improvement throughout the year. The first half margin of 1.1% compared to a second half margin of 1.8%, reflecting the continued and significant progress being made towards achieving a normalised margin.

When split by activity, Construction's (including Design) operating margin for the year was 1.3%, up from break-even in the prior year. Its margin in the second half was 1.6% (1.0% in the first half), reflecting the benefit from its ongoing focus on contract selectivity and operational delivery. Infrastructure delivered an operating margin of 1.7% for the year, slightly up on the prior year. Its margin also showed a strong second half weighting (1.2% in the first half, 2.2% in the second half), which was a result of the work mix in the period.

The committed order book at the year end was £1,855m, down 2% compared to the prior year end. Infrastructure continued to grow its order book, up 6% from the prior year to £1,377m (74% of the total by value), with the focus maintained on its key sectors of highways, rail, aviation, nuclear, energy and water. The Construction (including Design) order book was £478m (26% of total value), a reduction of 19% against the prior year. Consistent with its focus on contract selectivity, the appropriate risk profile has been maintained in the

Building a world-class teaching facility

Project
Anglia Ruskin University, Cambridge

Anglia Ruskin University's new Science Centre provides state-of-the-art facilities for its increasing number of science, technology, engineering and mathematics students. The centre includes a 300-seat lecture theatre and a 200-station biosciences laboratory.

The building is designed to achieve a BREEAM 'Very Good' rating, with photovoltaic panels on the roof that provide renewable energy. Now in operation, the centre will produce 30% less carbon than a conventional building by generating its own electricity and using gas more efficiently.

£**45**m
project

Market overview

The public sector continued to provide opportunities for Construction in 2017, and long-term investment continues in schools and universities. The private sector market has remained stable in most areas, with a slowdown of major projects in the South East; our strategy is to target repeat business with preferred customers. Investments is an important work provider, and in 2017 we started on site with £98.5m of projects on their schemes.

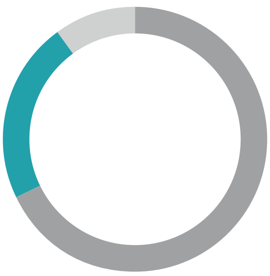
Infrastructure's market is buoyant, with significant investment continuing in most of our sectors. Upcoming opportunities include the Heathrow runway expansion, a new Sellafield framework, National Grid's visual improvement programme, Network Rail's upcoming procurement cycle, and Highways England frameworks. This busy market enables us to remain focused on our core sectors.

Pat Boyle
MD Construction

Simon Smith
MD Infrastructure

New work secured by Construction

- 68% public sector
- 22% private regulated
- 10% private sector



Construction order book, with 93% of the value derived through negotiated, framework or two-stage bidding procurement processes, and only 7% through competitive tenders.

Construction

In education, projects delivered include the £40m Littleport Academy in Cambridgeshire and the £25m Science Centre for Anglia Ruskin University (see page 29) as well as the £15m Glenwood School for Essex County Council. In addition, work has continued on the £40m Collaborative Teaching Laboratory for the University of Birmingham.

In healthcare, projects completed include a new £10m care home in North East Enfield for Enfield Council, while work started on a £40m programme to build two new health and social care hubs for the NHS and Glasgow City Council in the Gorbals and Woodside in Glasgow, in collaboration with Investments through its hub West Scotland joint venture.

In defence, projects completed include a £90m project for BAE Systems to develop industrial facilities at their submarine building site in Barrow-in-Furness, and a £39m training facility for the Civil Nuclear Constabulary in West Cumbria.

In other sectors, significant completions in the year include the £107m mixed-use scheme at Marischal Square in Aberdeen for Urban Regeneration (see pages 9 to 10); a £30m redevelopment of 55 Colmore Row in Birmingham city centre (see front cover); a £24m extension of car storage and handling facilities at the Port of Southampton and, in early 2018, a £48m Operational Command Centre for Merseyside Police. Work continues on a £26m office project for BUPA UK in Salford Quays, and the division has started on site on the first of two projects totalling £47m for Liverpool City Council as part of its Paddington Village scheme, with the second due to start in mid-2018.

Construction was also appointed to a number of other new and renewed public sector frameworks during the year that offer future projects across its core markets. These include the new four-year Scape Group framework for public sector projects in the upper Midlands, covering the largest projects in the framework from £1m to £5m, and the new ESFA (Education and Skills Funding Agency) framework to build schools valued between £4.5m and £16m over four years.

Infrastructure

In highways, Infrastructure was awarded two Highways England Smart Motorway upgrade contracts in joint venture, on the M62 and M27 (worth more than £300m to the joint venture) while also securing four projects (Stanford le Hope Station Redevelopment, A414 Edinburgh Way, Stratton Park Phase 5 and A421 Dualling) with a combined value of c£32m as part of the Eastern Highways Alliance framework. The division also won its first project under Transport for London's £500m civils projects framework, the c£15m upgrade of Old Street roundabout. In addition, work continued on the c£100m repair of the M5's Oldbury viaduct (in joint venture).

Thames Tideway Tunnel
Work began in 2017 on the construction phase of the seven-year, £416m project to deliver the western section of the Thames Tideway Tunnel, or 'super sewer', in joint venture with BAM Nuttall and Balfour Beatty. When complete, the tunnel will greatly reduce the 39m tonnes of untreated sewage that currently flows into the River Thames in a typical year, and equip London's sewers to cope with the city's demands well into the next century.

Progress against 2017 strategic priorities

Develop and retain talented people and increase diversity and inclusiveness
New initiatives included an online 'People Portal' for employees, two virtual careers fairs and a 'returnships' programme to attract people back into the sector after a career break. Our proportion of women has increased to 18.6% (2016: 17.7%) and voluntary staff turnover reduced to 10.3% (2016: 12.4%).

Construction

Select projects based on capability, relationships, procurement route and risk profile
Over 90% of new work came via preferred procurement routes, and work continues to flow from the Slough regeneration with Investments (see page 47). We secured places on three Scottish local authority frameworks and a five-year partnership with Brighton & Hove Council.

Focus on core markets of education, health and defence and selected projects in the commercial and industrial markets
Of work secured in 2017, 68% came from the public sector and 22% from the private regulated sector. Our 'My School' design, used in the ESFA Priority Schools Building Programme, is now being used on projects for Rhondda Cynon Taf and Cardiff Councils.

Infrastructure

Continue to drive safety, including health and wellbeing
Our safety performance improved significantly in the year and we adopted the 'Readiband', a wrist-worn device that monitors daily fatigue levels and is currently being used by 100 employees.

Focus on productivity and efficiency to ensure delivery for clients and achievement of financial targets
We are increasing productivity and efficiency by concentrating on the basics of programming, cost, safety and quality.

Strategic priorities for 2018

- Develop and retain talented people, including apprentices and graduates, and increase diversity and inclusiveness

Construction

- Select projects based on capability, relationships, procurement route and risk profile, procuring work mainly via frameworks and other Group divisions
- Focus on core markets of education, health and defence and selected projects in the commercial and industrial markets

Infrastructure

- Focus on cash and quality of earnings to achieve financial targets
- Focus on our core sectors, invest in work-winning approaches and continue to develop long-term customer relationships
- Deliver outstanding health, safety and wellbeing performance including mental health and fatigue management

Supporting our people to thrive at work

A focus on mental health
Construction & Infrastructure took part in the 2016-2017 Workplace Wellbeing Index, run by the mental health charity, Mind, and received their Bronze 'Achieving Change' award. In 2017 the division set up a continuous improvement group to focus on its occupational health and wellbeing strategy, introduced mental health first aiders and launched stress reduction workshops. Through its partnership with Mind, Construction & Infrastructure hosted the launch of 'Thriving at Work', a government-commissioned report on mental health and employers.

In rail, the division secured its first project under London Underground's £350m Civils and Tunnelling Works framework, a c£20m train modification unit depot in Acton. Additionally, a c£18m project was awarded by Network Rail for the electrification of the Stirling, Alloa and Dunblane lines to improve journey times for passengers travelling to Edinburgh or Glasgow.

In aviation, key projects secured include a c£30m project from IAG Cargo and British Airways to construct a cargo building at Heathrow Airport, incorporating an automated handling system.

In energy, Infrastructure secured a c£30m joint venture project for Scottish and Southern Energy Networks (SSEN) to design and build approximately 18.5 km of new overhead lines in northern Scotland, and a separate £3.5m contract to install c9 km of 132kV cabling. The division was also awarded a £23m project related to National Grid's IFA2, a high-voltage, direct current interconnector cable running between England and France. In water, projects awarded include a c£14m water quality improvement project at Irton Water Treatment Works in Scarborough, under the Yorkshire Water framework.

Infrastructure was also appointed to places on multiple lots of the £1bn YORcivil2 framework, set up to deliver civil engineering and construction works for local authorities and other public sector bodies across the Yorkshire and Humber regions. The framework is scheduled to run for four years with a possible two-year extension and with an estimated total value of £324m for the North and East framework and £720m for the South and West section.

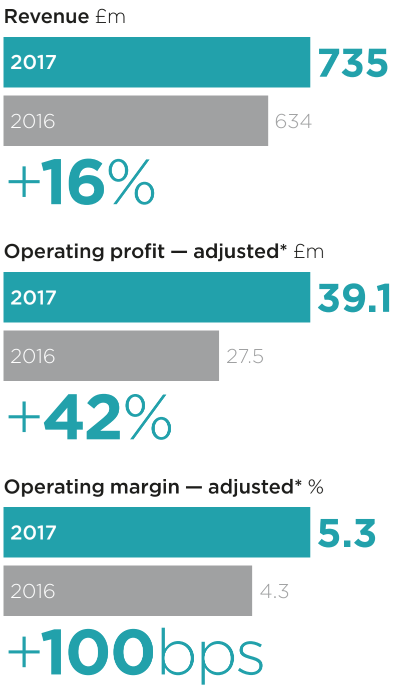
Divisional outlook

Looking ahead, Construction & Infrastructure will continue to focus on margin improvement and securing higher quality work with the appropriate risk balance. The target for Construction (including Design) is an operating margin of 2%, while the target for Infrastructure is an operating margin of 2.5%. 2018 is expected to show further progress towards these targets, supported by the quality of core sector work in the division's secured order book.

Right and below right:
Architect tp bennett's drawings of Schroders' headquarters.

Fit Out

Another excellent performance from Fit Out, benefiting from consistently strong project delivery and its focus on enhanced customer experience.



- Revenue up 16%
- Operating profit up 42%
- Operating margin increased to 5.3%
- Increased order book
- Reduced staff turnover

Fit Out delivered another excellent result, with revenue for the year up 16% to £735m (2016: £634m), operating profit up 42% to £39.1m (2016: £27.5m), and operating margin increasing to 5.3% (2016: 4.3%).

Of the total revenue for the year, 84% related to traditional fit out work (2016: 81%), while 16% related to design and build (2016: 19%), a broadly similar split to previous years. In terms of the nature of work undertaken, the proportion of revenue generated from the fit out of existing office space reduced slightly to 77% (2016: 82%), while the remaining 23% related to new office fit out (2016: 18%). Of the fit out of existing office space, 64% related to refurbishment in occupation.

By sector, the commercial office market remains the largest, contributing 84% of revenue (2016: 86%). However, there was a small change in overall balance in favour of higher education which accounted for 12% of revenue, compared to 6% in the prior year. Retail banking, government and local authority work made up the remainder.

Geographically, the London region remained the division's largest market, accounting for 71% of revenue. Although this proportion was an increase from the prior year when 65% of total revenue was derived from London, this is not viewed as a significant trend.

Significant project completions in the year included an 85,000 sq ft office fit out for Network Rail in Birmingham, 64,000 sq ft for Freshfields Bruckhaus Deringer at One New Bailey in Manchester, and 42,000 sq ft for EY in Manchester. In addition, the division finished a three-year refurbishment programme for Bristol City Council at City Hall and 100 Temple Street to deliver their new workplace strategy, and a major

Delivering intelligent, efficient buildings

Projects
Deloitte LLP and Schroder Corporate Services, London

265,000 sq ft
at Deloitte

315,000 sq ft
at Schroders

Fit Out is carrying out two major projects for Deloitte and Schroders, each involving the installation of an Intelligent Building Management System (IBMS). The IBMS will integrate multiple building management systems such as air-conditioning, lighting, room-booking, AV and catering services, and enable employees and visitors to control settings for the rooms they use. An intelligent building will run more efficiently, save energy and have a much reduced life cycle cost. The data collected by the IBMS can be used to design ways of further optimising the building's performance.

The Deloitte project is one of the first fit outs in the UK to target both a BREEAM Outstanding rating and a WELL Building Standard Gold certificate. A building certified by WELL will score highly against their benchmarks in 'air', 'water', 'nourishment', 'light', 'fitness', 'comfort' and 'mind'.

Market overview

Office lease break activity is continuing to generate opportunities, with over 40m sq ft of occupied floor space in London becoming subject to a lease event in 2017-2023[1], and there is a pipeline of new office development in central London of 33m sq ft in 2017-2021[2]. Despite the building activity, availability of Grade A office space in London and other cities remains low, encouraging occupiers to opt for refurbishment in occupation, a core expertise of our division. Opportunities are also arising from relocations out of London.

The higher education market continues to grow and we have built up a strong track record in large-scale schemes for clients such as King's College London, University of Leeds and UCL. University refurbishments often stretch over three to five years, providing good visibility of future income.

Fit Out has the advantage of being the largest UK service provider of fit out and refurbishment in our sectors and the only one to provide real national coverage.

1 Estates Gazette July 2017,
2 Deloitte UK London Office Crane Survey – Winter 2017.

Chris Booth
MD Fit Out

refurbishment of 70,000 sq ft for Sony Playstation in Soho, London. Completed design and build projects include a collaborative workspace in Croydon for Superdrug, new London headquarters of global media company AMC Networks International, and an activity-based workspace for Costa Coffee at its recently-opened flagship roastery in Basildon, Essex. Work also continues on projects for Deloitte and Schroder Corporate Services in London (see page 33) and, in education, a £44m refurbishment for King's College London (see opposite page).

Continued strong operational delivery and a focus on customer experience and better procurement has driven the increase in operating profit, up 42% to £39.1m (2016: £27.5m) and an operating margin of 5.3% (2016: 4.3%). P erformance in the second half of the year was particularly strong, with an operating margin of 6.2%, compared to a first half margin of 4.3%, due to the blend of higher margin contracts and the operational leverage benefit from increased activity in the second half.

At the year end, the secured order book was £500m, an increase of 7% on the prior year end. Of this year end total, £468m (94%) relates to 2018 and provides significant visibility of workload for the year. This level of orders of £468m for the next 12 months is 14% higher than it was at the same time last year of £410m.

Key business wins during the year include the appointment to three lots of the £1bn Government Hubs Programme, a national framework run by the Government Property Unit, which will provide a four-year pipeline of opportunities. The division also secured a place on a £250m four-year framework to deliver improvements to the Metropolitan Police Estate in London and the South East for projects ranging from £2.5m to £10m, which will include the fit out of existing buildings, offices, stations and training facilities. Other key projects won include a 450,000 sq ft fit out for the Cabinet Office in Canary Wharf, London, a 57,000 sq ft fit out for Amazon in Cambridge, and a 400,000 sq ft fit out for a leading asset manager in London, which started on site in January 2018.

Divisional outlook

Fit Out's stated target is to deliver annual profit in the range of £25m-£30m. In 2017 this target was significantly exceeded. Looking ahead to 2018, based on its strong order book and visible pipeline of opportunities through its various frameworks, Fit Out is expected to deliver a performance in excess of the top end of this range.

Contemporary design
Three of Fit Out's design and build projects featured in The Telegraph's '10 Coolest Offices of 2017'.

King's College London
Fit Out was appointed to the £44m upgrade of several 'Bush House' buildings in the Aldwych Quarter. In Bush House a new double-height, 395-seat auditorium has been created, plus event space, a students' union, health centre, learning and study spaces and lecture theatres. Over the past four years, Fit Out has delivered 22 projects worth £57m for the university.

"We are delighted that Overbury is continuing to work with us in bringing forward state-of-the-art education and research facilities which will further enhance our standing as a leading global university."
Frank Rogers
King's College London project director.

Contributing to better air quality in central London

A vertical garden
Fit Out transformed the gateway to Covent Garden into a 'vertical park' as part of a greening initiative to recreate the area's garden heritage. The living wall covers over 1,500 sq ft of the building façade on the corner of Long Acre and James Street and is watered by a drip irrigation system run on up to 80% rainwater harvesting. Over 8,000 plants were selected to help improve air quality and attract birds and insects.

Progress against 2017 strategic priorities

Continue to deliver high quality work
The quality of work that Fit Out is delivering is evidenced by our increased revenue, with 7% of work in 2017 delivered through frameworks and 21% secured through negotiation rather than competitive bidding. Our Net Promoter Score at year end was 83%.

Invest in and develop people
We increased investment in management development and NVQ training in 2017, and designed bespoke courses to support the delivery of exceptional quality. We also recruited for dedicated roles in our Foundation Programme for school leavers and graduates. Nineteen students, including six women, joined the programme this year, the largest cohort since it began in 2015. All seven 'Foundationers' who completed the programme in 2017 have remained employed by the division and are currently mentoring new joiners.

Under 25s represent 7% of Fit Out's workforce, compared to 5% in 2014. Our voluntary staff turnover rate reduced to 5.2% in 2017 despite a highly competitive market for talented people.

Invest in enabling technology
In 2017 we launched a new health and safety application, H&SPLUS, to improve safety on our sites. The app is used by our safety advisers and project managers during site inspections and data collected by the app is used to discuss high risk activities, provide feedback to subcontractors and share best practice. The app has been made available to all staff.

Strategic priorities for 2018

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

Property Services

The restructuring and streamlining of the contract portfolio undertaken in 2017 leaves Property Services well set for future profitable growth.

Revenue £m

+20%

Operating (loss)/profit — adjusted* £m

-286%

Operating margin — adjusted* %

-330bps

- Revenue up 20%
- Committed order book up 22%
- New contracts with four social housing providers
- 30 local residents trained under the BasWorx social enterprise

Property Services made an operating loss of £1.3m on revenue of £66m. Although revenue was up 20% compared to the prior year, the reported result was impacted by costs of £1.1m incurred on exiting its legacy insurance services business and £1.3m of costs relating to the streamlining of its contract portfolio by exiting underperforming contracts.

The committed order book has increased 22% to £836m, compared to £687m at the prior year end. Latest appointments include a £10m, five-year contract with housing association Optivo to deliver gas servicing, boiler replacements and heating upgrades for more than 8,000 homes in and around Croydon. Earlier in the year, the division secured a place on the £52m planned maintenance framework for Network Homes, which manages over 19,000 homes mainly in London and the Home Counties; a 10-year, £38m contract by social housing provider EastendHomes to provide repairs, maintenance and refurbishment services for 3,600 homes in Tower Hamlets, London; and a number of repairs and maintenance contracts for CityWest Homes, which manages properties on behalf of Westminster City Council, with a combined expected value of £219m over 10 years.

Under the £140m 'Better Homes' framework for Camden Council, Property Services is also currently delivering two internal works projects including 459 kitchen and 171 bathroom refurbishments, rewiring and heating system replacements; £7m of upgrades in the borough following fire risk assessments; and a £1m refurbishment to two residential blocks at the Gamages Estate in Hatton Garden. In addition during the year, £2m of extensive external refurbishment works to Flaxman Court, a six-storey block in Camden containing 84 properties, were completed.

Divisional outlook

The target for Property Services is to grow its operating margin to at least 3%. Looking ahead to 2018, the strong order book is expected to deliver increased revenue and the operational leverage impact of additional volumes, together with the benefit of the restructuring undertaken this year, underpin the expected growth in margin towards this target.

Progress against 2017 strategic priorities

Improve customer service, seeking innovative technological solutions
We increased training in our MSi property management software and set up a Centre of Excellence for employees to share best practice and ideas.

Ensure our projects contribute socially and economically
The BasWorx social enterprise (see opposite page) provides training and work opportunities for local residents. In 2017 we ran three training programmes, two for school leavers and one for older, unemployed residents.

Invest in training and development for employees
We implemented 100% of our planned training programme for the year.

Strategic priorities for 2018

- Sustainable and profitable growth through contracts with existing customers and selected new opportunities
- Maximise the benefit from MSi, creating client interfaces for direct access to the system
- Continue to drive purchase and subcontract savings while creating a more robust supply chain

BasWorx participants are given four-week on-the-job training.

Market overview

There are currently over five million social housing homes in the UK, incurring an annual repairs and maintenance expenditure of £7bn[1]. The market is stable with no significant fluctuations in size or value over the past three years. Local authorities and housing associations remain open to integrated asset management contracts that combine planned works, repairs and maintenance, and compliancy services such as gas servicing into single contracts. We are well placed to meet these demands through our MSi property management software that drives down the need for responsive repairs. Local authorities and housing associations are seeing the benefits of longer-term contracts, providing us with greater forward visibility of revenue.

1. Source: Housing.Net.co.uk

Alan Hayward
MD Property Services

Creating job opportunities for local people

Project
Basildon Borough Council, property management service – one year on

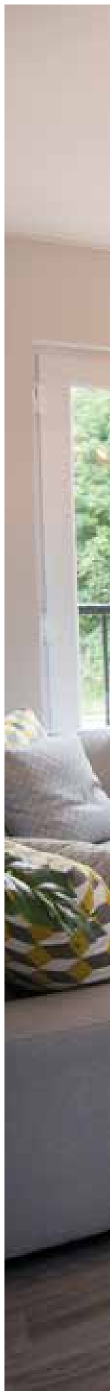
30
local residents trained in 2017

80%
supply chain locally based

A year ago Basildon Borough Council partnered with Property Services to deliver property management services to over 10,000 homes. As a result of cost savings generated by the scheme, the council has been able to reinvest over £1m back into the community. The scheme's social enterprise, BasWorx, has trained 30 local residents, providing full time employment for eight of them, and received an award from the South East Local Enterprise Partnership.

In addition, the council and Property Services received an award from the National Housing Maintenance Forum in early 2018 for 'Most Improved Asset Management Service'. The judges praised Property Services' 'holistic approach to asset management with a wide-reaching range of benefits to the client, contractor, residents and the wider community'.

"Supporting this development goes to the heart of our purpose in helping people access quality affordable housing in an attractive environment."
Peter Hughes
Managing Director of Principality Commercial, Principality Building Society



Partnership Housing

The market opportunity for Partnership Housing remains sizeable.

Revenue £m

2017	**474**
2016	433

+9%

Operating profit — adjusted* £m

2017	**14.1**
2016	13.4

+5%

Operating margin — adjusted* %

2017	**3.0**
2016	3.1

–10bps

- Revenue up 9%
- Operating profit up 5%
- Return on capital employed up 200bps
- Built new database of public land development opportunities
- 38 apprentices employed during the year

Revenue increased by 9% in the year up to £474m. Growth was driven by the division's contracting activities, where revenue (including planned maintenance and refurbishment) was up 27% in the year to £290m (61% of divisional total). Mixed-tenure revenue was 10% lower at £184m (39% of divisional total), which was impacted by lower than expected sales completions in the fourth quarter of the year.

In mixed tenure, 887 units were completed across open market sales and social housing, lower than the prior year number of 1,060. This was due in part to a lower number of sales than expected completing in the fourth quarter. The average sales price of £207k compared to the average of £192k in the prior year.

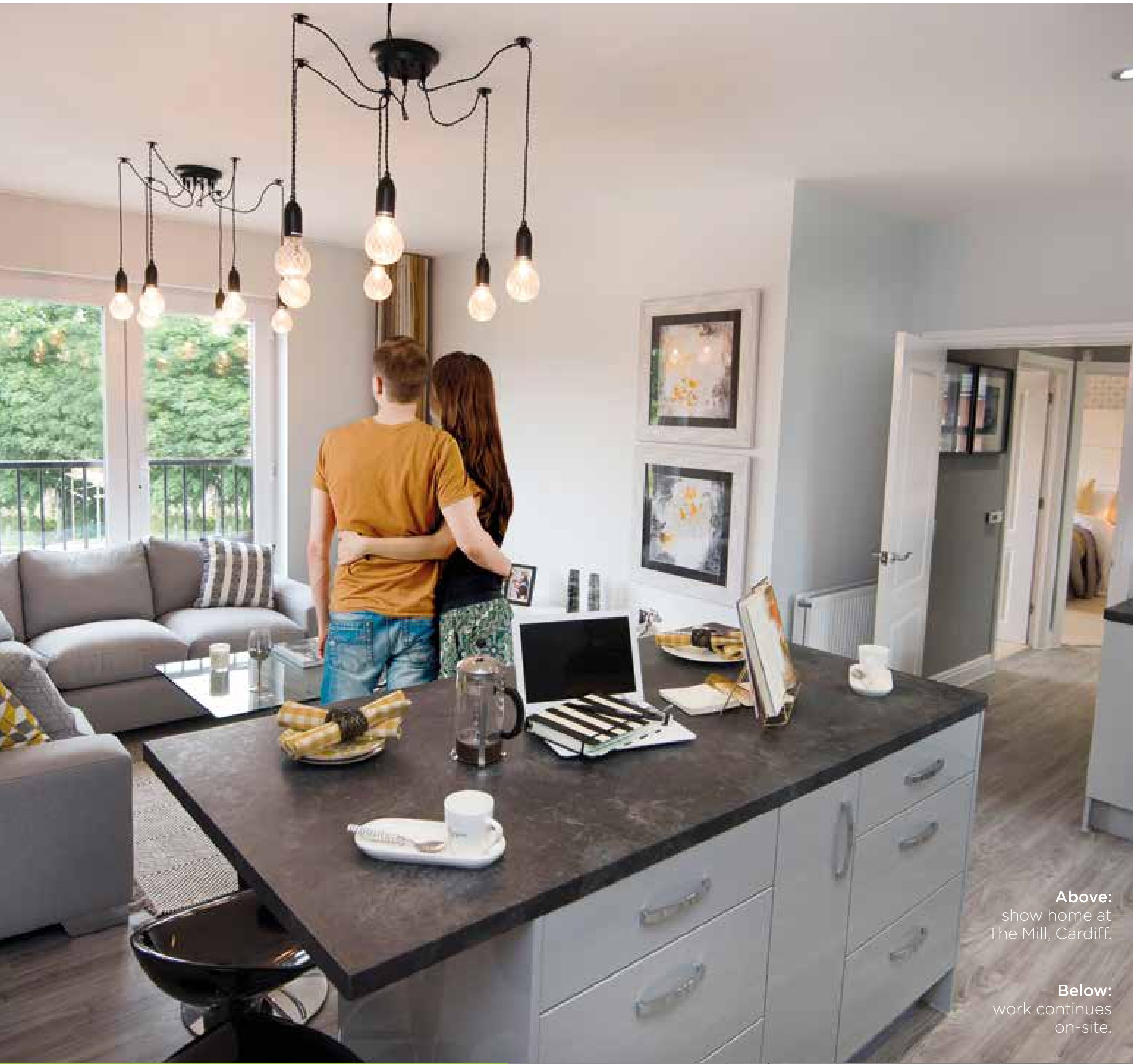
Operating profit increased to £14.1m, up 5%, and resulted in an operating margin of 3.0%, down 10bps on the prior year. The lower margin was impacted by lower mixed-tenure open market sales in the year and by unexpected cost escalation on one design and build contract in London.

A new urban community

Project **The Mill, Canton, Cardiff**

£100m
partnership

800
new homes



Above: show home at The Mill, Cardiff.

Below: work continues on-site.

A former paper mill is being transformed into one of Wales's largest ever regeneration programmes through a partnership with Tirion Group and Cadwyn Housing Association, and with financial backing from the Principality Building Society and the Welsh government. The new urban village will have a neighbourhood centre, community hall, tree-lined boulevard, river walk, cycle paths and parks. Around half the homes will be affordable housing and the rest for open market sale. Thirty-eight homes were sold in 2017 and a further 115 are due to complete in 2018.

The scheme is expected to create around 200 local job opportunities, including apprenticeships and work placements.

Market overview

Our main customer is the first-time buyer, and the gap in the housing market between supply and demand makes homes less affordable. Land is scarce and expensive, particularly in urban areas, but at the same time, a significant amount of public land is underutilised. Our strategy is therefore to identify underutilised public land (see case study below) and work in partnership with government bodies to develop it. This has the advantage of securing long-term access to land for development without the need to forward purchase.

So far our sales have not been affected by Brexit. Our continued investment into modern construction methods will help offset any labour shortages brought about by the change.

Andy Saul
Interim MD
Partnership Housing

The capital employed at year end was £88.0m, with the average capital employed for the last 12-month period of £99.7m resulting in an overall ROCE[2] of 14% (2016: ROCE[2] of 12%). Capital employed is expected to increase to c£120m in 2018 as mixed-tenure developments come on stream.

In mixed tenure, the regeneration and development pipeline increased 11% to £851m, supported by the committed order book for the contracting element in mixed tenure of £78m. The division currently has a total of 45 mixed-tenure sites at various stages of construction and sales, with an average of 102 open market units per site. Average site duration is 39 months, providing long-term visibility of activity.

Work started on site at several developments in the year, including a £46m regeneration at Ponders End in partnership with the London Borough of Enfield, while progress was made on a number of ongoing schemes, including The Mill at Canton, Cardiff (see page 39) and Trinity Walk in Woolwich. The division was chosen for a £45m redevelopment in Hatfield, Hertfordshire to create c150 new homes and a shopping parade for Welwyn Hatfield Borough Council. Key completions included the final 23 homes in a £25m development at Towcester, as part of a regeneration scheme being delivered in collaboration with Investments. As well as this, the division secured a number of mixed-tenure projects which ensure it is well placed for the future. These included Priorslee in the Midlands, a project for 220 homes; Lakeside Doncaster which comprises 142 homes; Branston in Lincolnshire for 73 homes; Beck Row in Norfolk which will see 117 homes being built; and Llantarnam in South Wales which will produce 78 homes.

The division is continuing to develop partnerships with housing associations and local authorities, supported by its extensive research completed into underutilised government land. New partnership opportunities are being progressed with Clarion Housing Group, Flagship Housing Association and Home Group. The division was also appointed to two major frameworks: Homes England's (formerly the Homes and Communities Agency) improved Delivery Partner Panel, DPP3, which runs for four years until 2021 and is used by a wide range of public sector bodies; and the £1.8bn Sanctuary Housing Group Framework set up to deliver 30,000 new homes over the next 10 years.

In contracting, the secured order book increased 46% to £445m. Performance was adversely impacted by unexpected cost escalation and programme slippage on one design and build contract in London, which is due for completion in the first half of 2018.

The division was formally appointed by the Defence Infrastructure Organisation on a £250m scheme to build 900 homes at Salisbury Plain for service families returning from Germany. Other appointments include the £6m phase three of the Nar Ouse Regeneration Area project to deliver 50 houses for the Borough Council of King's Lynn & West Norfolk; and a £5m scheme for Hafod Housing, in partnership with Bridgend County Borough Council, to provide 48 social rented homes in Bridgend, South East Wales. In planned maintenance and refurbishment works, the division secured a £10m improvement programme to three blocks of flats on the Lion Farm Estate in Oldbury, for Sandwell Council.

Divisional outlook

The division's target is to generate a return on capital employed of over 20%. Looking ahead to 2018, with its strong order book and pipeline and other identified partnership opportunities, the division is well placed to deliver further progress towards its returns target, at the same time as increasing overall profitability.

Average capital employed[1]
(last 12 months) £m

2017	99.7
2016	110.8

Capital employed[1] at year end £m

2017	88.0
2016	63.9

Unlocking land for new housing
In 2017 Partnership Housing completed a large body of research into public land and built a comprehensive database of off-market development opportunities. The research provided evidence for a report into the housing crisis, produced by the independent think tank, Localis and co-funded by Partnership Housing. The report, launched by the Housing Minister in October, highlights the value of the public/private partnership model in progressing housing development.

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.

Trinity Walk, Woolwich
Trinity Walk is part of the One Woolwich programme in partnership with the Royal Borough of Greenwich and PA Housing to regenerate three council estates for mixed tenure. A new neighbourhood is being created with modern apartments and townhouses, tree-lined streets and a linear park. In 2017, 222 new homes were completed, 101 for open market sale and 121 for affordable rent. Most of the homes will be available via Help To Buy and are being marketed initially to residents within the SE18 postcode.

The division worked with the council to develop an extensive employment and skills plan and 45% of labour on the project has been supplied by local residents.

"A project with longevity and the local community at its heart." Councillor Denise Hyland, leader of the Royal Borough of Greenwich.

Progress against 2017 strategic priorities

Pursue digital strategy, linking sales, design and construction
Our augmented reality software system, that enables customers to select, reserve and customise a home online before meeting with the sales team, has helped increase the number and volume of sales in 2017 and resulted in a faster sales process. It also enables us to analyse buying patterns to inform the design and the rate at which new homes are built. In 2017 we launched a new customer relationship management system which will enable quicker responses to enquiries and efficiencies in reporting and data analysis.

Increase sales outlets from 20 to over 30
Our total sales outlets at the end of the year was 28. This is lower than our target, as some sites did not progress as quickly as we hoped due to planning issues. These sites will come to market in 2018.

Create at least two strategic partnerships with housing associations or local authorities in every region
Most of our regions formed at least two partnerships with housing associations and local authorities. During the year we also focused on securing national partnerships with a variety of registered providers.

Achieve a minimum strike rate on land and contracting bids of one-in-three
Our win rates varied during the year. We are achieving a one-in-three win rate on larger contracting projects but less so on land bids due to the high level of competition. Our strategy has been to remain prudent in the current market to prevent overexposure to the open market sector.

Strategic priorities for 2018

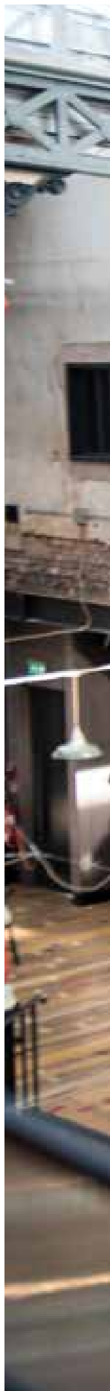
- Increase pipeline of government land
- Form three national partnerships
- Deliver an exceptional service for our customers

Offering training and work opportunities for local people

Funding awarded for project skills co-ordinator
Partnership Housing was awarded National Skills Academy for Construction (NSAfC) status by the CITB in recognition of its expertise in delivering construction skills and training in local communities. Over the next four years it will receive funding for a new project skills co-ordinator who will help manage training at its housing developments across South Wales and the South West, where it aims to create c40 apprenticeships and 140 work experience placements.

Mark Bodger, strategic partnerships director for CITB, Wales: "The awarding of the NSAfC is testament to Lovell's commitment in putting training at the forefront of their projects."

Mackie Mayor
People enjoying the food, drink and atmosphere at Mackie Mayor's new street food restaurant.



Urban Regeneration

Urban Regeneration's portfolio of active development schemes leaves it well placed for future growth.

Revenue £m

2017 **175**
2016 156

+12%

Operating profit — adjusted* £m

2017 **10.0**
2016 13.4

–25%

- Revenue up 12%
- Return on capital employed 9%
- Good progress on town centre developments
- Received 20 national awards

Urban Regeneration delivered operating profit for the year of £10.0m, which although lower than the prior year, was in line with its schedule of development completions. Revenue in the year was up 12% to £175m, however this is only representative of the type of development scheme from which the profits were generated.

Capital employed at the year end was £85.0m. Average capital employed for the last 12-month period was £88.5m, with an overall ROCE[1] of 9%. The average ROCE over the previous three years is 13%, diluted by the current year performance. Capital employed is expected to increase to £100m-£110m in 2018 as a result of the higher level of scheme activity.

Good progress was made on Urban Regeneration's existing town centre developments. Key contributors to performance include the completion of a landmark mixed-use scheme at Marischal Square in Aberdeen (see pages 9 to 10), and two residential developments delivered by English Cities Fund (ECf), a joint venture with Legal & General and Homes England, as part of the Salford regeneration: 36 townhouses at Timekeepers Square, all sold by completion (see page 45) and a £16m,

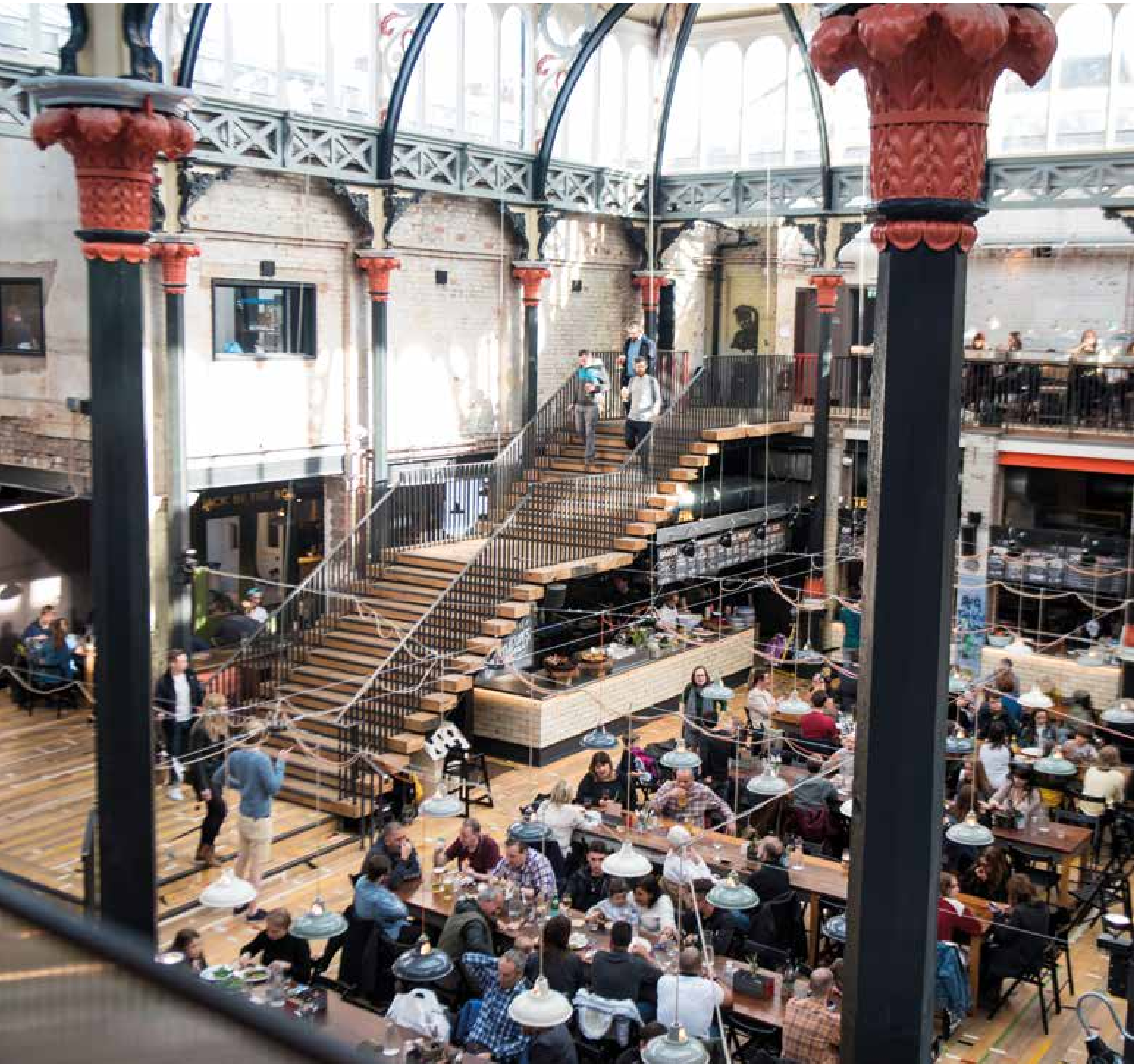
Enhancing communities

Projects
Mackie Mayor, Smithfield, Manchester and Time Square, Warrington

20 awards

200+ homes

1 Return on average capital employed = (adjusted operating profit less interest on non-recourse debt less unwind of discount on deferred consideration for the last 12 months) divided by average capital employed for the last 12 months. Interest and fees on non-recourse debt was £1.5m (2016: £1.1m) and the unwind of discount on deferred consideration was £0.2m (2016: £0.3m).



Urban Regeneration received 20 nationally recognised awards in the year, including a Community Benefit Award – RICS North East Awards – for The Word in South Shields, and Development of the Year (schemes of more than 200 homes) at The Sunday Times British Homes Awards for the Lumire mixed-tenure residential building at Rathbone Market, Canning Town, delivered through the ECf joint venture.

Mackie Mayor, the former meat market at Smithfield, Manchester and Grade II listed building, previously restored by Urban Regeneration, was transformed in 2017 into an indoor 'street food' restaurant, lined with artisanal food traders. It is expected to attract both visitors and investors to the area, continuing the division's revitalisation of Manchester's Northern Quarter. The division also created a temporary home for Warrington's award-winning market as part of the Time Square development, while a permanent market hall is being constructed.

Market overview

The government continues to be very supportive of residential development, and a number of projects in our portfolio will benefit from funding through the £2.3bn Housing Infrastructure Fund. In London, mixed-tenure schemes can be developed faster by incorporating both private sale and private rental homes in a single phase. The northern region is experiencing a relatively strong city office market, and the growth in online retailing has resulted in the development of large distribution centres, with a positive effect on the industrial and commercial markets. With shops moving out of the high street, local authorities are challenged with maintaining the vibrancy of town centres, however it also releases land and development opportunities for new leisure facilities, restaurants and housing.

Operating from four offices across the country, we remain close to our markets and can react quickly to local trends. We manage risk by targeting a range of growth sectors. As at the end of 2017, our portfolio was split between 51% residential, 30% offices and 19% in retail, manufacturing, distribution and leisure.

Matt Crompton and Nigel Franklin
Joint MDs Urban Regeneration

10-storey block of 90 apartments at The Slate Yard, New Bailey, the first in Greater Manchester to be institutionally funded and custom built for private rental.

Other highlights in the year included the sale of One City Place, a six-storey, Grade A office building in Chester's central business district; and, ahead of forecast, the full letting of a 50,000 sq ft Grade A office building at Stockport Exchange. The division is now working with Stockport Metropolitan Borough Council to deliver the next phase of office development.

Additional completions include a health centre as part of the Swindon regeneration programme; a multi-storey car park in Warrington, part of the Time Square development; a second private rental building of 68 new homes for Fizzy Living at Lewisham Gateway; and a residential block at Brentford Lock West. In Brixton, the £70m refurbishment of the Grade II listed town hall continued, carried out by Construction & Infrastructure, with the interior handed over to Lambeth Council. Work also progressed on two residential developments in Brixton, Hambrook House and Ivor House, both due to complete in autumn 2018.

The development portfolio continues to generate a high volume of construction work, with c£400m currently on site and a further c£420m expected to be awarded over the next 12 months. Key projects that started on site include phase four of the Warrington Bridge Street regeneration which will provide a 13-screen cinema and seven restaurants, new indoor market and 105,000 sq ft of council office space; a 160,000 sq ft office building at 2 New Bailey in Salford; three industrial units totalling 100,000 sq ft at Logic Leeds and 137 new homes at Millbay, Plymouth.

The regeneration and development pipeline of £2.1bn reduced 8% in the year, however it remains sizeable, with a diverse geographic and sector split:

- by value, 44% of the pipeline is in the South East and London, 35% in the North West, 17% in Yorkshire and the North East, and 4% in the rest of the UK;
- by sector, 51% by value relates to residential, 30% to offices, and the remainder is broadly split between retail, leisure, and industrial.

Divisional outlook

The target for Urban Regeneration is to increase its ROCE[2] towards 20%. Looking ahead to 2018, based upon the higher level of scheme activity and the current profile of scheduled completions, Urban Regeneration is expected to deliver increased profits from higher average capital employed and to make progress towards its target ROCE.

Average capital employed[1]
(last 12 months) £m

Capital employed[1] at year end %

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 less unwind of discount on deferred consideration for the last 12 months) divided by average capital employed for the last 12 months. Interest and fees on non-recourse debt was £1.5m (2016: £1.1m) and the unwind of discount on deferred consideration was £0.2m (2016: £0.3m).

Timekeepers Square, Salford
(above and left) Part of the £650m scheme via ECf to regenerate Salford, this development features 36 Georgian-style townhouses situated by a Grade II listed church and opposite Salford Cathedral. At its heart is a landscaped communal courtyard, with a pedestrian boulevard leading from the church. A sister development, Carpino Place in Salford, was launched during the year and will provide a further 22 townhouses.

Progress against 2017 strategic priorities

Maintain forward pipeline
Urban Regeneration's appointment as preferred bidder to a £75m town centre regeneration in partnership with Dartford City Council, and a mixed-use development in Slough in collaboration with Investments (see page 47), will add £200m to its forward pipeline.

Release and reinvest inefficient capital
We have released working capital from older developments through sales at Doncaster, Lingley Mere Business Park in Warrington, St Paul's Square development in Liverpool, and Wakefield Westgate Station.

Maintain programme for schemes delivering profit in 2018 and beyond
Further residential phases at Brixton, Lewisham, Brentford and Salford, totalling 440 homes, will complete in 2018. Construction is due to start in the year on the first phase of Hale Wharf, consisting of 250 homes for private sale and rental, and 187,000 sq ft of offices and a new 633-space multi-storey car park at ECf's New Bailey development in Salford.

Strategic priorities for 2018

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

Engaging employees in our business strategy

Strategy day
Once a year all Urban Regeneration colleagues gather together to learn about the division's business plan and strategy. The conference includes a session for employees to ask questions of the division's joint managing directors as well as the Group chief executive and finance director.

A planned new mixed-use development (top right) on the site of Slough's former library (bottom right).

Investments

Investments has a portfolio of property partnerships which will provide development profits for Investments as well as high quality work for the rest of the Group.

Operating profit/(loss) – adjusted* £m

- Contributed profit from capital employed
- New opportunities through joint venture partnerships
- New joint venture in the extra care sector
- 'Procurer of the Year' at the international 2017 Partnership Awards

Market overview

As a result of continued cuts to their grant funding, local authorities, despite being asset rich, lack the income needed to fund their front line services. One solution is to redevelop underutilised land they own, either to directly provide those services, such as housing, or to generate revenue with which to fund services. The Naylor review of NHS estates published in March 2017 made similar recommendations for the NHS foundation trusts. Local authorities and NHS trusts without large, in-house estate teams are therefore seeking development skills from the private sector. We aim to provide our public sector partners with long-term, strategic advice at the earliest possible stages, to help them make the most effective use of their estates and generate lasting value for the communities they serve.

Lisa Scenna
MD Investments

During the year, the role of Investments within the Group has evolved from being solely a source of securing prime long-term construction and regeneration opportunities for the rest of the Group, to also being a consistent profit contributor from the capital employed in its property partnerships and development schemes.

Capital employed at the year end was £38.6m (2016: £23.3m), with average capital employed for the last 12-month period of £30.7m (2016: £20.7m). A significant proportion of this capital employed is invested in property partnership joint ventures, the key ones being Slough Urban Renewal (SUR), a joint venture with Slough Borough Council; a joint venture partnership with Bournemouth Borough Council; HB Villages, a partnership with the original founders of the joint venture; and Morgan Ashley Care Developments, a joint venture with Ashley House plc. Other partnerships include the Priority Schools Building Programme, North West Batch (joint venture with Equitix and the Department for Education); hub West Scotland, a partnership to develop a pipeline of public sector health, education and community projects in the Glasgow area; and strategic development partnerships with both Oxleas NHS Foundation Trust and Burton Hospitals NHS Foundation Trust to support the rationalisation, development and transformation of their estates.

The operating profit of £0.5m in the year was derived from a number of Investments' partnership platforms, with the largest single contribution coming from the Milestone residential development, part of the SUR joint venture.

Through its existing joint venture partnerships, significant progress was made in securing new opportunities and progressing current developments. Through the SUR joint venture, there are currently 10 projects under construction with a combined construction value of c£95m: two residential developments, three primary school extensions, one secondary school extension and four leisure projects. In addition, two new appointments were achieved: Slough Borough Council agreed to appoint SUR to deliver a major, mixed-use development on the former Thames Valley University site, and a deal was secured with Cycas Hospitality for a mixed-use development on the former site of Slough's central library, including private residential apartments and two new hotels.

In Bournemouth, through the partnership with Bournemouth Borough Council, the regeneration of the town centre has continued, including Berry Court in St Peter's Road where 113 new private rental homes are under construction on the former site of an underused car park. The council also approved investment in a second residential development at St Stephen's Road, which will provide 46 high quality homes for market rent. In addition, a planning application has been submitted for a £150m redevelopment of Winter Gardens, a landmark site overlooking the seafront, currently used as a car park.

Work has started on two health care centres in the Gorbals and Woodside in Glasgow under the hub West Scotland joint venture, while construction is also underway on a £15m extra care development in Northampton through the HB Villages joint venture to provide 80 assisted living apartments and communal space, designed to support older people to live independently.

During the year, significant strategic progress was made in widening the range

Redefining Slough

Project
Slough Regeneration

Investments has been working in partnership with Slough Borough Council over the past five years to regenerate the borough, through the Slough Urban Renewal (SUR) joint venture. This year SUR was appointed to deliver a mixed-use development on the former site of Slough's central library, including two Marriott International hotels and 62 private residential apartments; and a planned mixed-use development on the former Thames Valley University site will potentially deliver 1,400 homes, 270,000 sq ft of Grade A office space, 50,000 sq ft of leisure and retail facilities and high quality public realm.

The programme has continued to generate work for other divisions, including Partnership Housing (the Milestone and Wexham Green residential developments) and Urban Regeneration (providing development expertise on the Thames Valley University site). Construction & Infrastructure has an order book of more than £50m over the next three years for leisure and school projects for SUR.

£73m
of projects delivered

£95m
of projects under construction

Gold award for 'Procurer of the Year', 2017 Partnership Awards.

of Investments' partners. Examples include the acquisition of a 50% stake in a joint venture with Ashley House plc, to focus on development activity in the extra care sector, into which Ashley House transferred its pipeline of extra care and supported living schemes with a development value of £200m to the joint venture; and a new strategic estates partnership with Oxleas NHS Foundation Trust to deliver its Strategic Estate Partnership (SEP) for an initial 10-year period.

During the year, £143m of construction and regeneration work on schemes sourced by Investments was delivered across the Group (primarily by Construction & Infrastructure). A further £135m of work was secured for future delivery.

Divisional outlook

Looking ahead, Investments is expected to consistently deliver a positive return from its capital employed each year, as well as generating construction and regeneration work for the rest of the Group. Its medium-term target is to increase ROCE[1] up towards 20%, however due to the phasing of its scheme developments, progress towards this target is not expected to follow a uniform profile.

Progress against 2017 strategic priorities

Create long-term capital platforms with investors
In early 2017, we secured £100m of funding from the Universities Superannuation Scheme for our HB Villages joint venture. During 2017, £14m of this funding was deployed on four projects.

Progress projects within the development pipeline
We delivered 30 projects through our partnerships this year, with another 30 reaching contract close and starting on site, and 15 achieving or being submitted for planning approval. STRIDE, the strategic estates partnership between Community Solutions, Burton Hospitals NHS Foundation Trust and Arcadis, signed an option to develop a health village on surplus hospital land to provide a range of health and social care infrastructure.

Develop a second institutional investor fund
We are currently in discussions with institutional investors to create and develop a second institutional investor fund in the extra care sector.

Strategic priorities for 2018

- Create long-term capital platforms with investors
- Progress projects within the development pipeline
- Extend pipeline within existing platforms, and leverage successful track record in strategic partnering into new platforms

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

Principal risks

The Group's risk profile has improved with a strong balance sheet, continued focus on contract selectivity and no noticeable impact relating to Brexit.

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

Our approach

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

Overview of the Group's risk profile
The UK's decision to withdraw from the EU continues to generate uncertainty, however the economy has performed well in the reporting period and this is reflected in our trading position. It is still too early to predict the medium- to long-term effects of Brexit, and we are keeping a close eye on developments. We will adjust our strategy in response to any clear indicators, but are reassured that most of our regeneration schemes and a sizeable portion of our construction order book and pipeline are supported by public sector clients via frameworks and joint venture arrangements.

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: in house building, expected to be a primary growth driver, and in infrastructure, where our work in the public and private regulated sectors has longer-term visibility.

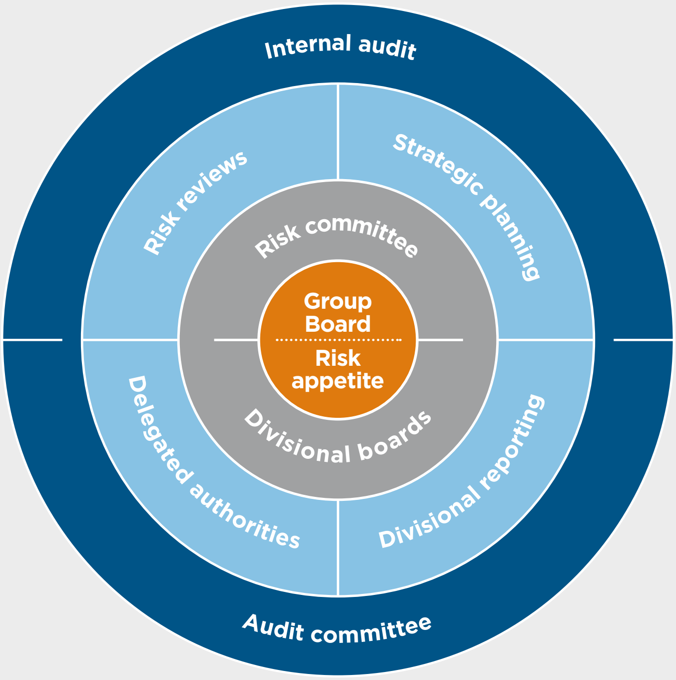
Based on current trading patterns, a strong balance sheet, high-quality secured order book and visible pipeline of opportunities, our outlook for 2018 looks positive. All businesses remain focused on long-term partnerships, our favoured route to market with more predictable outcomes. Our regeneration activities are mostly non-speculative and underpinned by a long-term pipeline. Residential schemes have shown no short-term impacts since the referendum, with demand continuing to meet expectations. With relatively low interest rates and 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 has significantly improved its risk profile, reflected in its outturn margin, cash and order book. Fit Out, while more susceptible to GDP fluctuations, has a strong secured order book for 2018 and beyond, providing higher visibility of future workload than in previous years.

In terms of resourcing our medium- and long-term plans, we have committed banking facilities until 2022, an improving cash profile and robust cash and capital controls in place. Voluntary staff turnover continues to fall and new people are being recruited who will help us achieve our strategic objectives.

This review should be read in conjunction with the viability statement on page 60.

Principal risks
The principal risks to the business are set out overleaf. They have been extensively reviewed but have not changed significantly in the reporting period. The list is not exhaustive but includes those risks currently considered most significant in terms of potential impact. The risks are set out as they relate to our Group strategic priorities, indicating any change in severity and likelihood of impacts compared to 2016 and describing mitigating actions being taken.

Risk governance model



Group Board

The Board is responsible for risk management and assesses the principal risks to the Group that threaten our strategy and performance. For detailed information on our risk management and internal control governance, see pages 80 to 82.

Divisional boards

In accordance with our decentralised philosophy, 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 entering in the Group risk register. It also reviews both the Group and divisional risk registers before they are presented to the Board and audit committee.

Risk reviews

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

Strategic planning

We view risk management as a fundamental part of our business planning process. Each year objectives and strategies are set that align with the risk appetite defined by the Board.

Delegated authorities

Our finance director and Group head of audit and assurance have produced a formal document which delegates approval for material decisions throughout the Group 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.

Audit committee

The audit committee assists the Board in monitoring risk management and internal control, and formally reviews the Group and divisional risk registers before they are presented to the Board.

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[1]	
Changes in the economy The number of opportunities in our chosen markets could be reduced or become less profitable. Allocation of resources and capital to the pursuit of declining markets or less attractive opportunities would reduce the Group's profitability and cash generation.	■ EU exit negotiations have to date had little impact in the UK market but longer-term effects remain difficult to predict and could affect both investor and consumer confidence. ■ The industry relies on a pool of EU labour in order to sustain construction output. To date we have not seen any significant impact, however this is a concern that we need the government to resolve. ■ The government remains committed to investment in housing supply and infrastructure. ■ This commitment complements our business model which is designed to provide a mix of earnings across different market cycles.	■ Opportunities have continued to flow in all our markets. There is high demand for our development and regeneration schemes (with high barriers to entry), which are now benefiting from historic investment. ■ Competition in construction remains high against a backdrop of lower growth and rising inflation. However we are being selective and our procurement routes, margins, contract terms and order book remain favourable.
Exposure to UK housing market The UK housing sector is strongly influenced by government stimulus and consumer confidence. If mortgage availability and affordability are reduced this could make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital.	■ There continues to be clear government and cross-party support in terms of housing supply, policy and stimulus, which complements our business model and market positioning. ■ Sales volumes, pace and inflation across the regions have all generally held up during EU discussions in both the investor and private markets, albeit with some signs of plateauing in the London market.	■ Dialogue continues with local authorities and housing associations, not yet reflected in our pipeline. ■ We are well positioned to support current and future affordable and regeneration housing with high demand across our existing property portfolio.
Poor contract selection In a volatile market where competition is high, a division might accept a contract outside its core competencies or for which it has insufficient resources. Failure to understand the project risks may lead to poor delivery and ultimately result in reputational damage and loss of opportunities.	■ A significant proportion of our larger projects continue to be secured with longer-term repeat clients with whom we have good relationships and sensible terms. ■ Our forward order book continues to improve. It includes a high proportion of public sector and framework clients with typically healthier risk profiles. ■ We continue to be selective when bidding for contracts, enabled by our strong order book and cash position.	■ Having improved selectivity in Construction three years ago, we are now benefiting from a business with an improved risk profile delivering better outcomes. ■ We have an enhanced understanding of medium-term pipeline quality, enabling us to predict trends more accurately and adjust our strategy in response.

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

Strategic Objectives

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

Win in targeted markets (continued)

Mitigating activities		Trend
▪ Maintaining a high profile and competency in sectors identified for investment, such as infrastructure, housing and urban regeneration. ▪ Monitoring changes in the economy, which helps us detect shifts in spending and adapt our strategy if necessary. ▪ Strategic focus on market spread, geographical capability and diversification to protect against the cyclical effect of individual markets (see 'At a glance' section on the inside front cover and pages 4 to 5). ▪ Business planning that focuses on markets and opportunities consistent with our risk appetite. ▪ Committing only to viable development schemes, allowing us to maximise our residential portfolio while responding quickly to any market changes.	▪ High proportion of our construction and regeneration order book secured with public sector and regulated entities. ▪ Construction and regeneration divisions work together, adding value for clients and offering a scale of service that enables us to compete in areas with higher barriers to entry (see Slough regeneration scheme, page 47). ▪ Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities.	No change
▪ Monitoring key UK statistics, including unemployment, lending and affordability. ▪ A residential portfolio that targets and supports the government's demand for housing supply and partnerships. ▪ Rigorous three-stage approval process before committing to development schemes. ▪ A constrained land bank, targeting option type agreements with owners that limit long-term exposure and boost return on capital employed.	▪ Largely non-speculative, risk-share development vehicles, subject to viability conditions that minimise any negative impact from market fluctuations. ▪ High majority of schemes in partnership with the public sector and in regenerative areas that attract government funding. ▪ Targeting forward selling sections of large-scale residential schemes to institutional investors. ▪ Regular forecasting and monitoring of development pipeline and order book.	No change
▪ Clear selectivity, strategy and business plan to target optimal markets, sectors, clients and projects. ▪ Divisions select projects according to pre-agreed types of work, contract size and risk profile. ▪ A multi-stage process of bid approval, including tender review boards, risk profiling and sign off by appropriate levels of management. ▪ Staff planning and profiling to ensure appropriate levels of qualified resource for future work. ◆ Maturing selectivity strategy and tools, delivering projects with improved outcomes and sustainable margins, and leading to repeat business. ▪ Initiatives to select supply chain partners who match our expectations in terms of quality, sustainability and availability.	▪ Regular reporting on sales, pipeline and order book, using customer relationship management software. ▪ Communication of feedback from the supply chain. ▪ 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. ▪ Construction strategy and culture of prioritising bid selectivity over volume.	Decrease

Win in targeted markets (continued)

Risk and potential impact	Risk change in reporting period	
Safety or environmental incident Health, safety and environmental (HSE) impacts will always feature significantly in the risk profile of a construction business. We carry out a significant portion of our work in public areas and complex environments, requiring strict observation of Health and Safety Executive standards. Incidents that cause harm to an individual or the community could result in legal action, fines, costs and insurance claims as well as project delays and damage to reputation. Poor HSE performance could also affect our ability to secure future work and achieve targets.	■ Sentencing guidelines for health and safety introduced in 2016 can impose significant fines. We currently have no material issues that might attract a fine and we continue to focus on managing HSE issues to the standards required to protect individuals, the community and the environment. ■ Construction & Infrastructure has embedded its cultural development programme and adopted an innovative approach to fatigue management, known as Readiband (see page 31).	■ Fit Out introduced a health and safety app to improve safety on sites (see page 35). ■ Health and safety leadership team meetings were held during the year to discuss safety matters and trends impacting the business. The meetings were attended by divisional managing directors and health and safety directors.

Develop and retain talented people

We operate in sectors that are technically complex, requiring innovative solutions, and recognise that talented, motivated people improve our performance and contribute to our planned growth. Voluntary staff turnover rates, while falling, can be reduced further.

Risk and potential impact	Risk change in reporting period	
Failure to attract and retain talented people Talented people are needed to provide excellence in project delivery and customer service. Skills shortages in the construction industry remain an issue for the foreseeable future.	■ In divisions where voluntary staff turnover was higher than it should have been, improvements have been made to the working environment and investment made in technology and leadership training. ■ Our investment in graduate, trainee and apprenticeship schemes is now well established, with a continuing number of participants progressing to more senior positions.	■ Our leadership development programme is proving popular, and progressing well. ■ There is a stretch in the labour market which has been manageable in the short term. However it would be exacerbated if the government were unable to secure EU skills mobility. ■ Our current success is helping us attract and retain people, reflected in our falling voluntary staff turnover rates.

Win in targeted markets (continued)

Mitigating activities

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

Trend

No change

Develop and retain talented people (continued)

Mitigating activities

- Continued implementation of the People Promise[1] to help employees fulfil their potential.
- Annual appraisals providing two-way feedback on performance.
- Training and development plans to build skills and experience.
- Attractive remuneration packages benchmarked where possible.
- Providing industry-leading working environments, technology tools and software to enrich people's working experience.
- Giving people empowerment and responsibility together with clear leadership and support.
- Monitoring future skills requirements.
- Succession plans in all businesses.
- Debriefs with leavers and joiners to understand the reasons for their decision.
- Divisional 'people boards' that meet twice a year to review talent in the business.
- Employee engagement surveys.
- Monthly HR reports to the Board including a report on leavers and joiners.
- Monitoring recruitment.

Trend

Decrease

1 Our People Promise given to all employees explains what they can expect from the Group and their team members and, in turn, what is expected from them.

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	
Insolvency of key client, joint venture (JV) partner, subcontractor or supplier An insolvency could disrupt project works, cause delay and incur the costs of finding a replacement, resulting in bad debt and significant financial loss. There is a risk that credit checks undertaken in the past may no longer be valid.	■ A high proportion of our current order book is public sector focused. Outside of this we seek to obtain relevant securities in the form of guarantees, bonds, escrow and/or favourable payment terms.	■ Our current JV project portfolio has not suffered any material impact as a result of recent industry insolvency issues. ■ Construction & Infrastructure continues to develop long-term relationships with financially sound subcontractors.
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.	■ Debt availability and terms continue to be favourable for the Group, our clients and our supply chain. ■ Our average cash improved once again in the period, providing a clear indication of the health of the business and its cash-backed nature.	■ We have recently renewed our banking facility which together with our strong cash position provides significant headroom. ■ Our robust balance sheet gives us greater opportunity to explore further investment in new regeneration schemes and continue to be selective in Construction.
Mismanagement of working capital Poor management of working capital leads to insufficient liquidity and funding problems.	■ Overall working capital continues to improve following the settling of long-standing accounts, phasing of scheme starts and completions in regeneration schemes, plus the continuing benefits from positive cash generation in construction.	■ Cash management continues to improve in Construction due to a combination of improved returns, cash optimisation and cash conversion. ■ Our average net cash for the period underlines our strong performance and working capital management, but there are still areas for improvement.

Disciplined use of capital (continued)

Mitigating activities		Trend
■ A business strategy focused on the public sector and commercial clients in sound market sectors. ■ Rigorous due diligence and credit checks on clients, partners and suppliers. ■ Obtaining financial security where necessary, such as bonds, guarantees, specific preferential payment terms or escrow accounts. ■ Formal approval process before entering contracts, supported by tender review boards. ■ Formal JV selection due diligence papers and approval at Group executive director level. ■ JV agreements contain protection relating to bank accounts and resource employed by a defaulting party.	■ Working with preferred or approved suppliers wherever possible, which ensures visibility of both financial and workload commitments. ■ Regular meetings with key supply chain members to exchange feedback and maintain dialogue, resulting in meaningful relationships and a greater understanding of their business. ■ Monitoring supply chain utilisation to ensure we do not overstress either their finances or operational resource. ■ Monitoring work in progress (uninvoiced income), debts and retentions to ensure optimal cash conversion and identify potentially stressed businesses.	No change
■ Securing medium-term committed banking facilities to 2022. ■ A three-stage process requiring approval at Group level for all development and investment-related schemes, which gives an early indication of potential long-term balance sheet commitments and risks.	■ A Group-led disciplined allocation process for significant project-related capital which considers all future requirements and return on investment. ■ Daily monitoring of cash levels and regular forecasting of future cash balances and facility headroom. ■ Regular stress-testing of long-term cash forecasts.	Decrease
■ Monitoring and management of working capital with acute focus on any overdue work in progress, debtors or retentions. ■ Reinforcing a culture in the bidding and project teams of focusing on generating positive cash outcomes. ■ Daily monitoring of cash levels and weekly cash forecast reports.	■ Cash profiling of key opportunities at an early stage to ensure they meet the Group's expectations. ■ Efficient management of capital on regeneration schemes, such as phased scheme delivery, seeking institutional and government funding solutions, and forward selling where possible.	Decrease

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
Mispricing a contract If a contract is incorrectly costed this could lead to loss of profitability that reduces overall gross margin. It might also damage the relationship with the client and supply chain.	■ Contract procurement routes and terms have remained favourable, as reflected in our outturn margins and quality of forward order book. ■ We have maintained our focus on selecting projects that are right for the business and match our risk appetite, thus offering a higher probability of success. ■ We provide for increases in bids where appropriate in order to hedge against supply chain costs that are exposed to exchange rate or inflation fluctuations. ■ We continue to secure projects with repeat clients via negotiation, open book and framework style arrangements, with limited, selective open market bids.
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.	■ The high proportion of framework related, two-stage and negotiated work in our current order book has reduced the likelihood of unforeseen changes and disputes. ■ Improvements in early warning tools and metrics flag potential issues in Construction earlier than before. ■ Further development has continued on electronic project management and commercial controls to improve trend analysis and early warning intervention. ■ Construction's order book contains a greater proportion of repeat client work, meaning we are more likely to achieve sustainable and predictable outcomes via negotiated settlement.
Poor project delivery Failure to meet client expectations could incur costs that erode profit margins and lead to the withholding of interim cash payments which impacts working capital. It may also result in reduction of repeat business and client referrals.	■ Maturing early warning tools are flagging problems in project delivery, enabling earlier intervention and provisioning. ■ Our continued focus on project selectivity reduces risk in the order book and the probability of poor performance. ■ Various initiatives in Construction are underway that focus on improvements in product quality, predictability and customer experience. ■ We have successfully settled older project disputes via a combination of expert advice and sensible dialogue, negating significant legal costs and prolonged uncertainty. ■ Fit Out's sophisticated initiative to drive customer service and experience is maturing and continues to differentiate their offering. ■ Our electronic snagging and handover technology improves the way we manage project close outs.

Maximise efficiency of resources (continued)

Mitigating activities		Trend
■ A well-established bidding process with experienced estimating teams. ■ Robust review of pipeline at key stages, with rigorous due diligence and risk assessment, and senior level approval. ■ Our order book quality and strong cash position mean we can remain selective in our bidding. ■ Construction strategy and culture in prioritising bid selectivity over volume.	■ Tender reviews at three key stages of pre-qualification, pre-tender and final tender submission, with each stage approved by senior management via tender review boards. ■ Using the tender review process to challenge and mitigate any impacts of rising supply chain costs.	Decrease
■ Carrying out work under standard terms wherever possible. ■ Reviewing contract terms at tender stage and ensuring variations are approved by the appropriate level of management. ■ Well-established systems of measuring and reporting project progress and estimated outturns that include contract variations. ■ Regular project reviews including feedback from peers, to provide a level of positive challenge around progress and project performance. ■ Continued use and development of electronic dashboards for project management and commercial metrics designed to highlight areas of focus and provide early warnings.	■ Regular reporting on all projects with a particular focus on matters likely to impact on programme, cost and quality. ■ Where legal action is necessary, taking appropriate advice and making suitable provision for costs. ■ All material disputes notified to the Board as they occur. ■ Monthly monitoring of financial and operational performance on projects. ■ Use of electronic change control tools to inform clients and project teams of the status of the final account and programme at each stage of construction.	Decrease
■ Incentivising project teams on Perfect Delivery outcomes to achieve high levels of client satisfaction. ■ Strategic supply chain trading arrangements to help ensure consistent quality. ■ Electronic project management tools which help improve quality and efficiency. ■ Continued application of early warning tools to highlight delivery issues. ■ An escalation process to ensure senior management intervention at an early stage if necessary.	■ Formal internal peer reviews that highlight areas of improvement and share best practice and 'lessons learned' exercises. ■ Collection and analysis of client feedback. ■ Monthly monitoring of project performance and electronic dashboards for project management and commercial metrics. ■ Regular formal and informal stakeholder feedback to ensure our performance is meeting expectations.	Decrease

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	
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.	■ All divisions have continued to develop solutions to improve efficiency, customer service and employee satisfaction. Examples range from Fit Out's new health and safety app (see page 35) to Partnership Housing's research into underutilised public sector land (see page 40).	■ Infrastructure has worked on some of the UK's leading projects, including the Lee Tunnel, Crossrail, HS2, Sellafield and Heathrow. These clients encourage innovation and optimised construction techniques, sharing in the risk and reward.
Failure to invest in information technology Investment in IT is necessary to meet the future needs of the business in terms of expected growth, security and innovation, and enables its long-term success.	■ Our centralised team works to ensure a stable and resilient IT environment. ■ We moved to a new data centre in 2017 to ensure sustained performance of our IT network to meet our future needs. Continued investment has allowed us to focus with confidence on delivering new and improved technology into the business. ■ Our IT team has seen a significant increase in demand for new technology from operational teams and we foresee this trend continuing. New software tools have focused on quality, supply chain analytics, change and information management, commercial management, risk, design and project dashboards, with many more initiatives in the pipeline.	■ We previously upgraded our Group-wide financial software and are now exploring options to add construction-specific features. ■ Security levels and data resilience continue to be a focus. Our dedicated and accredited information security and compliance team are continuing the rollout of endpoint encryption, active monitoring and threat analysis of external web-based threats, and data protection and information security training. ■ Ongoing strategic projects to improve security include updating our Active Directory of authenticated users, preparing for compliance with the EU General Data Protection Regulation and ISO 27001 accreditation.

Pursue innovation (continued)

Mitigating activities		Trend
▪ One of our core values is to challenge the status quo and innovation is strongly encouraged. New ideas are welcomed from every employee, partner and supplier. ▪ Our involvement in major infrastructure projects puts us at the forefront of new innovation in construction, management and project control techniques. This allows us to compete in areas with high barrier to entry while sharing new ideas across the Group. ▪ Our employees enjoy working on high profile, innovative projects that provide them with the ability to enhance their knowledge and experience.	▪ Business improvement and IT forums review, sponsor and promote new innovations across the business. ▪ The successful centralisation of our IT team has given the businesses the confidence to initiate and introduce a number of new technology-led tools. Examples range from a new electronic snagging tool in Construction & Infrastructure to a Group-wide online expenses processing system.	No change
▪ A centralised IT service that improves efficiency, oversight, reporting, security and performance, with localised divisional resource providing business-specific product support. ▪ Group-wide and divisional IT forums that discuss and report IT strategy and operations. ▪ Continuing investment to improve infrastructure, application service and new technology.	▪ A dedicated information security team certified and accredited by key industry bodies in data protection and information security. ▪ Group-wide risk and security strategies that address creating awareness, threat alert, risk and vulnerability prioritisation and response. ▪ Government-accredited security installations and certification to hold protectively marked information, including under the government's Cyber Essentials Scheme.	No change

Viability statement

As required by provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the prospects and financial viability of the Group and have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment. This assessment took account of the Group's current position and the potential financial and reputational impact of the principal risks (as set out on pages 48 to 59) on the Group's ability to deliver the Company's business plan. This describes and tests the significant solvency and liquidity risks involved in delivering the strategic objectives within our business model. The assessment has been made using a period of three years commencing on 1 January 2018, which is consistent with the Group's budgeting cycle. Most of the Group's contracts follow a life cycle of three years or less and the majority of the Group's secured and framework order book falls within this time period.

The directors have compiled cash flow projections on a bottom up basis incorporating each division's detailed business plans. At Group level, the base case financial projections assume modest revenue growth and an improvement in gross margin.

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

In 2017 the Group secured £180m of new five-year committed revolving credit facilities replacing the previous facilities which were due to expire in 2018. Due to the continued strong cash performance of the Group, the new 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 pension funding requirements as its closed defined benefits scheme is in surplus.

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

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

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

John Morgan
Chief Executive

22 February 2018

Governance

Oastler Building, University of Huddersfield
Six-storey, 80,000 sq ft building constructed to house the university's Law School and School of Music, Humanities and Media. Delivered by Construction & Infrastructure, who sourced local Yorkshire stone for the cladding.

Board of directors

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

Michael Findlay
Chairman

Appointed: **October 2016**

Committee membership:

Skills, competencies and experience
Michael has 27 years of experience in investment banking and has advised the boards of many leading UK public companies on a wide range of strategic, finance and governance matters.

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

John Morgan
Chief Executive

Appointed: **October 1994**

Skills, competencies and experience
John was appointed as chief executive in November 2012. He has overall responsibility for proposing and developing the strategy and day-to-day management of the operational activities of the Group. John has in-depth knowledge of both the construction and regeneration markets with significant leadership skills and experience.

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

Steve Crummett
Finance Director

Appointed: **February 2013**

Skills, competencies and experience
Steve brings wide-ranging financial, accounting and UK public company experience.

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

Patrick De Smedt
Senior Independent Director

Appointed: **December 2009**

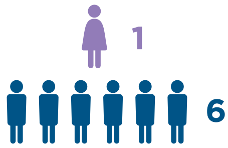
Committee membership:

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

Other roles
Patrick's career includes 23 years with Microsoft, during which time he founded the Benelux subsidiaries, led the development of its western European business and served as chairman of Microsoft for Europe, Middle East and Africa. Since leaving Microsoft in 2006, Patrick has served on the boards of a number of European public and private companies. He is currently a non-executive director of Victrex plc, where he also chairs the remuneration committee, senior independent director of Page Group plc, senior independent director of KCOM Group plc, and non-executive director of Nexinto Holding Limited and Kodak Alaris Holdings Limited. He is an investor in several European technology companies.

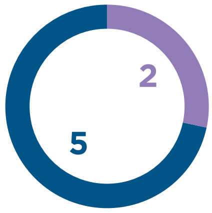
Committee membership key:
- Audit
- Remuneration
- Nomination
- Health, safety and environment
- Chair

Diversity



Female
Male

Board balance



Executive
Non-executive

Malcolm Cooper
Non-executive Director

Appointed: **November 2015**

Committee membership:

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

Other roles
Malcolm is currently senior independent director and audit committee chair at CLS Holdings plc and a non-executive director of St William Homes LLP. 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. He has previously acted as president of the Association of Corporate Treasurers and as a member of the Financial Conduct Authority's Listing Authority Advisory Panel.

Simon Gulliford
Non-executive Director

Appointed: **March 2010**

Committee membership:

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

Other roles
Since 2015 Simon has been executive chairman of the Hendy Automotive Group and is also a non-executive director of Scottish Equitable plc, Hortons' Estate Limited and a number of other private companies. Before setting up his own consultancy, he was head of the marketing faculty at Ashridge College and he has previously held marketing roles at companies including Sears plc, EMAP plc, Barclays plc and Standard Life plc.

Tracey Killen
Non-executive Director

Appointed: **May 2017**

Committee membership:

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

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

Executive team

The executive directors are supported by the executive team which includes the divisional managing directors, the Group commercial director, company secretary and partnerships director.

John Morgan*
Chief Executive

See page 62 for biography.

Steve Crummett*
Finance Director

See page 62 for biography.

Clare Sheridan*
Company Secretary

Clare has been with the Company for 20 years, and was appointed company secretary in June 2014 having previously been deputy company secretary. Prior to this, she was general manager of a theatre production company, responsible for budgetary control and contract negotiations. Clare is a qualified chartered secretary.

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 June 2017 following the resignation of Nick Fletcher. 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, BakerHicks (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.

* Member of Group management team

Diversity

Andy Saul*
Group Commercial Director

Andy joined the Group in January 2014. He was previously managing director of Bullock Construction Ltd 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.

Jonathan Goring
Partnership Director

Jonathan was managing director of Partnership Housing until taking up his new Group role in November 2017. Jonathan has led challenging projects and government partnerships in the UK over the past 30 years. Before joining the Group, he was managing director for Capita Symonds and chief executive officer of Capita's joint venture with the Defence Infrastructure Organisation.

Pat Boyle*
Managing Director, Construction

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

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. Alan is a qualified chartered accountant.

Matt Crompton*
Joint Managing Director, Urban Regeneration

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

Lisa Scenna*
Managing Director, Investments

Lisa joined the Group in June 2013. In her last position before joining the Group, Lisa was managing director of Explore Investments at Laing O'Rourke. Prior to that she was the joint managing director at Stockland UK and held senior financial roles within both Stockland and Westfield in Australia. Lisa is a qualified chartered accountant.

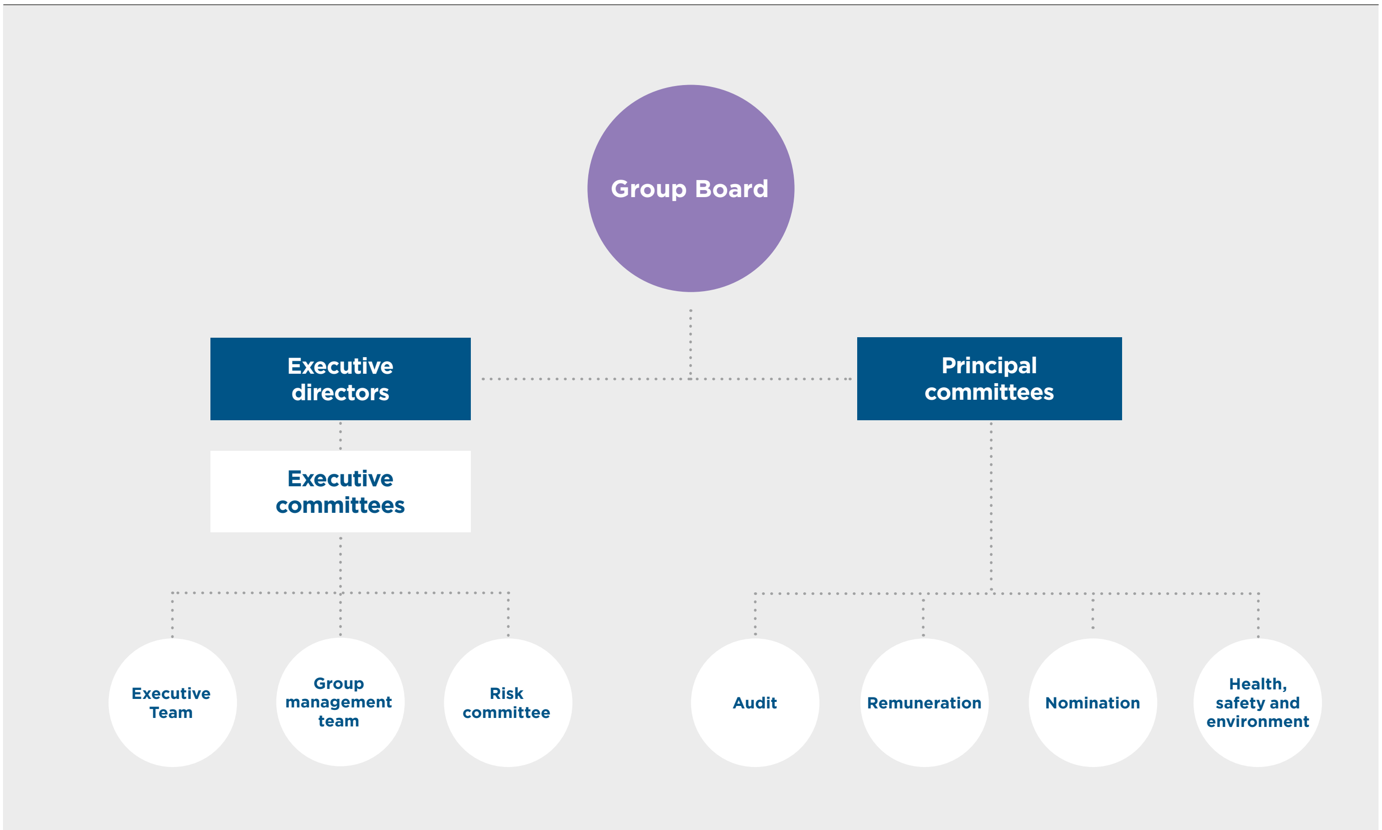
Corporate governance report

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

Governance structure

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

Day-to-day management of the Group is delegated to the executive directors, who are supported by the executive team and the Group management team (see pages 64 to 65 for details of the members). The Group management team meets regularly to consider operational matters affecting the Group as a whole. These include health and safety, strategy, the Group budget and our responsible business strategy. We also have several forums with representatives from across the divisions that report into the Board. These include a health and safety forum, HR forum, commercial directors' forum and sustainability steering group. Each forum meets on a regular basis, focuses on specific topics, and acts as a channel for sharing ideas and best practice. The forums assist in ensuring that good governance is adopted at all levels throughout the Group.



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 (the Code). In April 2016, the Financial Reporting Council (FRC) published the latest edition of the Code, which is available on its 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 and the directors' remuneration report.

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

Key responsibilities

Chairman
- leads our Board and is responsible for its effectiveness;
- is responsible for setting agendas for Board meetings and for timely dissemination of information to the Board, in consultation with the chief executive, finance director and company secretary;
- facilitates contributions from all directors; and
- ensures effective communication with our shareholders and other stakeholders.

Chief executive
- is responsible for the Group strategic objectives;
- develops and implements Group strategy as approved by the Board; and
- promotes and conducts the affairs of the Company to the highest standards of integrity, probity and corporate governance.

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

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

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

Company secretary
- acts as secretary to the Board and its committees, ensuring sound information flows to the Board and between senior management and the non-executive directors;
- is responsible for advising the Board on corporate governance matters;
- facilitates a comprehensive induction for newly appointed directors tailored to individual requirements;
- is responsible for compliance with Board procedures;
- co-ordinates the performance evaluation of the Board; and
- provides advice and services to the Board.

Leadership

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

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

The Board monitors and reviews all significant aspects of the Group's activities, including overall internal control and risk management systems and succession planning, and oversees the executive management. There is a clear division of responsibilities between the chairman and the chief executive as set out in the left hand panel.

Formal schedule of matters reserved for the Board

There are documented processes in place regarding the Board's activities; matters specifically reserved for its decision-making; the role of and authority delegated to the chief executive; the accountability of the chief executive for that authority; and guidance on managing the relationship between the Board and the chief executive. These processes are reviewed annually and the formal schedule of matters reserved for the Board was updated and approved by the Board at its meeting in November 2017.

Responsibility for the following matters has been reserved for the Board:
- strategy;
- risk management and internal controls;
- structure and capital;
- financial reporting and controls;
- communication, including ensuring a satisfactory dialogue with shareholders;
- Board membership and other key appointments;
- remuneration for the executive directors;
- delegation of authority including the Group's delegated authorities process; and
- corporate governance matters including a review of the effectiveness of the Board and its committees.

A formal programme of meetings is put in place each year to ensure that the Board is able to allocate sufficient time to each of the matters reserved for its decision-making. The programme allows the Board to plan its meetings while being sufficiently flexible to allow items to be added should they arise. This enables Board members to use their time together more effectively. The Board's key activities in 2017 can be found in the panel below. There is a process in place whereby key matters can be escalated to the Board outside of the formal programme of meetings and the executive management keeps the Board updated with interim Board reports in between the regular meetings.

Key activities in 2017

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

Risk management and internal controls
- reviewed and monitored the Group's safety performance; and
- reviewed the appropriateness of the Group's risk management framework.

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

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

Culture and values
- reviewed the Group's gender pay gap data and report;
- discussed divisional initiatives to improve diversity and inclusion within their businesses;
- increased its focus on the non-executives' engagement with the divisions; and
- reviewed the Group's performance against our Total Commitments.

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

Culture

Our culture is fundamental to the successful delivery of our strategic objectives. The Board ensures that the tone is set from the top and the executive directors ensure that our core values are embedded throughout the Group by meeting regularly with all divisions, attending and participating in their staff conferences and running sessions at the leadership development programme, where participants are asked to consider what the core values mean for them individually and for the Group as a whole. The Board regularly monitors various indicators of our culture which include our health and safety performance, matters raised through our independent whistleblowing hotline, called Raising Concerns, employee turnover and stakeholder engagement (see page 26).

Following the Sharesave invitation sent to employees in April 2017, the Board is pleased to report that participation in the Sharesave plan now stands at over 42% of eligible employees. At the forthcoming annual general meeting (AGM), the Board will propose a resolution to shareholders to approve plan rules for a new Sharesave plan as no further awards can be made under the existing plan.

Our measures for ensuring good corporate governance practice across the Group include regular internal audit reviews, encouraging employees to speak up and taking appropriate action where behaviour does not meet expectations.

Strategy day

Every year the Board holds a strategy day in October to review the Group's five-year strategic plan and each of the divisional strategic plans and priorities. In 2017, as part of this review, the chairman, chief executive and a non-executive director met with the managing directors of each division to discuss their divisional strategic plans in detail prior to the meeting in October. Each non-executive director provided a summary to the Board of their findings on strategy.

Divisional meetings

Following the 2016 Board review it was agreed that the non-executives would gain a deeper understanding of each division and the divisional teams through additional visits. Prior to the review of each division's strategic plan, the chairman and the non-executive directors each made two visits to the division whose strategic plan they would be reviewing. These visits included site visits to at least one project per division.

In June 2017, the Board held an evening reception with the directors and senior management teams of the Construction business and in October the Board held a dinner with the Group management team. These events allowed the non-executive directors to meet operational managers and discuss a range of topics in a less formal setting.

Senior management team conference

The chairman and two of the non-executive directors attended our senior management conference in October, which gave them an opportunity to meet around 80 managers from across the Group and gain insight into how best practice is shared between the divisions. The 2017 conference focused on how we can deliver outperformance, including examples from the divisions.

Spread of key activities in the year

February	May	June	August	September	October	November
B	B	B	B	B	B	B
2016 results and dividend approved	AGM	Presentation to analysts on Partnership Housing with site visit to Woolwich	Half year results and interim dividend approved	Divisional strategy reviews and Board evaluation results review	Group strategy meeting	Presentation to analysts on Investments and 2018 budget approved

B = Board meeting

In addition to formal meetings, the Board meets informally several times a year to allow the directors to spend more time together and discuss specific areas of the business with the Group management team and other senior executives. Tracey Killen visited various divisions as part of her induction. More information on the informal meetings is set out in the panel on the previous page.

Attendance

Attendance of individual directors at scheduled Board and committee meetings in 2017 is set out below. Sufficient time is given at the end of each meeting for the chairman to meet privately with the senior independent director and non-executive directors to discuss any matters.

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

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

1 Michael Findlay attended all meetings of the remuneration and audit committees during the year, together with one health, safety and environment (HSE) committee meeting in place of Simon Gulliford.

2 John Morgan stood down from the nomination committee following the meeting held on 4 May 2017.

3 Malcolm Cooper joined the HSE committee on 4 May 2017 and attended all meetings following his appointment.

4 Simon Gulliford was unable to attend two Board meetings and one HSE meeting for personal reasons. Simon's non-attendance was approved by the Board as a whole.

5 Tracey Killen was appointed as a director on 5 May 2017. Tracey was unable to attend one Board meeting following her appointment due to prior commitments. Tracey attended all the committee meetings following her appointment.

6 Liz Peace resigned as director on 4 May 2017. Liz attended all Board and committee meetings up to the date of her resignation.

Effectiveness

Composition

As at the date of this report, the Board consists of the chairman, two executive directors and four non-executive directors. Biographical details of each of the directors are given on pages 62 to 63. Tracey Killen will be standing for election at the 2018 AGM as this is the first AGM following her appointment. Simon Gulliford has advised the Board that he will step down as a non-executive director at that AGM and therefore will not offer himself for re-election. In accordance with the Code, all of the other directors will stand for re-election at the forthcoming AGM.

All of the non-executive directors are considered by the Board to be independent in character and judgement and no cross-directorships exist between any of the directors. Individually, each director acts in a way they consider will promote the long-term success of the Group for the benefit of, and with regard to, the interests of its various stakeholders.

See the nomination committee report on pages 72 to 74 for further information.

Development, information and support

Newly appointed directors receive a detailed information pack describing our values and culture and governance matters relevant to the Group, and participate in a comprehensive and tailored induction programme which includes visits to our divisions and meetings with senior divisional management.

Following Tracey Killen's appointment to the Board in May 2017, her induction programme contained each of these elements, detailed further overleaf.

Training on the role and responsibilities of directors is offered on appointment and subsequently as necessary. The chairman reviews on an annual basis each of the director's training undertaken and any development needs.

Ongoing training and development

This includes:

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

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

The company secretary provided updates to the Board during the year on relevant governance matters, new legislation and its impact on the Company. This included further information on the requirements under the gender pay gap and payment practices reporting obligations, the Criminal Finance Act 2017, the General Data Protection Regulation and the Modern Slavery Act. The audit committee regularly considers new accounting developments through presentations from management and the external auditor (see page 78).

All Board members completed the Group's e-learning module on Directors' duties that was rolled out in the third quarter of 2017. Further details can be found on page 82.

There are agreed procedures by which directors are able to take independent professional advice, at the expense of the Company, on matters relating to their duties. The directors also have access to the advice and services of the company secretary, who attends all Board and committee meetings.

Induction of Tracey Killen

In addition, to our normal induction programme, Tracey spent additional time with the chair of the remuneration committee and our remuneration advisers in order to help with her preparations to take over as the chair of the remuneration committee in 2018. Tracey's induction included the items below:

- Documentation pack containing information on:
  - the Group, including risks, procedures relating to delegation and limits of authority, and banking facilities;
  - the Board;
  - Group and divisional strategic plans;
  - Board committees;
  - compliance matters including conflicts of interest, the Market Abuse Regulation and Bribery Act guidance; and
  - Group policies.
- One-to-one meetings with:
  - executive directors;
  - the chairman and the chairs of the remuneration and audit committees;
  - the company secretary;
  - our remuneration advisers;
  - divisional managing directors; and
  - our brokers.
- Visits/meetings as follows:
  - various meetings with the divisional management teams at their offices; and
  - attendance at the senior management conference with the opportunity to meet around 80 senior managers from across the Group.

Board evaluation

The 2016 evaluation involved a review of the Board's processes to ensure that the Board operates as effectively as possible. The review provided recommendations of changes to improve the efficiency of the Board. In 2017, the Board acted on each of the recommendations made.

2017 Evaluation process

Evaluation questionnaire developed for the Board and the audit, nomination and remuneration committees.

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

Chairman held one-to-one meetings with each director to discuss the results and their individual performance.

Results reported to the Board and each committee.

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

The 2017 evaluation questionnaire focused on the Board's effectiveness and that of the audit, nomination and remuneration committees. Due to changes in the membership of the HSE committee during the year, the Board decided to postpone the evaluation of this committee until 2018. The results of the 2017 evaluation confirmed that the Board and each of the committees debate and spend adequate time on the right topics and that each of the directors are given the opportunity to participate fully and overall are operating effectively. There were, however, areas identified for future focus by the Board which are highlighted in the table on the following page.

Topic	Area of focus	Actions
Corporate reputation	Consideration of corporate reputation, its enhancement and the risks surrounding it.	Board to review the long-term opportunities and trends influencing the Group as part of the 2018 strategy review.
Succession planning and diversity	Ensure there is appropriate succession planning for key Board members and senior executives.	Board will continue to monitor and engage with potential leadership talent across the Group for future succession.
Delegation of Board authority	Review and update where necessary the schedule of matters reserved for the Board and the delegation of authorities across the Group.	Board reviewed and approved these documents at the Board meeting in November.
Risk appetite framework	Consideration of how each divisional managing director assesses and manages risk and reward in each of their divisions.	Board agreed to review its appetite and approach to risk as part of its 2018 Board agenda.
Training	Continuing training and development of directors.	Each director is responsible for ensuring they are up to date with legislation and best practice and will submit an annual declaration of training undertaken during the year.

Through an internal evaluation and appraisal process, the chairman provided feedback to each executive and non-executive director on their individual contributions to the Board, reviewed with each of them the training they had undertaken during the year, and considered development priorities individually tailored to each director's experience and role. In particular, the chairman reviewed the continued independence and value provided to the Board by Patrick De Smedt and Simon Gulliford who have both served on the Board for more than six years. The senior independent director reviewed the chairman's performance with the other directors and subsequently met him to provide feedback. Overall, no significant issues were highlighted in the feedback given to each director and the chairman.

Relations with shareholders

The Board recognises its responsibility to our shareholders and wider stakeholders. Further information can be found in our strategic report on pages 25 to 27.

Engagement

The chair of the remuneration committee held meetings with various shareholders to discuss proposed changes to our remuneration policy in early 2017 (see page 83 in the remuneration report for further information). The chairman and the non-executive directors are available to meet with shareholders to listen to their views, although no such meetings were requested in the year.

The executive directors undertake a programme of regular communication with institutional shareholders and analysts covering the Company's activities, performance and strategy. In particular, presentations are made to institutional investors and analysts following the announcements of the full year and half year results. Written feedback from these meetings and presentations is distributed to all members of the Board.

Capital Markets event and site visit

In June 2017 a Capital Markets event was held for analysts and investors, followed by a site visit to a Partnership Housing development in Woolwich. The series of presentations and a tour of the site provided a more detailed insight into our regeneration activities in Partnership Housing and Urban Regeneration.

Drinks reception

A drinks reception was hosted in London in November 2017 which was an opportunity for financial analysts and institutional investors to meet with the divisional managing directors.

Division visit

In November 2017 one of the Company's institutional investors visited Urban Regeneration to obtain an update on the division's development activities in Salford Central.

AGM

We encourage all shareholders to use the AGM as an opportunity for effective communication with the Company. The AGM also provides a valuable opportunity for the Board to communicate with private shareholders. Shareholders are invited to ask questions related to the business of the meeting and have the opportunity to meet all the directors informally. All directors normally attend the AGM and all serving directors plan to attend the 2018 AGM. Shareholders unable to attend are encouraged to vote using the proxy form mailed to them or sent electronically as detailed in the notice of meeting. As in previous years, at the forthcoming AGM each of the resolutions put to the meeting will be taken by voting on a poll.

The directors believe that a poll vote is more representative of shareholders' voting intentions because shareholder votes are counted according to the number of shares held and all votes tendered are taken into account. The results of voting at general meetings, including proxy directions to withhold votes, are published on our website.

Nomination committee

Chairman's overview

During 2017, succession planning and the composition of the Board and its committees remained a key focus. Highlights of the committee's activities included:

- the appointment by the Board, on the committee's recommendation, of Tracey Killen as an independent non-executive director;
- approval of Tracey Killen as chair of the remuneration committee in 2018 following an orderly transition from Patrick De Smedt;
- approval of the appointment of Malcolm Cooper to the HSE committee in May 2017 following the resignation of Liz Peace; and
- consideration of executive succession planning.

The committee also considered progress against the recommendations and priorities from the 2016 Board evaluation review. We are pleased to report that the changes introduced to some of the Board processes have led to improvements in the operation of the Board which the Board as a whole has found valuable.

Members during the year

Michael Findlay (Chair)
Patrick De Smedt
Simon Gulliford
Malcolm Cooper
Tracey Killen (from 5 May 2017)
John Morgan (until 4 May 2017)
Liz Peace (until 4 May 2017)

Responsibilities

The nomination committee is responsible for establishing a formal, rigorous and transparent procedure for the appointment of new directors to the Board. In addition, the committee has a wider responsibility to keep under review the future leadership needs of the Company, both executive and non-executive, to ensure our continued ability to deliver our strategy.

Michael Findlay chairs the committee but is not permitted to chair meetings where his own succession and performance are discussed. Biographies for each member of the committee are set out on pages 62 to 63.

The committee's detailed responsibilities include:

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

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

Activities during the year

In 2017 the committee met three times to review the structure, size and composition of the Board. Details of attendance at meetings are disclosed on page 69. More information on our objective in respect of developing and retaining talented people is included in the strategic framework on page 16 and the risk review on pages 50 to 53.

In addition to the highlights outlined in the Chairman's overview, the committee:

- considered and reviewed the 2017 Board evaluation process and oversaw the internal evaluation of the Board and committees. See page 70 for further details;
- considered the overall structure and balance of the Board;
- reviewed succession planning for the divisional management teams;
- considered our process for developing and retaining employees;
- considered the level of diversity within the Group, in light of our gender pay gap results; and
- reviewed the committee's terms of reference.

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

Effectiveness

Succession planning

Board

The Board takes succession planning for its members seriously. We believe we have good balance and diversity among our non-executive directors with each of them having highly relevant skills, derived from serving in a range of executive and non-executive positions throughout their careers. As part of the Board evaluation process undertaken during the year, the Board reviewed the skills needed to deliver our Group strategy and whether the Board had all the appropriate skills. A similar process was undertaken as part of the Board's succession plan review. The committee also considered the overall structure and balance of the Board, including the length of tenure of the existing non-executive directors. The Board recognises the value and independence that the longer-serving directors continue to bring. The committee is satisfied that the Board has the required balance of skills and that appropriate succession plans are in place across the Group for future Board appointments.

During the year, Liz Peace resigned as a non-executive director. In determining the right type of candidate, the committee considered the skills, experience and time commitment required for the role, and the length and tenure of the existing non-executive directors. The committee noted the length of tenure of Patrick De Smedt as non-executive director and chair of the remuneration committee and concluded that the new non-executive director should have the requisite skills to succeed Patrick as remuneration committee chair during 2018.

The committee appointed a sub-committee consisting of the chairman, the chief executive and the senior independent director to manage the recruitment of a new non-executive. Following a review of potential headhunters, the sub-committee appointed Zygos Partnership. The sub-committee identified a shortlist of candidates from a selection of individuals suggested by Zygos Partnership and, following meetings with each of these candidates, identified a further shortlist for the other Board members to meet. After completing the comprehensive process, the Board was delighted to appoint Tracey Killen as a non-executive director on 5 May 2017. Tracey's significant commercial and HR experience will bring new skills, knowledge and insight to Board discussions and be of great benefit to the Board and the Group. Tracey became a member of the audit, nomination and remuneration committees following her appointment. Zygos Partnership does not provide any other services to, or have any connection with, the Company.

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

Board tenure non-executive	Number	Percentage
<1 year	1	20
1 to 2 years	1	20
2 to 3 years	1	20
7 to 8 years	1	20
8 to 9 years	1	20

Tracey Killen

Succession planning in action

February 2017
Following the resignation of Liz Peace, a candidate profile was drafted and Zygos Partnership was appointed to identify a shortlist of potential candidates.

March – April 2017
Candidates were interviewed by the chairman, chief executive and senior independent director and a selection of the shortlisted candidates were interviewed by other Board members.

24 April 2017
Appointment of Tracey Killen to the Board, audit, nomination and remuneration committees announced, effective 5 May.

May 2017
Tracey began her formal induction programme (see page 70 for further details).

2018
Tracey to succeed Patrick De Smedt as chair of the remuneration committee.

Wider Group

During 2016, the executive directors reviewed the short-term succession arrangements for the Group management team and in 2017 the committee reviewed its processes for monitoring succession planning across the Group. As mentioned above, the committee also considered the skills required across the Group and the ongoing development of these skills through talent and training programmes. Due to the diverse nature of our activities the committee reviewed the divisional succession and talent development plans individually and in the context of our Group strategic objective to develop and retain talented people. We have an overarching leadership development programme in place which provides core and consistent leadership training for about 500 senior employees across the Group. In addition, each of the divisions has its own specific training programmes incorporating both technical and broader business training specific to their divisions and employees' requirements and professional development. These training programmes range from apprenticeships for different skills to supporting employees through professional qualifications. Where practically possible each division seeks to consider existing employees for new roles and development opportunities and in 2017, 8% of employees across the divisions were promoted internally. Simon Smith's appointment as managing director for Infrastructure when Nick Fletcher resigned was as a result of being previously identified as a potential candidate within the division's succession plan.

Diversity

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

We believe that a diverse workforce reflecting different skills and experience at all levels is critical for innovation and ensuring that we benefit from the broadest range of ideas and expertise. As part of the Board's ongoing commitment to provide leadership on inclusion, during 2017 we continued to include a 'people report' in the Board meeting papers, covering key statistics and details of activities undertaken by each division to improve inclusivity and diversity. These included activities to broaden the range of skills, industry experience, gender, race, disability, age, nationality and other attributes which can enhance the contribution of the divisions and the Group as a whole.

At the November 2017 Board meeting, the Board reviewed the results of the Group's gender pay gap. Our median gender pay gap of 31% provides a benchmark that enables the Board to drive improvement in inclusivity and diversity across the Group over the next couple of years. The Board is satisfied that the results are not due to any equal pay issues within the Group, but are attributable to the lack of women in senior positions. While 21% of the Group's employees are women, only 8% of our senior managers (those attracting the highest levels of remuneration) are female. To address this, the Board will implement a range of activities in 2018 that will help drive greater inclusivity and diversity across the Group. These activities will include:

- undertaking further detailed analysis of our data to ascertain whether or not we have any underlying issues that are impacting the percentage of women employed in the Group and the percentage in senior positions, and to identify specific actions to address them if appropriate;
- introducing an e-learning module on inclusivity;
- introducing anonymised shortlists as part of our recruitment process;
- tracking underrepresented groups' employment experience with the Group; and
- undertaking a review of our ethnic pay gap in conjunction with our annual gender pay gap review.

2018 priorities and performance review

The committee's performance was assessed as part of the Board's annual effectiveness review. It was concluded that all members of the committee play an effective role and that the committee manages the process of appointments to the Board effectively. During 2018, the committee will continue to focus on:

- succession planning for the Board as a whole;
- reviewing succession planning in the divisional management teams; and
- reviewing progress against our activities to improve inclusivity and diversity across the Group.

Health, safety and environment committee

Chairman's overview
During 2017, the Group's safety performance remained a key focus for the committee. Highlights of the committee's activities included:

- meeting with the divisional managing directors in January 2017 to discuss the work they were undertaking to reduce health and safety incidents;
- gaining an understanding of our approach to helping employees to identify and manage mental wellbeing issues; and
- a site visit to a Construction & Infrastructure project in Birmingham.

Members during the year

Simon Gulliford (Chair)
Malcolm Cooper (from 4 May 2017)
Andy Saul
Clare Sheridan (from 4 May 2017)
Liz Peace (until 4 May 2017)

Responsibilities
The committee is responsible for the following:

- assisting the Board in fulfilling its oversight responsibilities in relation to health, safety and environment (HSE) matters and making recommendations to the Board for any changes considered necessary;
- assisting the Board in reviewing our Group strategy with respect to HSE matters;
- receiving reports on any major HSE incidents and ensuring that all actions required by the report are appropriately implemented in a timely manner;
- reporting to the Board on development trends and forthcoming legislation in relation to HSE matters which may be relevant to the Group;
- monitoring our Group health and safety strategy and regulatory environmental obligations (including CRC (carbon reduction commitment) compliance) and how compliance with these and with applicable laws and regulations is ensured across the Group;
- receiving and reviewing periodic HSE reports of the Group's performance; and
- reviewing our responsible business strategy and performance against our Total Commitments.

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

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

Activities during the year
The committee has an annual work plan, developed from its terms of reference, which includes standing items considered at each meeting together with any additional matters the committee has decided to focus on. The divisional managing directors are responsible for HSE issues within their respective divisions and for providing the committee with information for its consideration at each meeting. Monthly monitoring and reporting to the Board includes a report from the Group commercial director on the Group's performance in relation to health and safety matters as well as a verbal report from the HSE committee chair following each meeting. Further details are included in the chief executive's statement on page 15 and the risk review on pages 52 to 53.

In 2017, the committee met four times to review our strategy with respect to HSE matters and carried out one site visit. Details of attendance at meetings are disclosed on page 69.

A summary of the committee's other principal activities in 2017 is as follows:

- reviewed divisional health and safety performance during the year;
- continued to review our approach in respect of occupational health, particularly in respect of assisting employees in identifying and managing mental wellbeing issues;
- carried out a site visit;
- reviewed our environmental reports;
- monitored our performance as a Group against HSE targets and KPIs;
- reviewed our performance against the Total Commitments; and
- reviewed the committee's terms of reference.

Safety
We have well-established safety systems designed to minimise the risks of health, safety and environmental incidents occurring as a result of our activities. These systems include tool box talks, detailed method statements, health and safety briefings at induction, site visits, detailed investigation of all incidents, regular training and updates.

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. Overall, the committee is encouraged by the continued improvement in the Group's accident frequency rate in 2017 (see page 18). During the year, a number of trials and initiatives were put in place by each of the divisions in connection with improving workplace safety and wellbeing, which will be reviewed by the committee during 2018. These included the use of new technology and a trial to change behaviours to help improve safety at work.

Each division sets its own strategy and targets focusing on areas that are relevant to its business within an overarching framework. At the end of 2017, our health and safety forum reviewed and updated this framework. From 2018, it will cover three key strategic areas: severity, mental health and wellbeing. Divisional strategies and targets are reviewed and approved by the committee and learning is shared by the divisions.

Site visits

As mentioned in the 2016 annual report, on 12 January 2017 the committee made an unannounced visit to a Construction & Infrastructure project in Birmingham. The committee was impressed that health and safety was demonstrably a key priority on the project. For example, tarmac had been placed on all walkways around the site prior to construction to reduce the level of mud and potential slippages. In addition, all external barriers had been pre-fitted with cladding to avoid the risk of falls from height by cladding the barriers after they were in place. In January 2018 the committee also made an unannounced visit, to a Construction & Infrastructure ice arena project in Slough.

Health and wellbeing

The committee reviewed management plans to improve health and wellbeing across the Group. All employees have access to an employee assistance programme that provides confidential counselling and support on a variety of issues. During the year, each of the divisions continued its focus on occupational health, particularly mental health and wellbeing. These initiatives included wellbeing clinics and health surveillance programmes. Work was also undertaken during the year in Construction & Infrastructure surrounding fatigue management (see page 31).

Environment

We are committed to reducing energy consumption across the Group and in our supply chain. During the year, the committee reviewed the Group's performance in reducing our environmental impact. Highlights of our activities in 2017 included:

- creating a climate action group to develop science-based targets;
- retaining our A- score in the CDP index;
- decreasing the Group's carbon intensity measure by 15%;
- reducing our total waste produced by 20% to 687,803 tonnes (2016: 860,209 tonnes);
- diverting 89% of total waste from landfill (2016: 90%);
- reducing construction waste by 23% to 99,704 tonnes (2016: 129,691 tonnes); and
- increasing the percentage of construction waste diverted from landfill to 96% (2016: 94%).

Managing our emissions

Our greenhouse gas (GHG) emissions have been calculated based on the ISO 14064-1:2006 standard. Emissions reported correspond with our financial year and include all areas for which we have operational control in the UK, excluding joint ventures. The materiality threshold has been set at a Group level of 5% with all operations estimated to contribute more than 1% of the total emissions included. No material emissions have been omitted from this report.

Emissions have been calculated using data gathered for the recertification audit of the Group's energy data by supply chain risk management company, Achilles, under its Certified Emissions Measurement and Reduction Scheme (CEMARS). Emission factors are from the Department for Environment, Food & Rural Affairs (Defra) conversion factor guidance current for the year reported. All data has been verified by Achilles.

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

GHG emissions CO_2e tonnes

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

Intensity ratio

We have chosen to use an intensity ratio of GHG per £m of turnover, which is consistent with prior years. We are encouraged by the further reduction in this ratio in 2017.

	2017	2016	2010 baseline
GHG emissions intensity ratio	**10.2**	12.0	30.3
Revenue	**£2,793m**	£2,562m	£2,102m

As part of our introduction of science-based targets, from 1 January 2018 we will be reporting against a 2016 baseline year. For further details on the Group's environmental performance see our 2017 responsible business report.

Responsible business strategy

During the year, our sustainability steering group decided to review our responsible business strategy to take account of the United Nations Development Programme's Sustainable Development Goals (see page 25 for further details). In addition, the steering group agreed to undertake a materiality survey in 2018 to ensure that our responsible business strategy and the sustainable development goals that we had agreed to adopt remained relevant and appropriate. The committee therefore decided to postpone its review of the responsible business strategy to its meeting in March 2018. Although the review of the strategy was not undertaken during the year, the committee did monitor the Group's performance over the last 12 months against our Total Commitments. Overall, this performance was positive, although further work is needed to embed the use of Local Multiplier 3 (LM3) for assessing the social value contribution made on our projects.

Looking ahead

In 2018, the committee will continue to challenge each of the divisions to seek continual improvement in managing and reducing the number of safety incidents. This will include:

- a review of data collected by the divisions in respect of high potential incidents;
- a review of any actions needed to protect the health and wellbeing of employees;
- rolling out an independent personal financial education programme across the Group during the first half of 2018. This programme is provided by an independent third party and is not affiliated to any financial product; and
- reviewing and approving any amendments to our responsible business strategy and our overarching health and safety policy framework.

Audit committee

Accountability

Chairman's overview

During 2017, the committee's key focus has been on the integrity of the Group's:

- financial reporting;
- process of risk management and internal controls; and
- compliance with new legislation including the Modern Slavery Act and Payment Practices Reporting Regulations.

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

The Board evaluation for 2017 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 members of committee as a whole have competence relevant to the sector. Biographies of each member of the committee are set out on pages 62 to 63. Malcolm Cooper, the chair of the committee, is a qualified accountant and experienced FTSE 250 audit committee chair and is considered to have recent and relevant financial experience for the audit committee of a company in the construction and regeneration sectors.

Other regular attendees:

- Chairman of the Board;
- Finance director;
- Company secretary;
- Group financial controller;
- Group head of audit and assurance; and
- Representatives from the external auditor.

Members during the year

Malcolm Cooper (Chair)
Patrick De Smedt
Simon Gulliford
Tracey Killen (from 5 May 2017)
Liz Peace (until 4 May 2017)

Responsibilities

In summary, the committee is responsible for reviewing and monitoring:

- the integrity of the financial statements;
- the Group's internal financial controls and internal control and risk management systems; and
- the effectiveness of the Group's internal audit function.

The committee is also responsible for the oversight and appointment of the external auditor.

The formal role of the committee, which was reviewed and updated during 2017, is set out in the terms of reference which are available on our website. The committee's terms of reference were updated to take account of the updates required following implementation of the European Union's Audit Regulation and Directive.

Activities during the year

The committee held three scheduled meetings during the year. Further detail is set out overleaf. Details of attendance at meetings are disclosed in the corporate governance report on page 69. The regular attendees listed above also attended each meeting. There is a formal agenda for each meeting to ensure that the committee covers all elements of its remit. 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 Code and the Financial Reporting Council's (FRC's) guidance on audit committees.

Spread of key activities in the year
In compliance with the Code and the accompanying guidance, the main activities of the committee during the year were as follows:

February	August	November
■ Full year results review; ■ Undertook fair, balanced and understandable review of the 2016 annual report; ■ Reviewed effectiveness of the external auditor including an evaluation of performance during the 2016 audit; ■ Reviewed effectiveness of the Group's internal financial controls and internal audit; ■ Reviewed fraud and bribery prevention measures and details of any matters arising from the raising concerns reporting lines; and ■ Reviewed the Group's business continuity and incident management plan.	■ Half year results review; ■ Reviewed Group and divisional risk registers including the Group's principal risks; ■ Reviewed effectiveness of the Group's risk management and internal controls; ■ Discussed the 2017 audit plan with the external auditor; ■ Reviewed fraud and bribery prevention measures and details of any matters arising from the raising concerns reporting lines; and ■ Approved the 2018 audit plan.	■ Reviewed Group and divisional risk registers including the Group's principal risks; ■ Reviewed effectiveness of the Group's risk management and internal controls; ■ Reviewed the Group's progress in preventing modern slavery within our business and first tier supply chain; ■ Reviewed fraud and bribery prevention measures and details of any matters arising from the raising concerns reporting lines; ■ Reviewed significant accounting judgements for the 2017 audit including the impact of IFRSs 9 ('Financial Instruments'), 15 ('Revenue from Contracts with Customers') and 16 ('Leases'); ■ Reviewed the Group's tax strategy on behalf of the Board; ■ Approved the fees for the external auditor; ■ Reviewed the Group's processes for compliance with the payment practices regulations; and ■ Reviewed the committee's terms of reference.

Further information on the work of the committee during the year including full descriptions of the risk management and internal control processes are set out on the following pages.

Financial and business reporting

The committee's detailed review of the year end position by reference to the year end accounts assisted the Board in making the going concern statement set out on page 23. In line with the Code, the committee considered and approved the key assumptions in the long-term viability statement (see page 60 for further information).

Fair, balanced and understandable assessment
One of the key compliance requirements of the Code is for the Board to confirm that the annual report and financial statements (annual report), taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy (see the strategic report from the inside front cover to page 60). 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.

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.

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

Issue	Basis of assurance	Conclusion
Contract revenue, margin, receivables and liabilities The recognition of revenue and margin on long-term contracts in the financial statements, and the associated contract receivables and payables, require management to make estimates.	In addition to updates on the key contract issues at Board meetings, at which management identify any significant differences in contract valuations that exist with either client or supplier, the committee has reviewed the status of these key contract issues at each audit committee meeting. The committee also reviewed the analysis undertaken by management on the areas of difference between current accounting standards for revenue recognition and IFRS 15 ('Revenue from Contracts with Customers'), which will be applicable for the Group's 2018 financial statements.	Based on its review and discussions with the management team and external auditor, the committee concluded that the treatment of contract revenue, margin, receivables and payables in the financial statements is appropriate.
Impairment of goodwill	The value of goodwill is supported by a value-in-use model prepared by the management team. This is based on cash flows extracted from the Group budget and strategic plan, which have both been approved by the Board. The committee reviewed and challenged the management team on the assumptions used in the value-in-use model.	Based on its review and discussion with the management team and the external auditor the committee was satisfied that the value of goodwill is appropriate.
Valuation of shared equity loan receivables The valuation of shared equity loan receivables is reliant upon the assumptions made by the management team and the accompanying valuation model.	Key assumptions include the discount rate, redemption rates and house price inflation. The committee reviewed and challenged the management team on the supporting assumptions used in the valuation of shared equity loan receivables.	Based on its review and discussion with the management team and the external auditor the committee was satisfied that the supporting assumptions used remain appropriate.
Going concern	The committee reviewed papers supporting the going concern assessment which was compiled based on the latest management forecasts and covers the next 12 months. In addition a number of sensitivities were considered to determine the effect on headroom against our committed facilities. The review has been performed in conjunction with the viability statement assessment which covers a 36-month period. Additionally, the committee discussed each issue with the external auditor and sought its opinion based on the work it performed during the audit.	Based on its review and discussions with both the management team and our external and internal auditors, the committee is satisfied that, after raising appropriate challenges, the judgements outlined above are reasonable and that the appropriate disclosures have been included in our consolidated financial statements.

Auditor

External auditor's independence and effectiveness
The committee oversees the Company's relationship with the external auditor. To ensure that the external auditor remains independent of the Company it carries out an annual assessment of the auditor's independence along with an appraisal of its qualifications, expertise and resources. To fulfil these obligations, the committee reviewed the external auditor's presentation of its policies and safeguards to ensure its continued independence within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff had not been impaired. In addition, key members of the audit team rotate off the Company's audit after a specific period of time. The previous audit engagement partner, Mark Beddy, rotated on completion of the 2016 audit and was replaced by Makhan Chahal, a senior audit partner with over 20 years' experience, who leads Deloitte LLP's business, infrastructure and professional services audit team. Those 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. The committee noted that, during the year, Fit Out commenced work on a contract for the fit out of a new building for Deloitte LLP in London. The committee was satisfied that given the contract was awarded after a competitive procurement process carried out at arm's length, auditor independence is unaffected.

As part of its responsibility for assessing the effectiveness of the external audit, the committee discussed the external audit plan at the committee meeting held in July 2017 and reviewed progress against the audit plan at the meeting held in November 2017, noting at that time the significant accounting issues 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 major issues highlighted as part of the external audit. In addition, the internal evaluation on the external audit process was undertaken with the assistance of the Group head of audit and assurance and senior members of the Company's and the divisions' finance teams. The feedback, which covered matters including the quality of the process, the adequacy of resources employed by the external auditor, its communication skills and its objectivity and independence, was then reviewed by the committee as part of its assessment of the external auditor's effectiveness. No issues arose in the course of these reviews which impacted the effectiveness of the external auditor.

Reappointment of external auditor
Deloitte LLP has been the Company's auditor since the Group was established from the reverse takeover of William Sindall plc in 1994 and the audit has not been put out for tender since that time. There are no contractual obligations which restrict the committee's choice of external auditor. The committee has noted the requirements of the Competition & Markets Authority 2014 Order and The Statutory Auditors and Third Country Auditors Regulations 2016 that all public interest entities are required to conduct an auditor tender at least every 10 years and to rotate their auditors after at least 20 years. While not subject to the provisions set out within the Code for FTSE 350 companies, the committee has taken into account the formal regulatory tender requirements that form part of UK law and confirms 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 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 2017 financial year complies with the EU audit directive and regulation.

The Company's policy is designed to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. The policy applies to the Company and all its wholly-owned subsidiaries and provides guidance on the type of work that is acceptable or prohibited for the external auditor to undertake, and the process to be followed for approval. The categories of services that are prohibited are in line with the legislation 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 2017, 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 124 and total £22,800 (2.6% of the audit fee) in respect of town planning advice in relation to a planning application for one of the Group's regeneration schemes. The committee has reviewed the nature of the work and level of fees for these services and concluded that they have not affected Deloitte LLP's objectivity or independence.

Risk management and internal controls

The Board has reserved for itself specific responsibility for formulating the Group's risk management strategy, reviewing the system of internal controls and monitoring their effectiveness. The Board fulfils this obligation by agreeing the strategy, setting delegated authorities and approving appropriate policies and procedures which are then cascaded throughout the Group. Certain of these responsibilities have been delegated to the audit committee as outlined below and in the risk review on pages 48 to 49. We also have a risk committee that meets twice a year and assists the Board and audit committee in monitoring risk management and internal control. The risk committee ensures that both inherent and emerging risks across the business are properly identified and managed, approving new standards and processes where any weaknesses are considered to exist.

The risk management process and the system of internal controls were in place for the whole year and up to the date of approval of the annual report. They accord with the FRC's internal control revised guidance for directors and with the Code.

The committee has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2017 and for the period to the date of this report. The process included a review of the relationship between the internal and external audit function, a formal review of the Group risk register, and a review of the results of internal audit work and the overall effectiveness of the process.

Risk management process

The risk management system is designed to identify principal risks attached to our Group strategy and objectives as well as the root cause for each risk, and to confirm the internal controls in place to mitigate the risk and any further actions required. This process includes the identification and assessment of the key environmental, social and corporate governance risks facing the business. The executive directors met regularly with the divisions throughout the year to discuss matters relating to strategy, financial and operational performance, and risk. Internal control and risk management processes are embedded in the operations of each division. In addition, the Board devoted time during some of the scheduled Board meetings to considering specific commercial issues which at the time represented the greatest risks to the achievement of our objectives and the mitigating actions in place to address them.

Further details of our approach to risk and the principal risks identified facing the Group are highlighted in the risk review on pages 48 to 59.

The system is designed to manage rather than eliminate the risk of failure to achieve certain business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable assurance against material misstatement or loss. Overall, the committee considers that the Group's risk profile is continuing to improve due to our strong cash performance, strengthened balance sheet and the resolution of older contract issues.

System of internal controls

The system of internal controls, which includes financial, operational and compliance controls, is based on a process of identifying, evaluating and managing risks. The committee assesses the effectiveness of the internal controls system on an ongoing basis. The key features of our system of internal controls are as follows:

Group structure

The Group consists of six divisions, each with its own management board with authority and responsibility for managing its division. This authority is set within a framework of overarching Group policies, reporting lines and detailed delegated authorities which ensure that decisions and approvals are made at the appropriate level. While responsibility for managing each division is delegated to its management Board as far as practicable, responsibility for certain of the Group's key functions, including treasury, internal audit, pensions and insurance, is retained at Company level.

Financial reporting system

The Board recognises that an essential part of the responsibility for running a business is the effective safeguarding of assets, the proper recognition of liabilities and the accurate reporting of profits. The Company has internal control and risk management systems in place in relation to its financial reporting process and the Group's process for preparing the consolidated accounts.

We have a comprehensive budgeting and forecasting system which is regularly reviewed and updated, together with a management reporting system established in each division for monthly reporting to the Board. In addition, the annual internal audit plan includes financial reviews to validate the integrity of the divisions' management accounts.

Investment and capital expenditure

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

Tender, project selection and contract controls

Individual tenders are subject to detailed review with approvals required at relevant levels and at various stages from commencement of the bidding process through to contract award. As part of this process, the financial standing of both clients and key subcontractors is assessed. In addition, robust procedures exist to manage the ongoing risks associated with contracts, with monthly reviews of each contract's performance.

Working capital

We continually monitor current and forecast cash and working capital balances through a regime of daily and monthly reporting.

Internal audit

The Group head of audit and assurance is responsible for managing the internal audit function, overseeing the divisional heads of internal audit and assisting with risk management practices. During the year, the Group head of audit and assurance met separately with the chair of the committee and has direct access to him whenever required. No new matters or issues were raised by the internal audit team directly to the committee that had not already been reported to the committee by the executive directors.

The committee is responsible for approval in advance of the plans of the internal audit function:

- an audit plan for each year is drawn up following a review of the divisional and Group risk registers and discussion with the management team and the committee to ensure it is aligned to the principal risks of the Group focusing predominantly on areas of key risks and materiality;
- internal audit and assurance work carried out in 2017 included operational, project and financial reviews across the Group and the results of these reviews were recorded in audit reports and presented to the committee; and
- the status of agreed management actions to address identified operational weaknesses is actively tracked through to implementation.

At each meeting, the committee receives a report on the internal controls framework and the internal audit activities. In 2017 the committee received information on and reviewed risk management tools being implemented in Construction & Infrastructure, reviews carried out by the internal audit teams, management's response to the reports and any key trends that emerged during the year.

The Group head of audit and assurance also reports to the Board monthly on a range of performance metrics including the current status of agreed audit actions and progress against the annual audit plan.

The internal audit process is supplemented by a rolling programme of peer group reviews in Construction & Infrastructure and Partnership Housing, which assist in the professional development of the individual staff concerned while providing a mechanism for the cross-fertilisation of ideas and dissemination of best practice.

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

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

In its annual assessment the audit committee:

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

The results of the latest assessment were reviewed by the committee in November 2017 and it was satisfied that the internal audit team remained independent, was operating effectively, and that the risk to their independence and objectivity was low.

Business conduct and ethics

Raising concerns procedures
Our procedures are supported by the operation of an independent external phone line and an online reporting mechanism for raising concerns, which enables employees across the Group and other workers on our sites to report concerns anonymously and in confidence. During the year we extended the methods by which concerns can be reported by introducing a 'Speaking Up' app which can be downloaded by employees in order to submit reports. The existence of the various reporting mechanisms is covered with all employees on induction and is publicised via the Company's and divisions' intranets and on construction site notice boards. Reports of concerns raised are presented to the committee at each meeting, together with the results of investigations and any follow-up actions. Any significant matter arising from a call would be brought to the attention of the committee without delay, although no such matters arose during the year. Following a focused drive in the year on raising awareness of the concerns helpline through our online training and a refreshed poster campaign our calls have increased by 400% in the year. Of the total calls 44% related to human resource matters and 12% to health and safety. All such reports were investigated appropriately.

E-learning
During the year, we rolled out an e-learning module to employees across the Group which explained and highlighted the duties of directors under the Companies Act 2006 sections 171-177 as well as wider responsibilities under health and safety, anti-bribery and corruption and competition legislation. The directors' duties module was aimed at statutory directors and senior employees with either director in their job title or a position of seniority akin to a director, ultimately being delivered to 414 colleagues. At the time of writing, 68% of these employees had successfully completed the module. Those yet to complete a module are sent a reminder email or called by their line manager to check on their progress. New joiners are invited to complete our e-learning modules as part of their induction. We aim to launch refresher training periodically and, in early 2018, we issued refresher training on bribery and corruption and competition law, two of the e-learning modules released in 2016. In early 2018, we also released additional e-learning modules relating to the Market Abuse Regulation. The market abuse e-learning is split into two modules, the first being an in-depth training module for the Board and another more general overview for all employees in the Group. Future plans for e-learning include insurance and tax-related modules.

Group tax strategy
The committee reviewed the Group's tax strategy statement and submitted it for Board approval. The statement was approved by the Board at the November meeting and has been published on our website.

Modern slavery
The committee reviewed and approved the Group's modern slavery statement in respect of the 2016 financial year which is available on our website. The 2017 statement will be published in the first half of 2018, explaining in more detail the actions taken during the year 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. We confirmed that we would be reporting against various KPIs in future statements (see below) and the committee reviewed our progress against those KPIs in November 2017.

Modern slavery KPIs:

- staff training levels;
- the results of mapping exercises of the supply chain;
- the development of an online due diligence questionnaire;
- progress with the Supply Chain Sustainability School members to develop an industry review and audit process for common suppliers; and
- investigations undertaken into reports of modern slavery and remedial actions taken in response.

Malcolm Cooper
Chair of the audit committee

22 February 2018

Remuneration report

Remuneration

Dear Shareholder
I am pleased to introduce our remuneration report for the year ended 31 December 2017. The report is split into two sections:

i) the annual report on remuneration which includes this letter and will be subject to an advisory vote at our AGM on 4 May 2018; and

ii) the 2017 remuneration policy approved at the AGM on 4 May 2017.

Key remuneration committee activities in 2017

- review of remuneration policy;
- consultation with shareholders regarding potential changes to the policy;
- submission of the 2017 remuneration policy for approval by shareholders;
- adjudication of the 2016 annual bonus outcome and the vesting outcome for the 2014-2016 long-term incentive plan (LTIP) awards;
- setting of targets for the 2018 bonus plan and 2018-2020 LTIP awards;
- approval of rules for the new deferred bonus plan and Sharesave scheme (SAYE) rules;
- review of senior executive salaries for 2018; and
- review of the committee's performance.

Performance in 2017
2017 was a successful year for the Group, with further financial and strategic progress made. The increase in underlying revenue growth, profit before tax (adjusted*) (PBTA*) and adjusted earnings per share (EPS), shown below, reflect management actions to improve commercial performance and operational efficiency (see the strategic report from the inside front cover to page 60 for further information).

	2017	2016	% change
Revenue £m	**2,793**	2,562	+9
PBTA* £m	**66.1**	45.3	+46
Adjusted EPS pence	**121.1**	84.7	+43
Share price at 31 December	**£14.28**	£7.45	+92

Review of remuneration for 2017
Reflecting the strong results set out above, the executive directors will each receive a bonus of 125% of salary, of which 30% will be deferred in shares for three years. LTIP awards granted in 2015, which vest on three-year performance to 31 December 2017 (two thirds on EPS and one third on relative total shareholder return (TSR)) will vest in full. The committee satisfied itself that the outcome reflected the underlying performance of the business over the relevant period.

Remuneration policy
Following detailed debate by the committee and extensive consultation with shareholders, the 2017 remuneration policy was approved by shareholders at the AGM on 4 May 2017, and is set out again on pages 92 to 93. 88% of shareholders voted in favour of the 2017 remuneration policy, and 99% in favour of the annual report on remuneration (see pages 92 to 96). The committee expects the remuneration policy to remain effective until the 2020 AGM.

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

When considering the remuneration of executive directors, the committee takes account of remuneration levels offered to other senior executives within the Group as well as pay awards affecting Group employees generally. For example, in reviewing the executive directors' remuneration for 2018, we reviewed the salaries and proposed incentive arrangements for the senior executives in the divisions to ensure that there was a coherent and fair approach across the Group. The committee does not formally consult with employees in respect of the design of the remuneration policy, although we will keep this under review.

Summary of proposed remuneration arrangements for 2018

Fixed pay
From 1 January 2018, the base salaries for John Morgan and Steve Crummett will be increased by 3%, which is in line with average salary increases awarded across the rest of the Group. No changes have been made to benefit provision or to pension allowances which at 10% of salary are consistent with those for the employee population.

Annual bonus
In line with our remuneration policy the maximum bonus opportunity for the executive directors for 2018 is 125% of salary. 30% of any bonus earned will be deferred into nil cost share options for three years.

Long-term incentive plan
The executive directors will each receive LTIP awards equivalent to 150% of basic salary. These awards will be subject to a two-year holding period on vesting. For 2018, EPS targets will be equivalent to a growth rate of 6–13% per year over the three-year period, while the TSR target will require 10% per year outperformance of the comparator median, a level which is broadly equivalent to an upper quartile level of difficulty. Reflecting concerns around the robustness of the current comparator group, the committee has changed the comparator group for the 2018 awards to be the constituents of the FTSE 250 Index (excluding investment trusts). See page 87 for further details.

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

We value the support which shareholders have provided, as reflected in the feedback from our engagement and the votes on remuneration at our 2017 AGM. We hope to continue to receive your support at the forthcoming AGM.

Patrick De Smedt
Chair of the remuneration committee

22 February 2018

Remuneration framework at a glance

Remuneration philosophy

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

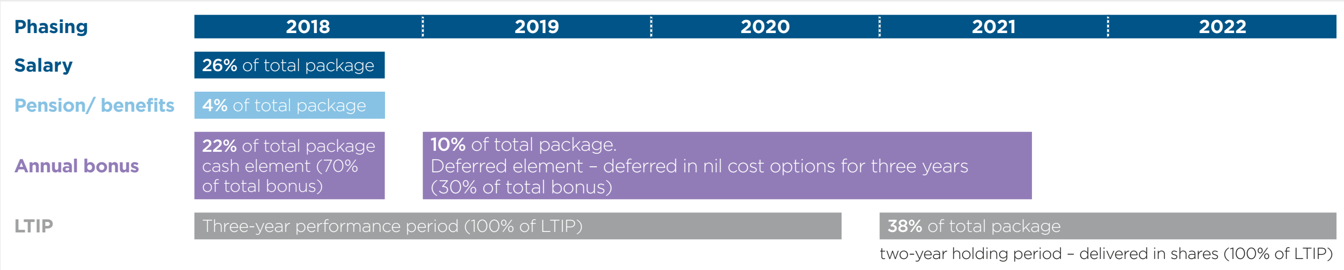
Aligns
management and shareholder interests.

Is competitive
in the market place.

Retains and motivates
executive directors of the calibre required in order to deliver strategy.

Rewards growth
in earnings over the long term, thereby driving growth in value to our shareholders.

Phasing of payments (based on the chief executive's maximum remuneration opportunity for 2018)



Application of remuneration policy approved in 2017

Salary

Overview of policy

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

Remuneration in respect of 2017

- Chief executive: £490,537
- Finance director: £391,142

Application of policy in 2018

- Chief executive: £505,254 (+3%)
- Finance director: £402,877 (+3%)

Annual bonus

Overview of policy

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

Remuneration in respect of 2017

- Chief executive: £613,171 (100% of maximum)
- Finance director: £488,928 (100% of maximum)
- In each case, 30% of the bonus earned will be deferred in shares for three years.

Application of policy in 2018

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

LTIP

Overview of policy

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

Remuneration in respect of 2017

The 2015 LTIP vested in full with EPS of 121.1p being equivalent to a compound annual growth rate of RPI+34.8% per year over the three-year period and three-year TSR of 132.2% placing the Company top of the comparator group.

Application of policy in 2018

Awards of shares with a face value of 150% of salary vesting on 3-year performance, measured against stretching EPS and TSR targets (weighted two thirds, one third respectively).

	2017 Maximum (excluding share price growth)		2017 Actual (excluding share price growth)		2017 Actual (including share price growth)	
John Morgan						
Fixed pay	564	30%	564	30%	564	22%
Annual bonus	613	33%	613	33%	613	24%
LTIP	693	37%	693	37%	1,401	54%
Total	**1,870**		**1,870**		**2,578**	
Steve Crummett						
Fixed pay	453	31%	453	31%	453	23%
Annual bonus	489	33%	489	33%	489	24%
LTIP	522	36%	522	36%	1,055	53%
Total	**1,464**		**1,464**		**1,997**	

Remuneration committee membership and activities in 2017

Members during the year

Patrick De Smedt (Chair)
Malcolm Cooper
Simon Gulliford
Tracey Killen (from 5 May 2017)
Liz Peace (until 4 May 2017)

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

Responsibilities
The committee is responsible for:

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

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

Activities during the year
The committee met on two occasions during the year. Attendance at the meetings is disclosed in the corporate governance report on page 69. The meetings covered a review of the feedback from the shareholder consultation on proposed changes to the remuneration policy, finalisation of the remuneration policy to put to shareholders for approval at the AGM in May 2017 and a benchmarking review of fees for company chairmen. In addition, the committee undertook its normal business of confirming performance-related pay for the year ended 31 December 2017 and setting bonus and long-term incentive targets for 2018. Additional consultation between committee members and between the chair of the committee and the chief executive took place outside of formal meetings.

Advisers
During the year, remuneration advisers, Kepler, updated the committee on best practice in executive remuneration, changes in shareholders' voting guidelines, benchmarking information for the executive directors, chairman and non-executive directors and updates in respect of the TSR performance condition. The committee also consulted the chief executive but not in relation to his own remuneration.

Kepler also provided advice to the Company on accounting for share awards and the operation of the Group's share option schemes but provided no other material services to the Company or the Group.

The fees paid by the Company to Kepler during the financial year for advice to the committee in relation to the above were £33,010 (2016: £55,576).

Kepler 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. Kepler has no connection with the Company.

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

In addition, the committee seeks to engage directly with major shareholders and their representative bodies should any material changes be made to the remuneration policy (for example, this was done in respect of the changes to the revised policy approved by shareholders at the AGM in May 2017).

Annual report on remuneration

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

Implementation of the remuneration policy for 2018

Base salaries

In setting the 2018 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 2018. In considering the salary increases, the committee took account of the performance of each executive director and their respective responsibilities as well as benchmarking information for comparable roles at companies of similar revenue and market capitalisation.

	From 1 January 2018 £	From 1 January 2017 £	Increase
John Morgan	**505,254**	490,537	3%
Steve Crummett	**402,877**	391,142	3%

Pension arrangements

The Company contributes up to 10% of base salary to a personal pension plan and/or as a cash supplement. Consistent with all employees participating in the Morgan Sindall Retirement Benefits Plan (the Retirement Plan), relevant executive directors may exchange part of their gross salary and bonus awards in return for pension contributions. Where additional pension contributions are made through the salary exchange process, the Company enhances the contributions by half of the saved employer's National Insurance contribution.

Annual bonus

The maximum annual bonus potential for 2018 will be 125% of base salary with 70% of any bonus earned paid in cash and the remaining 30% deferred in shares for three years. To ensure that management is focused on the Group's financial performance in 2018, 100% of the bonus will continue to be based on a PBTA* target range set in relation to the Group budget. The annual bonus including the deferred shares will be subject to malus and clawback provisions.

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

Long-term incentives

The committee intends to make awards to the executive directors under the 2014 LTIP in March 2018.

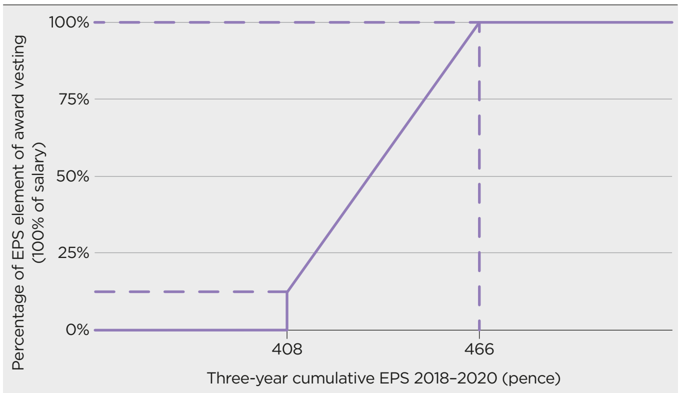
The awards to be granted in 2018 will be set at 150% of base salary. Two thirds of awards (100% of salary) will be based on an EPS performance target with the remaining one third of awards (50% of salary) based on the Company's TSR performance compared with the constituents of the FTSE 250 Index (excluding 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 2018 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 2018, 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 2018, 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:

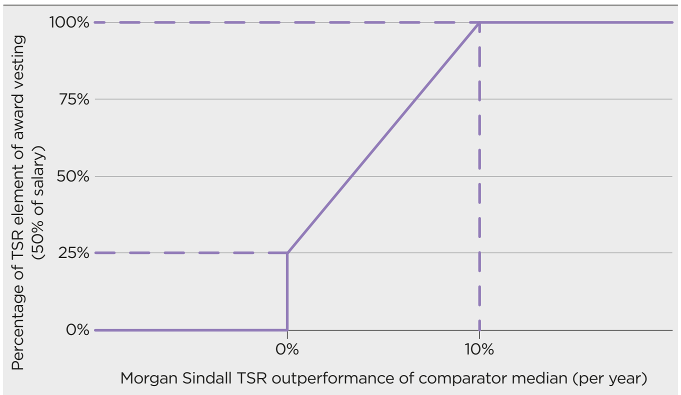


TSR performance condition (one third of award)

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

The committee has reviewed the comparator group for TSR, as the number of comparator companies has reduced to six following the recent liquidation of Carillion. The committee is concerned about the robustness of this reduced comparator group and therefore has decided to change the TSR comparator group to be based on the constituents of the FTSE 250 Index (excluding investment trusts). It is proposed that full vesting for the TSR component will remain at 10% per year outperformance of comparator median, a level which is broadly equivalent to an upper quartile level of difficulty.

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



The committee has discretion to scale back (potentially to zero), vesting outcomes under the TSR element in the event it considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company being considered abnormal.

Fees for the non-executive directors

The chairman's fee is determined by the committee while the non-executive directors' remuneration is determined by the Board (excluding non-executive directors) within the limits set by the Company's Articles of Association and is based on relevant market data, together with external advice as appropriate. Following a benchmarking review of the chairman's fees during 2017, it was decided that it be increased by 17% with effect from 1 January 2018. This increase is in recognition of the fact that Michael Findlay was paid below the market benchmark when he joined the Group. Following a review by the Board, it was further agreed that the base fee for non-executive directors be increased in line with the increase for wider employees across the Group, i.e. by 3%.

Accordingly, the annual fees from 1 January 2018 are as follows:

	From 1 January 2018 £	From 1 January 2017 £	Increase
Chairman	**170,000**	145,000	17%
Non-executive directors			
Base fee	**46,144**	44,800	3%
Additional fees:			
Audit committee chair	**7,500**	7,500	0%
Remuneration committee chair	**6,000**	6,000	0%
Senior independent director	**6,000**	6,000	0%

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

Dilution and share usage under employee share plans

Shares required for the 2007 Employee Share Option Plan are satisfied by shares purchased in the market via The Morgan Sindall Employee Benefit Trust (the Trust) and shares for the Company's other share plans may be satisfied using either new issue shares or market purchase shares. Our present intention is to use market purchase shares to satisfy these awards, however we retain the ability to use new issue shares and may decide to do so up to the dilution limits recommended by the Investment Association (10% of issued ordinary share capital for all employee share plans over a 10-year period and, within this limit, no more than 5% of issued ordinary share capital for executive or discretionary share plans). The outstanding level of dilution against these limits equates to 7.56% of the current issued ordinary share capital under all employee share plans, of which 0% relates to discretionary share plans.

As at 31 December 2017, the Trust held 555,104 shares, which may be used to satisfy awards.

Directors' remuneration (audited)

Single total figures of remuneration for 2017

Executive directors	Fees/ basic salary £000	Benefits[1] £000	Pension contributions £000	Annual bonuses[2] £000	Value of long-term incentives[3,4] £000	Total remuneration £000
John Morgan						
2017	**491**	**24**	**49**	**613**	**1,401**	**2,578**
2016	476	24	48	476	443	1,467
Steve Crummett						
2017	**391**	**23**	**39**	**489**	**1,055**	**1,997**
2016	380	23	38	380	333	1,154

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

2 Annual bonus figures represent the full amount earned for 2017; 30% of this amount will be deferred gross of tax in shares for three years. The table below shows performance against PBTA* targets for 2017 representing 100% of the annual bonus potential:

	Threshold target £m	50% target £m	Maximum target £m	Actual performance £m	Percentage of salary
Adjusted Group PBTA* at 31 December 2017	45.6	48.5	54.3	66.1	100

3 LTIP awards granted in 2015 are due to vest on 2 March 2018 subject to confirmation of EPS and relative TSR performance for the year ended 31 December 2017. As set out in the table below, 100% of the 2015 -2017 awards are expected to vest:

	Weighting	Threshold target	40% target	Stretch target	Actual performance	Percentage vesting
Performance condition:						
Adjusted EPS	66.67%	RPI +4% p.a. 52.5p	RPI +12% p.a. 65.6p	RPI +18% p.a. 76.7p	RPI +34.8% p.a. 121.1p	66.67
Relative TSR	33.33%	Median	Fourth position	Second position	132.2% 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 2017 of £14.20.

4 The 2016 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 2014, which vested based on performance to 31 December 2016, are valued using the market prices at the date of vesting (19 May 2017) of £11.90.

Non-executive directors	Fees £000		Taxable benefits[1] £000		Total £000	
	2017	2016	**2017**	2016	**2017**	2016
Michael Findlay[2]	**145**	36	**–**	–	**145**	36
Patrick De Smedt	**57**	57	**–**	–	**57**	57
Malcolm Cooper	**52**	50	**–**	–	**52**	50
Simon Gulliford	**45**	45	**–**	–	**45**	45
Tracey Killen[3]	**30**	–	**–**	–	**30**	–
Liz Peace[4]	**19**	47	**–**	–	**19**	47
Adrian Martin[5]	**–**	108	**–**	–	**–**	108

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

2 Michael Findlay joined the Board on 3 October 2016.

3 Tracey Killen joined the Board on 5 May 2017.

4 Liz Peace stepped down from the Board on 4 May 2017.

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

Share awards granted during the year

On 6 March 2017 LTIP awards were made to the executive directors, which will vest subject to performance over the three financial years to 31 December 2019. 67% of these awards are subject to an EPS performance condition and 33% subject to a TSR performance condition, full details of which are included in last year's annual report on remuneration.

	Date of grant	Percentage of salary awarded	Five-day average share price at date of grant	No. of shares over which award was granted	Face value of award £	Percentage of awards vesting at threshold	Performance period
John Morgan	6 March 2017	150	£10.13	72,636	735,803	16.7% (12.5% for EPS element, 25% for TSR element)	Three financial years to 31 December 2019
Steve Crummett	6 March 2017	150	£10.13	57,918	586,709	16.7% (12.5% for EPS element, 25% for TSR element)	Three financial years to 31 December 2019

The share price used to calculate the awards at the date of grant was based on the average share price for the five dealing days preceding the date of grant. The closing share price on 6 March 2017 was £10.36.

Other disclosures

Payments to past directors or for loss of office

No payments were made during the year.

Shareholder voting

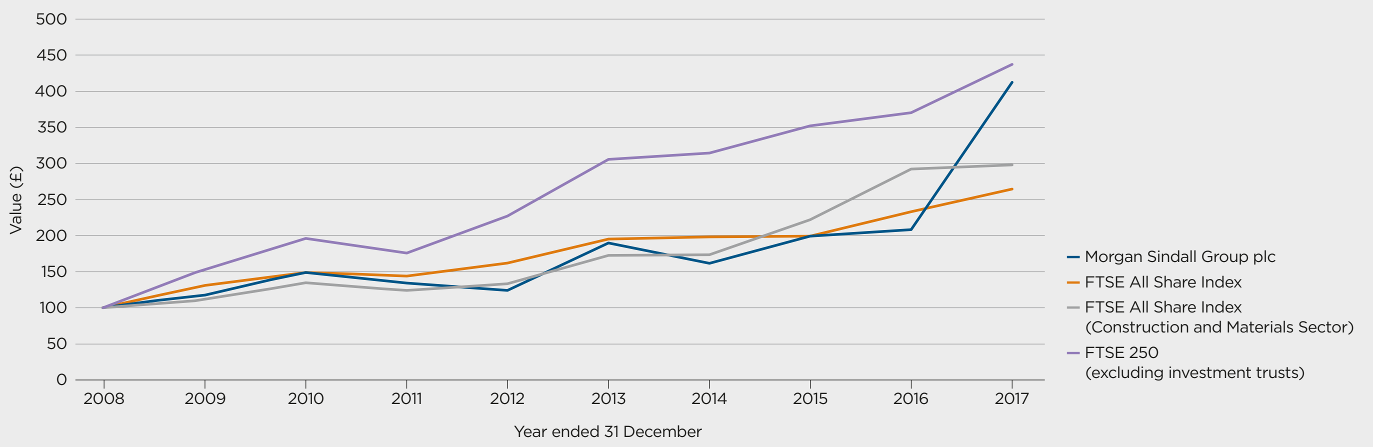
At last year's AGM held on 4 May 2017, the remuneration policy and remuneration report (excluding the remuneration policy) for the year ended 31 December 2016 were approved by shareholders:

	Voting for		Voting against			
	Number of shares	Percentage	Number of shares	Percentage	Total votes cast	Votes withheld[1]
Remuneration policy	28,699,357	88.28	3,811,276	11.72	32,510,633	3,751,597
Annual remuneration report	35,465,005	99.25	268,513	0.75	35,733,518	530,712

1 People who have indicated that they wish to actively abstain from voting are counted as a vote withheld. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'for' and 'against' a resolution.

Performance graph

The graph below shows the TSR for the Company's shares over the last nine financial years. It shows the value to 31 December 2017 of £100 invested in the Company on 1 January 2009 compared with the value of £100 invested in the FTSE All Share Index (excluding investment trusts) and the FTSE All Share Index (Construction and Materials Sector). The other points plotted are the values at intervening financial year ends.



Chief executive remuneration

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

		Total remuneration	Annual bonus percentage of maximum	Long-term incentive award vesting percentage of maximum	Long-term incentive award vesting percentage of maximum
		£000		Share awards	Share options
2017	John Morgan	2,578	100	100	–
2016	John Morgan	1,467	100	62	–
2015	John Morgan	905	80	–	–
2014	John Morgan	519	–	–	–
2013	John Morgan	507	–	–	–
2012	John Morgan	671	30	–	46
2012	Paul Smith	1,327	26	49	46
2011	Paul Smith	1,025	85	–	–
2010	Paul Smith	1,096	100	–	–
2009	Paul Smith	796	27	25	–

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

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

3 John Morgan waived his bonus entitlement for 2013.

Percentage change in remuneration levels

The table below shows details of the percentage change in base salary, benefits and annual bonus for the chief executive between 31 December 2016 and 31 December 2017, 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	0	29
All employees	3	(3.5)	16

Relative importance of spend on pay

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

	2017	2016	Percentage change
	£m	£m	
Employee remuneration	**455.5**	404.6	13
Adjusted EPS (pence)	**121.1**	84.7	43
Dividends paid during the year	**16.8**	13.2	27
Employee headcount[1]	**6,409**	5,982	7

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 pages 123 to 124.

Shareholding guidelines

Through participation in performance-linked share-based plans, there is strong encouragement for senior executives to build and maintain a significant shareholding in the business. Shareholding guidelines are in place requiring the executive directors to build and maintain a shareholding in the Company equivalent to 200% of base salary. Until such time as this threshold is achieved there is a requirement for executives to retain no less than 50% of the net of tax value of vested incentive awards.

	Percentage of salary required under shareholding guidelines	Percentage of salary held at 31 December 2017
John Morgan	200	13,024
Steve Crummett	200	167

The share price used to value the shares as at 31 December 2017 was £14.28.

Directors' interests

The figures below set out the shareholdings beneficially owned by directors and their family interests at 31 December 2017.

	31 December 2017	31 December 2016
	No. of shares	No. of shares
Michael Findlay	**4,173**	4,173
John Morgan	**4,474,069**	4,504,352
Steve Crummett	**45,870**	14,815
Patrick De Smedt	**2,000**	2,000
Malcolm Cooper	**10,000**	10,000
Simon Gulliford	**11,350**	11,350
Tracey Killen	**–**	–

There have been no changes in the interests of the directors between 31 December 2017 and 22 February 2018.

External appointments

At the discretion of the Board, executive directors are allowed to act as non-executive directors of other companies and retain any fees relating to those posts. Steve Crummett is a non-executive director and chair of the audit committee at Consort Medical plc, for which he receives a fee of £47,750 per year.

Outstanding interests under share schemes

Details of the executive directors' interests in long-term incentive awards as at 31 December 2017 and movements during the year are as follows:

Performance shares

	Date of award	No. of shares outstanding as at 1 January 2017	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 2017	End of performance period	Date awards vest
John Morgan	19.5.2014	55,687	–	34,560	2,642	(37,202)	(21,127)	–	31.12.2016	19.5.2017
	2.3.2015	98,680	–	–	–	–		98,680	31.12.2017	2.3.2018
	2.3.2016	93,627	–	–	–	–		93,627	31.12.2018	2.3.2019
	6.3.2017		72,636	–	–	–		72,636	31.12.2019	6.3.2020
	Total	**247,994**	**72,636**	**34,560**	**2,642**	**(37,202)**	**(21,127)**	**264,943**		
Steve Crummett	19.5.2014	41,956	–	26,038	1,991	(28,029)	(15,918)	–	31.12.2016	19.5.2017
	2.3.2015	74,348	–	–	–	–		74,348	31.12.2017	2.3.2018
	2.3.2016	74,655	–	–	–	–		74,655	31.12.2018	2.3.2019
	6.3.2017		57,918	–	–	–		57,918	31.12.2019	6.3.2020
	Total	**190,959**	**57,918**	**26,038**	**1,991**	**(28,029)**	**(15,918)**	**206,921**		

1 Of the awards granted in 2014, 62% vested as a result of the EPS and TSR performance achieved. Adjusted EPS for the Group as at 31 December 2016 was 84.7p which equated to 98.13% of the EPS element of the award vesting. The Group achieved a TSR percentile rank of 53.41% (between the fifth and fourth positions) which equated to 26% of the TSR element of the award vesting.

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

3 The awards of performance shares over 150% of salary granted in 2016 are subject to adjusted EPS growth targets and a TSR performance condition. For awards over 100% of salary, awards vest in full for achieving adjusted EPS growth of RPI+15% per year, reducing on a sliding scale to 40% vesting for achieving EPS growth of RPI+10% per year and again on a sliding scale down to 12.5% vesting for achieving EPS growth of RPI+5% per year. There is no vesting for this part of an award for EPS growth less than RPI+5% per year. For awards over the remaining 50% of salary, the award is subject to the same TSR performance measure relative to seven listed comparators, with 25% vesting for performance in line with median, rising to full vesting if the Company's TSR is equal to or exceeds the TSR of the company ranked second.

4 The awards of performance shares over 150% of salary granted in 2017 are subject to cumulative EPS growth targets equivalent to a growth rate of 6-13% and a TSR performance condition. There is no vesting for the EPS part of an award for compound annual EPS growth of less than 6% per year. Full vesting for the TSR component will require 10% per year outperformance of the comparator median.

Share options

	Date of grant	No. of options outstanding as at 1 January 2017	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2017	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

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

The mid-market price of a share on 31 December 2017 was £14.28 and the range during the year was £7.54 to £15.02.

Remuneration policy

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

Remuneration policy table

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Base salary	To provide competitive fixed remuneration. To attract, retain and motivate executive directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term.	Basic salary is reviewed annually by the committee or, if appropriate, in the event of a change in an individual's position or responsibilities. Salary levels are set by reference to market rates, taking into account individual performance, experience, company performance and the pay and conditions of other senior management in the Group. The committee will take into account the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role.	There is no prescribed maximum annual increase. Current salary levels are presented on page 86.	Not applicable.
Benefits	To provide market consistent benefits, including insured benefits to support the individual and their family during periods of ill health, accidents or in the event of death. Car or travel allowances to facilitate effective travel.	Current benefits include travel allowance, private medical insurance, income protection insurance and life assurance. Other benefits may be provided where appropriate.	The travel allowance is £17,000. The value of other benefits is based on the cost to the Company and is not predetermined.	Not applicable.
Pension	To provide a pension arrangement to contribute towards retirement planning.	The Company will contribute to the defined contribution pension scheme, The Morgan Sindall Retirement Benefits Plan (the Retirement Plan) or to personal pension arrangements at the request of the individual. The Company may also consider a cash alternative (for example where a director has reached the HMRC's lifetime or annual allowance limit).	Employer contributions are 10% of base salary. Directors who are members of the Retirement Plan may elect to exchange part of their salary or bonus award in return for pension contributions, where the Company will enhance the additional contributions by half of the saved employer's National Insurance contribution.	Not applicable.
Annual bonus	Rewarding the achievement of demanding annual performance metrics.	Performance measures and targets are reviewed annually by the committee. 70% of any bonus earned is payable in cash and 30% is normally deferred for three years and satisfied in Company shares. Dividends accrue during the deferral period and may be paid in cash or shares at the time of release. The committee has discretion: (i) to override the formulaic outturn of the bonus to determine the appropriate level of bonus payable where it believes the outcome is not truly reflective of performance; and (ii) to ensure fairness to both shareholders and participants.	The maximum opportunity is 125% of base salary. Financial targets incorporate an appropriate sliding scale range around a challenging target. Target performance will typically deliver up to 50% of maximum bonus, with threshold performance typically paying up to 15% of maximum bonus.	All or a majority of the bonus will be based on PBTA*, set relative to the Group's budget or such other financial measures as the committee deems appropriate. Financial targets will account for not less than 80% of the annual bonus. A minority of the bonus may be based on non-financial, strategic and/or personal objectives linked to the strategic objectives of the Group to provide a rounded assessment of Group and management's performance.

Remuneration policy table

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
2014 LTIP	To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market outperformance. To encourage share ownership and provide further alignment with the interests of shareholders.	Annual awards of conditional shares or nil (or nominal) cost options are granted with vesting dependent on the achievement of performance conditions over a three-year period. For awards granted in 2017 onwards net LTIP shares vesting will typically be subject to a two-year holding period, creating a total of five years between the award being granted, and the first opportunity to sell. Performance targets are reviewed annually by the committee for each new award. Dividends that accrue during the vesting period may, at the committee's discretion, be paid in cash or shares at the time of vesting. The calculation of the dividend equivalent may assume the reinvestment of dividends. The committee has discretion to scale back (potentially to zero), vesting outcomes under the TSR element in the event it considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company being considered abnormal. Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.	150% of base salary.	Awards are subject to performance conditions based on the Company's EPS and on relative TSR compared to a group of UK-listed peers. The committee has discretion to introduce additional performance condition(s) (to complement EPS and TSR) for up to one third of future awards. For both the EPS and TSR conditions, no more than 25% of the awards will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.
All employee Sharesave plan	To encourage share ownership and provide further alignment with shareholders.	This is an HMRC tax-advantaged plan under which regular monthly savings can be made over a period of three years and can be used to fund the exercise of an option to purchase shares. Options are granted at up to a 20% discount. This scheme is open to all employees including executive directors.	Prevailing HMRC limits apply.	Not applicable.
Non-executive directors' fees	Set to attract, retain and motivate talented individuals.	Non-executive directors receive a basic annual fee in respect of their Board duties. Additional fees may be paid to the chairs of the committees and the senior independent director to reflect their additional responsibilities. The chairman receives a fixed annual fee. Fees are normally reviewed annually. The committee is guided by fee levels in the non-executive director market and may recognise an increase in certain circumstances such as assumed additional responsibility or an increase in the scale or scope of the role. Non-executive directors are reimbursed for reasonable expenses and any tax arising on those expenses will be settled directly by the Company. To the extent that these are deemed taxable expenses, they will be included in the annual remuneration report as required.	For the non-executive directors, there is no prescribed maximum annual increase. The Company's Articles of Association provide that the total aggregate remuneration paid to the chairman of the Company and non-executive directors will be determined by the Board within the limits set by shareholders and detailed in the Company's Articles.	Not applicable

Notes to the policy table

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

For the avoidance of doubt, in approving this directors' remuneration policy, authority was given to the Company to honour any commitments entered into with current or former directors (such as the payment of a pension or the vesting or exercise of past share awards).

Performance measure selection and approach to target setting

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

Targets take account of internal strategic planning and external market expectations for the Group and are set appropriate to the economic outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, while remaining realistic enough to motivate and incentivise management.

Overview of remuneration policy for other employees

Employees across the Group below Board level may be eligible to participate in an annual bonus arrangement. Long-term incentive awards and/or discretionary share options may be awarded to certain other senior executives and employees, for which the maximum opportunity and the performance conditions may vary by organisational level.

Use of discretion

The committee will operate the incentive plans in accordance with their respective rules, the Listing Rules and HMRC rules where relevant. The committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plan rules. These include (but are not limited to) the following:

- who participates in incentives;
- the timing of grant of awards and/or payments;
- the size of awards (up to plan/policy limits) and/or payments;
- where the result indicated by the relative TSR performance condition should be scaled back (potentially to zero) in the event that the committee considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company TSR being considered abnormal;
- measurement of performance in the event of a change of control or reconstruction;
- determination of good leaver status (in addition to any specified categories) for incentive plan purposes;
- payment of dividends accrued during the vesting period;
- adjustments required in certain circumstances (for example, rights issues, corporate restructuring and special dividends);
- adjustments to existing performance conditions for exceptional events so that they can still fulfil their original purpose;
- the release of deferred bonus shares for leavers; and
- retention of LTIP shares subject to a holding period for leavers.

Malus and clawback

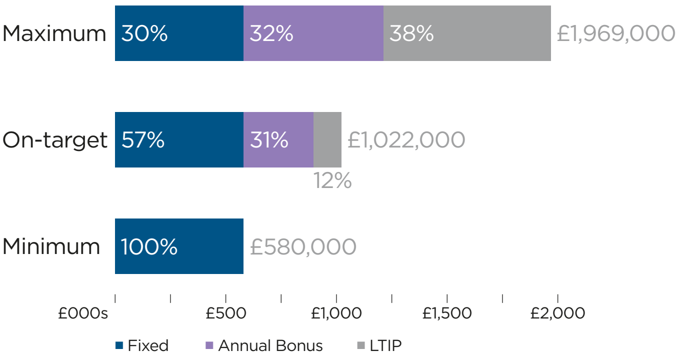
Awards under the annual bonus, the deferred bonus and the LTIP are subject to malus and clawback provisions which can be applied to both vested and unvested awards. Clawback provisions will apply for a period of three years post vesting. Circumstances in which malus and clawback may be applied include: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

Remuneration scenarios for the executive directors

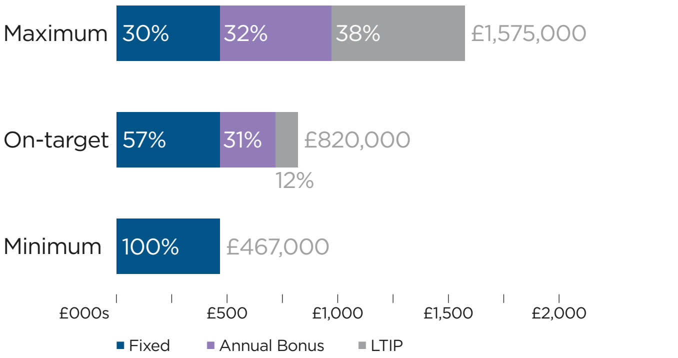
The charts below provide an indication of the level of remuneration that would be received by each executive director under the following three assumed performance scenarios.

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

Chief executive



Finance director



- Base salary levels are as at 1 January 2018.
- The value of benefits has been estimated based on amounts received in respect of 2017.
- The value of pension receivable is the equivalent of 10% of base salary.
- Share price movement and dividend accrual have been excluded from the above analysis.

Recruitment remuneration

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

External appointment

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

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

In determining appropriate remuneration, the committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of both the Company and its shareholders. The committee may additionally make awards or payments in respect of deferred remuneration arrangements forfeited on leaving a previous employer.

The committee will look to replicate the arrangements being forfeited as closely as possible and, in doing so, will take account of relevant factors including the value of deferred remuneration; the performance conditions; and the time over which they would have vested or been paid. Any such arrangements would typically have an aggregate fair value no higher than the awards being forfeited.

Internal promotion
In cases of appointing a new executive director by way of internal promotion, the committee will be consistent with the policy for external appointees detailed above. Any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations existing prior to appointment may continue.

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

Directors' service contracts and payments for loss of office
Current executive directors' service agreements are terminable on 12 months' notice. In circumstances of termination on notice, the committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the director on garden leave for the notice period. In respect of new hires, the initial notice period for a service contract may be longer than the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

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

The annual bonus may be payable in respect of the period of the bonus scheme year worked by the director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. The bonus would be payable at the normal date. Leavers would normally retain deferred bonus shares, albeit release would normally be at the end of the deferral period, with committee discretion to treat otherwise.

Long-term incentives granted under the LTIP will be determined by the LTIP rules which contain discretionary good leaver provisions for designated reasons (that is, participants who leave early on account of injury; disability; death; a sale of their employer or business in which they were employed; statutory redundancy; retirement; or any other reason at the discretion of the committee). In these circumstances a participant's awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date. In exceptional circumstances, the committee may decide that the participant's awards will vest early on the date of cessation of employment. In either case, the extent to which the awards will vest depends on the extent to which the performance conditions have been satisfied and a pro rata reduction of the awards will be applied by reference to the time of cessation (although the committee has discretion to disapply time pro rating if the circumstances warrant it).

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

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

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

Non-executive directors
All non-executive directors have specific terms of engagement being an initial period of three years which thereafter may be extended by mutual consent, subject to the requirements for re-election and the Listing Rules of the Financial Conduct Authority and the relevant schedules of the Companies Act 2006.

	Appointment letter date	Month/year initial three-year term was extended	Month/year second three-year term was extended
Michael Findlay	1 October 2016	–	–
Patrick De Smedt	26 November 2009	November 2012	November 2016
Malcolm Cooper	9 November 2015	–	–
Simon Gulliford	24 February 2010	February 2013	February 2017
Tracey Killen	5 May 2017	–	–

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

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

Patrick De Smedt
Chair of the remuneration committee

22 February 2018

Directors' report

Other statutory disclosures
The Companies Act 2006 (the Act) requires the directors to present a fair review of the business during the year to 31 December 2017 and of the position of the Company at the end of the financial year together with the financial statements, auditor's report and a description of the principal risks and uncertainties which the Group faces. The strategic report can be found from the inside front cover of the annual report to page 60. The Financial Conduct Authority's (FCA's) Disclosure Guidance and Transparency Rules require certain information to be included which can be found in the corporate governance report on pages 66 to 71. The financial risk management objectives and policies can be found in the principal risks on pages 54 to 55.

There were no significant events since the balance sheet date. An indication of likely future developments in the business of the Group and details of research and development activities are included in the strategic report. Information about the use of financial instruments by the Company and its subsidiaries is given in note 25 to the consolidated financial statements.

The strategic report and the governance section, from the inside front cover of the annual report to page 100, together with the notice of AGM including the explanatory notes and sections of the annual report incorporated by reference, form part of the directors' report which is presented in accordance with, and with reliance upon, applicable English company law. The liabilities of the directors in connection with this report shall be limited as provided by English law.

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

Subject	Page reference
Dividends	See note 7 of the consolidated financial statements on page 126.
Capital structure (details of the issued share capital)	See the consolidated financial statements on page 133.
Directors	▪ See page 88 of the remuneration report detailing the directors who served during the year. ▪ Biographical details of the directors of the Company who are seeking election and re-election at the 2018 AGM are set out on pages 62 to 63. ▪ Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on page 91.
Employees	Details of the Group's employment policies and employee consultation may be found in the strategic report on pages 25 to 26 and the corporate governance report on page 68.
The Morgan Sindall Employee Benefit Trust (the Trust)	Details of the shares held by the Trust may be found in the consolidated financial statements on page 114.
Environmental, social and governance (ESG) disclosures	Details of the Group's approach to diversity and ESG disclosures can be found in the strategic report on pages 25 to 27, the risk review on pages 52 to 53 and in the governance section of the annual report on pages 75 to 76. Further information is also provided in the Group's 2017 responsible business report.
Morgan Sindall Group plc Long Term Incentive Plan (LTIP)	Details of the Group's LTIP are set out in note 23 of the consolidated financial statements on page 133 and the annual report on remuneration on pages 86 to 87.
Greenhouse gas emissions	See page 76 of the HSE committee report.

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

Directors' indemnities
The Articles entitle the directors of the Company to be indemnified, to the extent permitted by the Act and any other applicable legislation, out of the assets of the Company in the event that they suffer any loss or incur any liability in connection with the execution of their duties as directors. Neither the indemnity nor any applicable insurance provides cover in the event that a director (or officer or company secretary as the case may be) is proved to have acted fraudulently or dishonestly.

In addition, and in common with many other companies, the Company had during the year and continues to have in place directors' and officers' liability insurance in favour of its directors and other officers in respect of certain losses or liability to which they may be exposed due to their office. The insurance is categorised as a 'qualifying third-party indemnity provision' for the purposes of the Act and will continue in force for the purposes of the Act and for the benefit of directors (or officers or company secretary as the case may be) on an ongoing basis.

The Company also had and continues to have in place a pension trustee's liability insurance policy in favour of the trustees of The Morgan Sindall Retirement Benefits Plan in respect of certain losses or liabilities to which they may be exposed due to their office. This constitutes a 'qualifying pension scheme indemnity provision' for the purposes of the Act.

Amendment of Articles
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 by special resolution at a general meeting of the Company's shareholders and are available on our website.

Power to issue and allot shares
At each AGM the Board seeks authorisation from its shareholders to allot shares. The directors were granted authority at the AGM on 4 May 2017 to allot relevant securities up to a nominal amount of £745,165. That authority will apply until the conclusion of this year's AGM or close of business on 4 August 2018, 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 report.

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

Rights and obligations attaching to shares
Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as it does not make specific provision) as the Board as defined in the Company's Articles may decide. Subject to the Articles, the Act and other shareholders' rights, unissued shares are at the disposal of the Board.

Subject to the Act, if at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class of shares may be varied with the written consent of the holders of not less than 75% in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

Voting
Subject to any other provisions of the Articles, every member present in person or by proxy at a general meeting has, upon a show of hands, one vote and, upon a poll, one vote for every share held by him or her. In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding (the first-named being the most senior).

No member shall be entitled to vote at any general meeting in respect of any share held by him or her if any call or other sum then payable by him or her in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Act.

No person has any special rights of control over the Company's share capital and the directors are not aware of any agreements between holders of shares which may result in restrictions on voting rights.

Transfer of shares
There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may, from time to time, be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the FCA whereby certain employees of the Company require its approval to deal in the Company's shares.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or voting rights.

Purchase of own shares
At the AGM on 4 May 2017, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,470,994 shares of 5p each at a maximum price based on the market price of a share at the relevant time, as set out in the resolution. No purchases of shares were made during the year pursuant to this authority. The authority expires on the date of this year's AGM or close of business on 4 August 2018, whichever is earlier. A resolution to renew this authority will be proposed at this year's AGM, as explained further in the notice to shareholders accompanying this report.

Dividends and distributions

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

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Act. Other than as referred to under 'Rights under employee share schemes' 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.

Rights under employee share schemes

Butterfield Trust (Guernsey) Limited, as Trustee of the Trust, held 1.2% of the issued share capital of the Company as at 31 December 2017 on trust for the benefit of the employees and former employees of the Group and their dependants. The voting rights in relation to these shares are exercised by the Trustee and there are no restrictions on the exercise of the voting of, or the acceptance of any offer relating to, those shares. The Trust agreed to waive its right to both the final and interim dividends payable in 2017 which equated to 1.5% of the total dividend paid.

Substantial shareholdings

As at 31 December 2017, the following information has been disclosed to the Company under the FCA's Disclosure Guidance and Transparency Rules (DTR 5), in respect of notifiable interests in the voting rights in the Company's issued share capital:

Name of holder	Total voting rights[1]	% of total voting rights[2]	Direct or indirect holding
Standard Life Aberdeen Limited	5,713,174	12.78	Indirect
HSBC Global Custody Nominee (UK) Limited <944918>[3]	4,504,352	10.09	Direct
J O Hambro Capital Management Ltd	4,493,752	10.05	Indirect
Ameriprise Financial Inc	2,627,969	5.93	Indirect
JP 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 shareholding.

As at 22 February 2018, J O Hambro Capital Management Ltd had notified the Company in accordance with DTR 5 that its interest in the total voting rights of the Company was 4,941,205 (11.05%).

Related party transactions

There were no related party transactions in the year to 31 December 2017.

Change of control

The Group's banking facilities which are described on page 22 in the financial review require repayment in the event of a change of control. The Group's facilities for surety bonding require provision of cash collateral for outstanding bonds upon a change of control. In addition, the Company's employee share incentive schemes contain provisions whereby, upon a change of control, outstanding options and awards would vest and become exercisable by the relevant employees, subject to the rules of the relevant schemes.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment in the event of a takeover bid.

Political contributions

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

Disclosures required under UK Listing Rule 9.8.4

Apart from the dividend waiver which has been issued in respect of shares held by Butterfield Trust (Guernsey) Limited (see page 114 of the consolidated financial statements), there are no disclosures required to be made under UK Listing Rule 9.8.4.

Disclosure of information to the external auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all reasonable steps that he or she ought to have taken as a director in order ascertain any relevant audit information and to ensure that the Company's auditor is aware of such information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

External auditor

Deloitte LLP has expressed its willingness to continue in office as external auditor and a resolution to reappoint it will be proposed at the forthcoming AGM.

Annual general meeting

The AGM of the Company will be held at the offices of Jefferies International Limited, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ on 4 May 2018 at 10.00am. The formal notice convening the AGM, together with explanatory notes, can be found in the separate circular accompanying this document and is available on our website. Shareholders will also find enclosed with this document a form of proxy for use in connection with the meeting.

The directors' report from pages 97 to 99 inclusive was approved by the Board and signed on its behalf by:

Clare Sheridan
Company Secretary

22 February 2018

Directors' responsibility statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Act. They are also responsible for safeguarding the assets of the Company and 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, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board and is signed on its behalf by:

John Morgan
Chief Executive

22 February 2018

Steve Crummett
Finance Director

22 February 2018

Financial Statements

Marischal Square, Aberdeen

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 give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 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 of Morgan Sindall Group plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Company balance sheets;
- the consolidated cash flow statement;
- the consolidated and Company statements of changes in equity;
- the critical accounting judgements and estimates;
- the significant accounting policies; and
- the related notes 1 to 26 and Company only notes 1 to 2.

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

Basis for opinion

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

We remained 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 FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: ▪ Recognition of contract revenue, margin and related receivables and liabilities ▪ Carrying value of land and work in progress ▪ Impairment of goodwill ▪ Valuation of shared equity loan receivables ▪ Increasing uncertainty in the construction and business support services industry The key audit matters identified within this report are consistent with those reported on in the prior year with the exception of the final matter, as set out within the significant changes in our approach section.
Materiality	The materiality that we used in the current Group financial statements was £3m which was determined on the basis of 5% of the profit before tax for the year.
Scoping	We consider the principal business units to reflect the components of the Group as this is how management monitor and control the business. Our full-scope audit of components provided coverage of 91% of the Group's revenue, 92% of the Group's net absolute assets and 84% of the Group's profit before tax.
Significant changes in our approach	As a result of recent uncertainty within the construction and business support services industry, triggered by the liquidation of Carillion, we identified a key audit matter relating to increasing uncertainty in the construction and business support services industry. In addition we have reconsidered the benchmark used for materiality in the current year. The materiality that we used in the prior year was determined on the basis of 7.5% of the average profit before tax and exceptional items over the last five years. As the level of profits is more reflective of ongoing trading now that legacy contract issues have been worked through, profit before tax has been considered the appropriate benchmark.

Conclusions relating to going concern, principal risks and viability statement

Going concern

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

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

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the 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 48 to 59 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 60 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 60 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of contract revenue, margin and related receivables and liabilities

Key audit matter description	For construction companies, there is judgement in assessing the appropriate contract revenue and margin to recognise and this is therefore a key audit matter. Revenue and margin are recognised based on the stage of completion of individual contracts, calculated on the proportion of total costs at the reporting date compared to the estimated total costs of the contract. This involves the assessment of the valuation of work performed considering performance against the programme of works, 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 outcome of the contract is reasonably certain. In light of recent events within the construction and business services industry, including the liquidation of Carillion, certain contracts may be directly impacted. In addition the wider impact on the industry could see an impact on the security of the supply chain and cash management. The audit committee considered the recognition of contract revenue, margin and related receivables and liabilities as an issue as set out in the audit committee report on page 79. Management have included this within key sources of estimation uncertainty on page 122. The accounting policies are set out within the significant accounting policies on page 115. Revenue from construction contracts at 31 December 2017 was £1,992.4m (2016: £1,846.0m) as set out in note 1. Amounts due from construction contract customers was £174.2m (2016: £147.9m) and trade receivables were £208.5m (2016: 163.9m) as set out in note 15.
How the scope of our audit responded to the key audit matter	■ We evaluated the design and implementation of controls over revenue recognition, amounts due from construction contract customers and contract debtors and for certain divisions we also tested the operating effectiveness of such controls. Additionally we carried out site visits for a number of contracts in the year. ■ We selected a sample of contracts to allow us to assess and challenge the most significant and more complex contract positions and the accounting thereon under the percentage of completion methodology. The sample selected was based on both quantitative and qualitative factors. ■ For this sample of contracts, we critically assessed the forecast costs to complete, variations within contract revenue and contract costs, and the completeness and validity of provisions arising from customer disputes. This assessment included agreeing contract valuation positions to third-party certificates and signed variations, reviewing contract terms and conditions, interviewing and challenging contract managers and commercial directors and reviewing correspondence with customers and solicitors. ■ For the sample of contracts selected we tested the recoverability of amounts due from construction contract customers and the related receivables by agreeing to certifications and cash receipts. ■ We assessed the completeness and validity of allowances recorded based upon the liabilities that may arise from disputes with customers or rectification works required through interviewing and challenging contract managers, commercial directors and a review of correspondence with customers and solicitors. ■ We compared the final outcome on projects completed in the year to previous estimates to determine the reliability of management estimates. ■ We considered the adequacy of the Group's disclosures in respect of contract accounting and the key risks relating to these amounts.
Key observations	We are satisfied that the judgements applied by management in assessing the appropriate contract revenue and margin to recognise are appropriate.

Carrying value of land and work in progress

Key audit matter description	The determination of net realisable value is an area of judgement due to the assumptions made by management on future expected sales values and development opportunities. Due to the size of the balance and the level of management judgement, for example around market values, local demand and likelihood of success of planning applications this area is a key audit matter. The accounting policies are set out within the significant accounting policies on page 115. The carrying value of inventory at 31 December 2017 was £295.0m (2016: £213.9m) as set out in note 14.
How the scope of our audit responded to the key audit matter	For a sample of land and development appraisals, we have: ■ assessed the design and implementation of controls surrounding the land and development appraisals; ■ evaluated the assumptions made which underpin the assessments, such as market values, local demand and likelihood of success of planning applications, by scrutinising them against recent sales information and external market data on house prices and commercial property values; ■ tested the future development cost assumptions against detailed site appraisals and to contractual documentation; and ■ reviewed and challenged the site appraisals for reasonableness against externally available data to benchmark the inherent assumptions against wider market forecasts of cost increases, likely sales rates and planning developments.
Key observations	We concur with management that the carrying value of land and work in progress is recoverable.

Impairment of goodwill

Key audit matter description	Under accounting standards, goodwill must be tested annually for impairment, which requires a comparison between the carrying amount of the cash generating unit (CGU) and its recoverable amount. Determination of the recoverable amount incorporates judgements based on assumptions about future profitability and cash flows for the related businesses and the application of appropriate long-term growth rates and discount rates. Management use judgement in determining the value-in-use model to support the value of goodwill. Together with the size of the balance, goodwill is therefore a key audit matter. In light of recent events within the construction and business support services industry there could be an impact on assumptions used within the value-in-use model. The audit committee also considered this as an issue as set out in the audit committee report on page 79. The accounting policies are set out within the significant accounting policies on page 115. The carrying value of goodwill at 31 December 2017 was £213.9m (2016: £213.9m).
How the scope of our audit responded to the key audit matter	We challenged the assumptions used in the impairment model which calculates the recoverable amount of goodwill, described in note 9 to the financial statements. Our challenge focused on: ■ assessing the appropriateness of the design and implementation of the controls surrounding the impairment model; ■ assessing the appropriateness of the CGUs identified and goodwill allocation during the period; ■ assessing the appropriateness of cash flow projections relative to previous performance, current order book, and Office for National Statistics guidance on construction growth rate; ■ benchmarking against the wider peer group; ■ recalculating the discount rates and perpetuity rates used; ■ challenging management's sensitivity analysis on reasonable reductions in the cash flow projections and discount rates; and ■ considering the adequacy of the Group's disclosures in respect of contract accounting and the key risks relating to these amounts. We tested the mechanical accuracy of the models, performed our own sensitivity analysis and utilised our internal valuation experts to assist in the assessment of the appropriateness of the discount rates. Following the changes in our approach set out above we reassessed the headroom within our sensitivity analysis.
Key observations	We concluded that management's assumptions around forecast growth and discount rates were within a reasonable range and as a result have not identified that any impairment of goodwill is required.

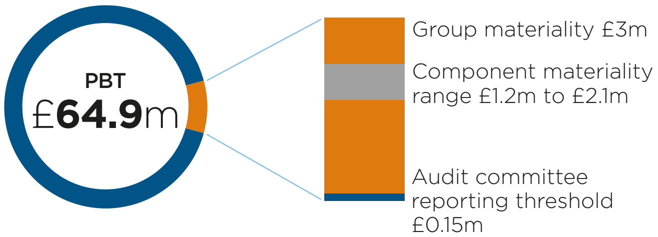
Valuation of shared equity loan receivables	
Key audit matter description	The determination of the fair value of the loans issued under the shared equity schemes in the Partnership Housing division requires judgement in relation to the discount rate, rate of expected default and forecast house price growth therefore making this a key audit matter. The audit committee also considered this as an issue as set out in the audit committee report on page 79. The accounting policies are set out within the significant accounting policies on page 115. The carrying value of shared equity loan receivables at 31 December 2017 was £15.6m (2016: £18.4m) as set out in note 13.
How the scope of our audit responded to the key audit matter	We have reviewed, challenged and sensitised the assumptions in accounting for shared equity schemes and assessed the model methodology, as disclosed in note 13. We have also assessed the design and implementation of controls surrounding the model.
Key observations	There have been no significant changes in the valuation model and we consider management's underlying assumptions to be within a reasonable range.

Increasing uncertainty in the construction and business support services industry	
Key audit matter description	In January 2018 Carillion plc entered liquidation which is expected to have wide ranging impacts on the construction and business support services industry. The event has highlighted key considerations within the industry, some captured above as key audit matters. We have revisited our risk assessment and enhanced our procedures in other areas such as contract revenue, margin and related receivables and liabilities, impairment of goodwill and appropriateness of the going concern assumption. Due to the uncertainty following this event and potential impact on the Group we have determined this to be a key audit matter and have considered other potential impacts below.
How the scope of our audit responded to the key audit matter	In addressing this key audit matter we have: ▪ in light of recent events revisited what would be considered reasonable reductions in the forecasts used to drive the goodwill and going concern assumptions; ▪ assessed the solvency and liquidity of the Group by taking into account the daily average cash position, relevant liquidity ratios, the ability of the Group to collect receipts and settle payments in a reasonable timescale, and its commitments (including pension scheme funding); ▪ considered the Group's financing arrangements; ▪ confirmed our understanding of the business model, key contractual arrangements and how actual performance on contracts compares with the bidding stage; ▪ included within our testing sample the joint venture contracts the Group had with Carillion and assessed the Group's exposure in light of recent events; and ▪ assessed the wider issues impacting the industry highlighted by these events including the security of the supply chain, cash management and the culture within the entity.
Key observations	We concur with management that there are no significant matters identified as a result of these procedures. We have set out our observations in relation to goodwill and the recognition of contract revenue, margin and related receivables and liabilities in the key audit matters above which are unchanged.

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

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

	Group financial statements	Parent Company financial statements
Materiality	£3m (2016: £2.55m)	£2.97m (2016: £2.54m)
Basis for determining materiality	5% of profit before tax The materiality that we used in the prior year was determined on the basis of 7.5% of the average profit before tax and exceptional items over the last five years.	2.4% of net assets, capped below Group materiality (2016: 3% 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. We have reconsidered the benchmark used for materiality in the current year. The materiality that we used in the prior year was determined on the basis of 7.5% of the average profit before tax and exceptional items over the last five years. As the level of profits is more reflective of ongoing trading now that legacy contract issues have been worked through, profit before tax has been considered the appropriate benchmark.	As the Parent Company is a non-trading entity and a cost centre, it is considered appropriate to use net assets as the basis for determining materiality.



We agreed with the audit committee that we would report to the committee all audit differences in excess of £0.15m (2016: £0.1m) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

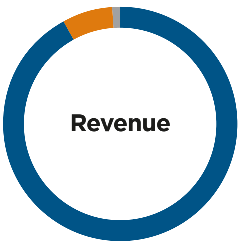
Based on this assessment, our Group audit scope focused primarily on the audit work at the significant components which were selected based on our assessment of the identified risks of material misstatement identified above. These represent the principal business units within the Group's reportable segments. We have performed full audit procedures for the significant components which account for 92% (2016: 95%) of the Group's revenue, 84% (2016: 90%) of the Group's reported profit before tax and 91% (2016: 90%) of the Group's absolute net assets.

Our audit work on the remaining components was determined based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those components. The components which had individually material balances were subject to an audit of specific account balances and the remaining components were subject to analytical review procedures by the Group audit team.

Our audit work on components in addition to the parent entity was executed to a lower level of materiality ranging from 50%–70% of Group materiality (2016: 50%–65%).

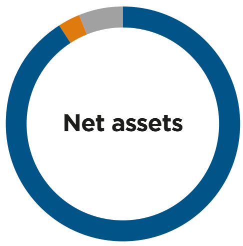
The Parent Company is located in Central London and audited directly by the Group audit team. At the parent entity level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated 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. The Group audit team held a Group-wide planning meeting to discuss the risk assessment at the start of the audit and subsequently held regular update calls throughout the audit. The senior statutory auditor or another senior member of the Group audit team participated in all of the close meetings, both at the interim and final visits, of the Group's components. The senior statutory auditor or another senior member of the Group audit team carried out a review of the component auditor files.



- Full audit scope 92%
- Specified audit procedures 7%
- Review at Group level 1%

- Full audit scope 84%
- Specified audit procedures 11%
- Review at Group level 5%



- Full audit scope 91%
- Specified audit procedures 3%
- Review at Group level 6%

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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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.

Report on other legal and regulatory requirements

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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

We have nothing to report in respect of these matters.

Other matters
Auditor tenure
The Company listed and therefore became a public interest entity in in 1994. We have been auditor since that date. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 24 years, covering the years ending 1994 to 2017. 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).

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

22 February 2018

Consolidated income statement

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Revenue	1	**2,792.7**	2,561.6
Cost of sales		**(2,518.3)**	(2,317.9)
Gross profit		**274.4**	243.7
Administrative expenses		**(209.9)**	(202.3)
Share of net profit of joint ventures	12	**4.1**	7.4
Operating profit before amortisation of intangible assets		**68.6**	48.8
Amortisation of intangible assets	9	**(1.2)**	(1.4)
Operating profit		**67.4**	47.4
Finance income	5	**1.6**	1.3
Finance expense	5	**(4.1)**	(4.8)
Profit before tax		**64.9**	43.9
Tax	6	**(12.5)**	(7.1)
Profit for the year	3	**52.4**	36.8
Attributable to:			
Owners of the Company		**52.4**	36.8
Earnings per share			
Basic	8	**118.8p**	83.8p
Diluted	8	**112.7p**	81.4p

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

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Profit for the year		**52.4**	36.8
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain arising on retirement benefit asset	18	**0.1**	0.7
Deferred tax on retirement benefit asset	6	**–**	(0.1)
		0.1	0.6
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange movement on translation of overseas operations		**(0.2)**	0.6
Gains arising during the year on cash flow hedges		**0.3**	0.8
Reclassification from cash flow hedges to the income statement		**(0.7)**	–
Deferred tax relating to items that may be reclassified	6	**0.1**	(0.2)
		(0.5)	1.2
Other comprehensive (expense)/income		**(0.4)**	1.8
Total comprehensive income		**52.0**	38.6
Attributable to:			
Owners of the Company		**52.0**	38.6

Consolidated balance sheet

at 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Goodwill and other intangible assets	9	**215.8**	217.0
Property, plant and equipment	10	**14.4**	16.6
Investment property	11	**5.9**	6.6
Investments in joint ventures	12	**76.7**	56.9
Other investments		**1.3**	–
Shared equity loan receivables	13	**15.6**	18.4
Retirement benefit asset	18	**2.8**	2.6
Non-current assets		**332.5**	318.1
Inventories	14	**295.0**	213.9
Trade and other receivables	15	**404.1**	332.8
Cash and cash equivalents	25	**221.2**	228.5
Current assets		**920.3**	**775.2**
Total assets		**1,252.8**	**1,093.3**
Liabilities			
Trade and other payables	17	**(854.1)**	(748.3)
Current tax liabilities		**(8.9)**	(7.7)
Finance lease liabilities		**(0.5)**	(0.5)
Borrowings	25	**(27.8)**	(4.8)
Current liabilities		**(891.3)**	(761.3)
Net current assets		**29.0**	13.9
Trade and other payables	17	**(9.6)**	(8.6)
Finance lease liabilities		**(0.4)**	(0.7)
Borrowings	25	**–**	(15.0)
Deferred tax liabilities	6	**(13.9)**	(11.7)
Provisions	19	**(21.0)**	(18.8)
Non-current liabilities		**(44.9)**	(54.8)
Total liabilities		**(936.2)**	(816.1)
Net assets		**316.6**	277.2
Equity			
Share capital	22	**2.2**	2.2
Share premium account		**33.8**	33.7
Other reserves		**(0.3)**	0.2
Retained earnings		**280.9**	241.1
Equity attributable to owners of the Company		**316.6**	277.2
Total equity		**316.6**	277.2

The consolidated financial statements of Morgan Sindall Group plc were approved by the Board on 22 February 2018 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Operating activities			
Operating profit		**67.4**	47.4
Adjusted for:			
Amortisation of intangible assets	9	**1.2**	1.4
Share of net profit of equity accounted joint ventures	12	**(4.1)**	(7.4)
Depreciation	10	**5.6**	5.5
Share option expense	23	**5.5**	4.6
Gain on disposal of property, plant and equipment		**(0.1)**	(0.2)
Movement in fair value of shared equity loan receivables	13	**(0.5)**	(0.6)
Additional pension contributions	18	**–**	(0.4)
Disposals of investment properties	11	**0.7**	2.2
Repayment of shared equity loan receivables	13	**3.3**	2.5
Increase in provisions	19	**2.2**	1.8
Operating cash inflow before movements in working capital		**81.2**	56.8
(Increase)/decrease in inventories		**(78.7)**	32.8
(Increase)/decrease in receivables		**(71.3)**	22.6
Increase in payables		**112.2**	69.8
Movements in working capital		**(37.8)**	125.2
Cash inflow from operations		**43.4**	182.0
Income taxes paid		**(9.6)**	(3.3)
Net cash inflow from operating activities		**33.8**	178.7
Investing activities			
Interest received		**1.4**	1.3
Dividend from joint ventures	12	**2.6**	1.2
Proceeds on disposal of property, plant and equipment		**0.6**	3.6
Purchases of property, plant and equipment	10	**(6.3)**	(4.7)
Purchases of intangible fixed assets	9	**–**	(1.1)
Net increase in loans to joint ventures	12	**(14.2)**	(0.4)
Payment for the acquisition of subsidiaries, joint ventures and other businesses		**(9.6)**	(7.7)
Payment for other investments		**(1.1)**	–
Net cash outflow from investing activities		**(26.6)**	(7.8)
Financing activities			
Interest paid		**(4.6)**	(3.1)
Dividends paid	7	**(16.8)**	(13.2)
Repayments of obligations under finance leases		**(0.4)**	(2.2)
Proceeds from/(repayment of) borrowings	25	**8.0**	(38.0)
Proceeds on issue of share capital	22	**0.1**	1.7
Payments by the Trust to acquire shares in the Company		**(1.1)**	(3.3)
Proceeds on exercise of share options		**0.3**	–
Net cash outflow from financing activities		**(14.5)**	(58.1)
Net (decrease)/increase in cash and cash equivalents		**(7.3)**	112.8
Cash and cash equivalents at the beginning of the year		**228.5**	115.7
Cash and cash equivalents at the end of the year	25	**221.2**	228.5

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Notes	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2016		2.2	32.0	(1.0)	216.5	249.7	(0.7)	249.0
Total comprehensive income		–	–	1.2	37.4	38.6	–	38.6
Share option expense	23	–	–	–	4.6	4.6	–	4.6
Issue of shares at a premium	22	–	1.7	–	–	1.7	–	1.7
Purchase of additional stake in subsidiary undertaking		–	–	–	(0.9)	(0.9)	0.7	(0.2)
Purchase of shares in the Company by the Trust		–	–	–	(3.3)	(3.3)	–	(3.3)
Dividends paid	7	–	–	–	(13.2)	(13.2)	–	(13.2)
1 January 2017		**2.2**	**33.7**	**0.2**	**241.1**	**277.2**	**–**	**277.2**
Total comprehensive income		–	–	(0.5)	52.5	52.0	–	52.0
Share option expense	23	–	–	–	5.5	5.5	–	5.5
Tax relating to share option expense	6	–	–	–	(0.6)	(0.6)	–	(0.6)
Issue of shares at a premium	22	–	0.1	–	–	0.1	–	0.1
Purchase of shares in the Company by the Trust		–	–	–	(1.1)	(1.1)	–	(1.1)
Exercise of share options		–	–	–	0.3	0.3	–	0.3
Dividends paid	7	–	–	–	(16.8)	(16.8)	–	(16.8)
31 December 2017		**2.2**	**33.8**	**(0.3)**	**280.9**	**316.6**	**–**	**316.6**

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2016: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.3m) (2016: nil) 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) (2016: (£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 2017 was 555,104 (2016: 759,098) with a cost of £4.2m (2016: £5.8m). 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 2017 of £14.28 (2016: £7.45), the market value of the shares was £7.9m (2016: £5.7m).

Significant accounting policies

for the year ended 31 December 2017

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 from the inside front cover to page 60.

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 23 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 functional 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 amounts or disclosures reported in these financial statements.

- IAS 7 (amended) 'Statement of Cash Flows'. Clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities
- IAS 12 (amended) 'Income Taxes'. Clarifies that the carrying amount of an asset does not limit the estimation of probable future taxable profits, estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences, and an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

(ii) New and revised accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early by the Group

At the date of publishing these financial statements the following new and revised standards and interpretations were in issue but were not yet effective (and in some cases had not yet been adopted by the EU). None of these new and revised standards and interpretations have been adopted early by the Group:

- Annual improvements 2014-2016 cycle;
- Annual improvements 2015-2017 cycle;
- IAS 40 (amended) 'Investment Property';
- IFRIC 22 (amended) 'Foreign Currency Transactions and Advanced Consideration';
- IFRIC 23 (amended) 'Uncertainty over Income Tax Treatments';
- IFRS 4 (amended) 'Insurance Contracts';
- IFRS 2 (amended) 'Share-based Payments';
- IAS 28 (amended) 'Investments in Associates and Joint Ventures';
- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers'; and
- IFRS 16 'Leases'.

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows on the next page:

IFRS 15 'Revenue from Contracts with Customers'
The Group will adopt this accounting standard on 1 January 2018. The directors have identified the following differences between current accounting standards and IFRS 15:

	Description
Recognition of uncertain revenue	**Current treatment** When estimating contract revenue the Group includes uncertain amounts to the extent that they are probable to be received from the customer. **Future treatment** Revenue relating to uncertain amounts will only be recognised when it becomes highly probable to be received from the customer. This is a higher threshold than is required by current accounting standards. The primary scenario in which this change may cause revenue to be recognised later is where the Group does not expect to complete works by a contractually agreed deadline and is reliant on agreeing an extension to the deadline with the customer or reaching a commercial resolution to avoid or mitigate damages being deducted. The Group will consider a series of factors to determine whether the higher probability threshold has been met and will not recognise the uncertain revenue until that time. It is estimated that revenue of c£6m which was recognised prior to 31 December 2017 would have been deferred to later years.
Recognition of revenue for forward-sold, pre-let developments	**Current treatment** Revenue is recognised at the point in time that the risks and rewards transfer to the customer. For forward-sold, pre-let developments this is typically at practical completion as the customer cannot specify or change the major structural elements of the design. **Future treatment** Revenue will be recognised as the Group fulfils the performance obligations in the contract. For forward-sold, pre-let developments this will be over time where the Group is not able to readily direct the asset for an alternative use and has an enforceable right to payment as work progresses. It is estimated that revenue of c£16m which had not yet been recognised prior to 31 December 2017 would have been recognised earlier.
Costs of fulfilment	**Current treatment** Costs that relate to future activity on a contract are recognised as an asset when it is probable that they will be recovered. This is typically when the contract is expected to generate a profit in excess of the capitalised costs. The asset is amortised over a period equal to or less than the contract term. **Future treatment** Costs that relate to future activity on a contract will be recognised as an asset when they are expected to be recovered. The directors consider that this is a higher threshold than is required by current accounting standards. Costs will only be capitalised when the contract is expected to generate a profit in excess of the capitalised costs and the Group has a contractual entitlement to recover the capitalised costs in the event of a no-fault termination of the contract. Capitalised costs will continue to be amortised over a period equal to or less than the contract term. It is estimated that costs of c£3m which were capitalised and not yet fully amortised at 31 December 2017 would have been expensed in earlier years.

These differences will give rise to a reduction (net of deferred tax) in opening reserves at 1 January 2018 of c£7m.

IFRS 16 'Leases'
The Group will adopt this accounting standard early on 1 January 2018. This will require the Group to recognise a right of use asset and a lease liability. The gross asset and liability are estimated at £40m to £45m at 1 January 2018. The income statement will no longer include an operating lease expense but will include depreciation of the right of use asset and an interest charge on the lease liability. It is estimated that operating profit and net finance costs will both increase by c£1m.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company, together with the Group's share of the results of joint ventures made up to 31 December each year. Business combinations are accounted for using the acquisition method.

(a) Subsidiaries

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

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

(b) Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, which requires unanimous consent for strategic, financial and operating decisions.

(i) Joint ventures

A joint venture generally involves the establishment of a corporation, partnership or other entity in which each venturer has an interest and joint control over strategic, financial and operating decisions. The results, assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting.

Goodwill relating to a joint venture which is acquired directly is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group's investments in joint ventures are reviewed to determine whether any additional impairment loss in relation to the net investment in the joint venture is required, and if so it is written off in the period in which those circumstances are identified. When there is a change recognised directly in the equity of the joint venture, the Group recognises its share of any change and discloses this, where applicable, in the statement of comprehensive income.

Where the Group's share of losses exceeds its equity accounted investment in a joint venture, the carrying amount of the equity interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations. Appropriate adjustment is made to the results of joint ventures where material differences exist between a joint venture's accounting policies and those of the Group.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(ii) Joint operations

Construction contracts carried out as a joint arrangement without the establishment of a legal entity are joint operations. The Group's share of the results and net assets of these joint operations are included under each relevant heading in the income statement and the balance sheet.

(c) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expense arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investments are eliminated to the extent of the Group's interest in that investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue and margin recognition

Revenue and margin are recognised as follows:

(a) Construction contracts

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

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

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

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

Where houses for open market sale are included in a construction contract as part of a mixed-tenure development, revenue on open market sales is recognised at fair value on sale completion. The margin recognised is consistent with the construction contract element of the development.

(b) Service contracts

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

(c) Sale of development properties

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

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

(d) Pre-contract costs

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

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

(e) Mobilisation costs

Mobilisation costs are those costs specifically incurred to enable performance of obligations in a contract after its award and form an integral part of the overall costs of a contract. Such costs are capitalised where it is probable that they will be recovered and are amortised over the period of the contract except where the contract becomes loss making, in which case the balance is immediately expensed.

(f) Government grants

Funding received in respect of developer grants, where funding is awarded to encourage the building and renovation of affordable housing, is recognised as revenue on a stage of completion basis over the life of the project to which the funding relates.

Funding received to support the construction of housing where current market prices would otherwise make a scheme financially unviable is recognised as revenue on a legal completion basis when the properties to which it relates are sold.

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that the Group will comply with the conditions attached and the grants will be received.

Leases
The Group as lessee:

(a) Finance leases
Leases in which the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance lease assets are recognised as assets of the Group at an amount equal to the lower of their fair value and the present value of the minimum lease payments, each determined at the inception of the lease. Subsequent to recognition, finance lease assets are measured at cost less accumulated depreciation and impairment losses.

The lease liability is included in the balance sheet as a finance lease liability. Lease payments are apportioned between finance charges and the reduction of lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

(b) Operating leases
Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Finance income and expense
Finance income and expense is recognised using the effective interest method.

Income tax
The income tax expense represents the current and deferred tax charges. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the Group's expected tax liability on taxable profit for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Taxable profit differs from that reported in the income statement because it is adjusted for items of income or expense that are assessable or deductible in other years and is adjusted for items that are never assessable or deductible.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases used in tax computations. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit, or differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is recognised on temporary differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at the tax rates expected to apply when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted and are only offset where there is a legally enforceable right to offset current tax assets and liabilities.

Goodwill and other intangible assets
Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the Group's share of the identifiable net assets of the acquiree at the acquisition date. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. Consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed in administrative expenses as incurred. All identifiable assets and liabilities acquired and contingent liabilities assumed are initially measured at their fair values at the acquisition date.

Where the cost is less than the Group's share of the identifiable net assets, the difference is immediately recognised in the income statement as a gain from a bargain purchase.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Other intangible assets identified on acquisition by the Group that have finite useful lives are recognised at fair value and measured at cost less accumulated amortisation and impairment losses. Those that are acquired separately, such as software, are recognised at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful lives for the Group's finite life intangible assets are between one and 12 years.

Property, plant and equipment
Freehold and leasehold property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of the assets over their estimated useful lives using the straight-line method on the following basis:

- plant and equipment — between 8.3% and 33% per year
- freehold property — 2% per year
- freehold land — not depreciated
- leased property — over the period of the lease

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

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

Investment property
Investment property, which is property held to earn rentals and/or capital appreciation is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Fixed asset investments
Investments held as fixed assets are stated at cost less provision for any impairment in value. Investments are reviewed for impairment at the earlier of the Company's reporting date or where an indicator of impairment is identified.

Shared equity loan receivables
The Group has granted loans under shared equity home ownership schemes allowing qualifying home buyers to defer payment of part of the agreed sales price, up to a maximum of 25%, until the earlier of the loan term (10 or 25 years depending upon the scheme), remortgage or resale of the property. On occurrence of one of these events, the Group will receive a repayment based on its contributed equity percentage and the applicable market value of the property as determined by a member of the Royal Institution of Chartered Surveyors. Early or part repayment is allowable under the scheme and amounts are secured by way of a second charge over the property. The loans are non-interest bearing.

The shared equity loans receivable are designated at fair value through profit or loss. Fair value movements are recognised in operating profit and the resulting financial asset is presented as a non-current receivable. Fair value movements include accreted interest. There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of work in progress comprises raw materials, direct labour, other direct costs and related overheads. Net realisable value is the estimated selling price less applicable costs.

Trade receivables
Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement when there is objective evidence that the asset is impaired.

Trade payables
Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Retirement benefit schemes
(a) Defined contribution plan
A defined contribution plan is a post-retirement benefit plan under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The Group recognises payments to defined contribution pension plans as staff costs in the income statement as and when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction on future payments is available.

(b) Defined benefit plan

A defined benefit plan is any post-retirement plan other than a defined contribution plan. The Group recognises an asset or liability on its balance sheet which represents the surplus or deficit in the defined benefit plan. The calculation is performed by a qualified actuary on an annual basis using the projected unit credit method. The calculation estimates the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounts it to its present value. Any unrecognised past service costs and the fair value of the plan's assets are deducted to derive an overall surplus or deficit.

Where the calculation results in a surplus, this is limited to the present value of any economic benefits available in the form of the unconditional right to refunds from the plan, reductions in future contributions to the plan or the ability for the surplus to be used to meet the future administration costs of the plan. When the benefits of the plan are improved, the portion of increased benefit relating to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. Where the benefits vest immediately, the expense is recognised in the income statement immediately.

The cost of the plan is charged to the income statement based on actuarial assumptions at the beginning of the financial year and is shown within net finance costs. Actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Impairment of financial assets

Financial assets, other than shared equity loan receivables, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been reduced. For loans and receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of a provision for impairment losses. When a trade receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against the provision. Changes in the carrying amount of the allowance are recognised in the income statement.

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

Share-based payments

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

Derivative financial instruments and hedge accounting

Derivative financial instruments are used in joint ventures to hedge long-term floating interest rate and Retail Prices Index (RPI) exposures and in Group companies to manage their exposure to foreign exchange rate risk.

Interest rate swaps, RPI swaps and foreign exchange forward contracts are stated in the balance sheet at fair value. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Where financial instruments are designated as cash flow hedges and are deemed to be effective, gains and losses on remeasurement relating to the effective portion are recognised in equity and gains and losses on the ineffective portion are recognised in the income statement, both to the extent of the Group's equity accounted investment.

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

Critical accounting judgements and estimates

for the year ended 31 December 2017

The preparation of financial statements under IFRS requires the Company's management to make judgments, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. 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 the point at which the risks and rewards of ownership are transferred to the customer. Relevant factors that are considered include the point at which legal ownership of the land passes to the customer, the degree to which the customer can specify the major structural elements of the design prior to construction work commencing and the degree to which the customer can specify modifications to the major structural elements of the building during construction.

Key sources of estimation uncertainty
The Group does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notwithstanding this, as a significant portion of the Group's activities are undertaken through long-term construction contracts the Group is required to make estimates in accounting for revenue and margin. These estimates may depend upon the outcome of future events and may need to be revised as circumstances change. Further detail is provided in the accounting policies on page 115.

Notes to the consolidated financial statements

for the year ended 31 December 2017

1 Revenue

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

	2017 £m	2016 £m
Construction contracts	**1,992.4**	1,846.0
Other services	**140.9**	114.4
Construction revenue	**2,133.3**	1,960.4
Regeneration revenue	**659.4**	601.2
Total revenue	**2,792.7**	2,561.6

Finance income of £1.6m (2016: £1.3m) is excluded from the table above.

2 Business segments

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

- Construction & Infrastructure: provides infrastructure services in the highways, rail, aviation, energy, water and nuclear markets, including tunnel design; and construction services in education, healthcare, defence, commercial, industrial, leisure and retail. BakerHicks offers a multidisciplinary design and engineering consultancy.
- Fit Out: Overbury specialises in fit out and refurbishment in commercial, central and local government offices, further education and retail banking. Morgan Lovell provides office interior design and build services direct to occupiers.
- Property Services: provides planned asset management and responsive maintenance to social housing and the wider public sector.
- Partnership Housing: works in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes for open market sale and affordable rent, design and build contracting and planned maintenance and refurbishment.
- Urban Regeneration: works with landowners and public sector partners to transform the urban landscape through the development of multi-phase sites and mixed-use regeneration, including residential, commercial, retail and leisure.
- Investments: works to provide the Group with construction and regeneration opportunities through various strategic partnerships to develop under-utilised property assets.

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

2017	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Investments £m	Group activities £m	Eliminations £m	Total £m
External revenue	**1,332.6**	**734.5**	**66.2**	**473.5**	**175.3**	**10.6**	**–**	**–**	**2,792.7**
Inter-segment revenue	**62.2**	**0.4**	**–**	**–**	**–**	**–**	**–**	**(62.6)**	**–**
Total revenue	**1,394.8**	**734.9**	**66.2**	**473.5**	**175.3**	**10.6**	**–**	**(62.6)**	**2,792.7**
Operating profit/(loss) before amortisation of intangible assets	**20.4**	**39.1**	**(1.3)**	**14.1**	**10.0**	**0.5**	**(14.2)**	**–**	**68.6**
Amortisation of intangible assets	**–**	**–**	**(0.6)**	**(0.4)**	**(0.2)**	**–**	**–**	**–**	**(1.2)**
Operating profit/(loss)	**20.4**	**39.1**	**(1.9)**	**13.7**	**9.8**	**0.5**	**(14.2)**	**–**	**67.4**
Other information:									
Average number of employees	**3,844**	**750**	**626**	**942**	**72**	**96**	**79**		**6,409**

2 Business segments continued

2016	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Investments £m	Group Activities £m	Eliminations £m	Total £m
External revenue	1,272.0	633.6	54.8	430.1	156.5	14.6	–	–	2,561.6
Inter-segment revenue	49.5	–	–	2.9	–	–	–	(52.4)	–
Total revenue	1,321.5	633.6	54.8	433.0	156.5	14.6	–	(52.4)	2,561.6
Operating profit/(loss) before amortisation of intangible assets	8.9	27.5	0.7	13.4	13.4	(2.0)	(13.1)	–	48.8
Amortisation of intangible assets	–	–	–	(0.6)	(0.8)	–	–	–	(1.4)
Operating profit/(loss)	8.9	27.5	0.7	12.8	12.6	(2.0)	(13.1)	–	47.4
Other information:									
Average number of employees	3,587	703	560	901	68	96	67		5,982

During the year ended to 31 December 2017 and the year ended 31 December 2016, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

3 Profit for the year

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

	2017 £m	2016 £m
Government grants received	**(2.4)**	(10.3)

Auditor's remuneration

	2017 £m	2016 £m
Audit of the Company's annual report	**0.1**	0.1
Audit of the Company's subsidiaries and joint ventures	**0.8**	0.6
Total audit fees	**0.9**	0.7
Other services	**–**	0.1
Total non-audit fees	**–**	0.1
Total fees	**0.9**	0.8

Non-audit fees totalled £17,000 in respect of town planning advice in relation to a planning application for one of the Group's regeneration schemes.

4 Staff costs

	2017 £m	2016 £m
Wages and salaries	**397.0**	355.4
Social security costs	**47.1**	39.4
Other pension costs (note 18)	**11.4**	9.8
	455.5	404.6

5 Finance income and expense

	2017 £m	2016 £m
Interest receivable from joint ventures	**1.3**	1.1
Other interest income	**0.3**	0.2
Finance income	**1.6**	1.3
Interest payable on bank overdrafts and borrowings	**(0.9)**	(1.8)
Interest payable on finance leases	**(0.1)**	(0.1)
Loan arrangement and commitment fees	**(2.6)**	(2.1)
Other interest expense	**(0.5)**	(0.8)
Finance expense	**(4.1)**	(4.8)
Net finance expense	**(2.5)**	(3.5)

6 Tax

Tax expense for the year:

	2017 £m	2016 £m
Current tax:		
Current year	**11.0**	8.1
Adjustment in respect of prior years	**(0.2)**	(0.5)
	10.8	7.6
Deferred tax:		
Current year	**1.9**	0.9
Revaluation of deferred tax balances due to changes in statutory tax rate	**–**	(0.7)
Adjustment in respect of prior years	**(0.2)**	(0.7)
	1.7	(0.5)
Tax expense for the year	**12.5**	7.1

UK corporation tax is calculated at 19.25% (2016: 20.0%) 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:

	2017 £m	2016 £m
Profit before tax	**64.9**	43.9
Less: post tax share of profits from joint ventures	**(4.1)**	(7.4)
	60.8	36.5
UK corporation tax rate	**19.25%**	20.0%
Income tax expense at UK corporation tax rate	**11.7**	7.3
Tax effect of:		
Non-taxable income and expenses	**0.4**	0.4
Tax liability upon joint venture profits[1]	**0.6**	1.2
Adjustments in respect of prior years	**(0.4)**	(1.2)
Expected forthcoming change in tax rates upon deferred tax balance	**–**	(0.7)
Other	**0.2**	0.1
Tax expense for the year	**12.5**	7.1

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 2016	(14.7)	2.3	(0.3)	0.8	(11.9)
(Charge)/credit to income statement	(0.3)	(0.2)	(0.1)	0.4	(0.2)
Charge to other comprehensive income	–	(0.2)	(0.1)	–	(0.3)
Effect of change in tax rate:					
Credit/(charge) to income statement	0.8	(0.1)	–	–	0.7
1 January 2017	**(14.2)**	**1.8**	**(0.5)**	**1.2**	**(11.7)**
(Charge)/credit to income statement	(0.3)	(1.8)	–	0.4	(1.7)
Credit to other comprehensive income	–	0.1	–	–	0.1
Charge to equity	–	–	–	(0.6)	(0.6)
31 December 2017	**(14.5)**	**0.1**	**(0.5)**	**1.0**	**(13.9)**

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

At 31 December 2017, the Group had unused tax losses of £3.2m (2016: £13.4m) available for offset against future profits. A deferred tax asset has been recognised in respect of £0.2m (2016: £11.2m) of these losses. No deferred tax asset has been recognised in respect of the remaining £3.0m (2016: £2.2m) due to the unpredictability of future profit streams against which the losses may be utilised. Losses may be carried forward indefinitely.

The UK corporation tax rate is set to reduce to 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:

	2017 £m	2016 £m
Final dividend for the year ended 31 December 2016 of 22.0p per share	**9.7**	–
Final dividend for the year ended 31 December 2015 of 17.0p per share	**–**	7.5
Interim dividend for the year ended 31 December 2017 of 16.0p per share	**7.1**	–
Interim dividend for the year ended 31 December 2016 of 13.0p per share	**–**	5.7
	16.8	13.2

The proposed final dividend for the year ended 31 December 2017 of 29.0p per share is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

8 Earnings per share

	2017 £m	2016 £m
Profit attributable to the owners of the Company	**52.4**	36.8
Adjustments:		
Amortisation of intangible assets net of tax	**1.0**	1.1
Deferred tax credit arising due to change in UK corporation tax rates	**–**	(0.7)
Adjusted earnings	**53.4**	37.2
Basic weighted average number of ordinary shares (m)	**44.1**	43.9
Dilutive effect of share options and conditional shares not vested (m)	**2.4**	1.3
Diluted weighted average number of ordinary shares (m)	**46.5**	45.2
Basic earnings per share	**118.8p**	83.8p
Diluted earnings per share	**112.7p**	81.4p
Adjusted earnings per share	**121.1p**	84.7p
Diluted adjusted earnings per share	**114.8p**	82.3p

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 £12.03 (2016: £7.33).

A total of 38,938 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 2017 (2016: 2,070,131).

9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost or valuation			
1 January 2016	213.9	31.3	245.2
Additions	–	1.1	1.1
1 January 2017	**213.9**	**32.4**	**246.3**
31 December 2017	**213.9**	**32.4**	**246.3**
Accumulated amortisation			
1 January 2016	–	(27.9)	(27.9)
Amortisation	–	(1.4)	(1.4)
1 January 2017	**–**	**(29.3)**	**(29.3)**
Amortisation	–	(1.2)	(1.2)
31 December 2017	**–**	**(30.5)**	**(30.5)**
Net book value at 31 December 2017	**213.9**	**1.9**	**215.8**
Net book value at 31 December 2016	213.9	3.1	217.0

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 (2016: £151.1m), Partnership Housing £46.8m (2016: £46.8m) and Urban Regeneration £16.0m (2016: £16.0m).

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. In testing goodwill and other intangible assets for impairment, the recoverable amount of each CGU has been estimated from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the forecast revenue and margin, discount rates and long-term growth rates by market sector. Forecast revenue and margin are based on past performance, secured workload and workload likely to be achievable in the short to medium term, given trends in the relevant market sector as well as macroeconomic factors.

Cash flow forecasts have been determined by using Board approved strategic plans for the next five years. Cash flows beyond five years have been extrapolated using an estimated nominal growth rate of 2.3% (2016: 2.3%). This growth rate does not exceed the long-term average for the relevant markets.

Discount rates are pre-tax and reflect the current market assessment of the time value of money and the risks specific to the CGUs. The risk-adjusted nominal rates used for the cash-generating units with goodwill balances are 12.0% (2016: 12.0%) for Construction & Infrastructure, 13.0% (2016: 13.0%) for Partnership Housing and 13.5% (2016: 13.5%) for Urban Regeneration.

In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified.

10 Property, plant and equipment

	Freehold property and land £m	Leased property £m	Plant and equipment £m	Total £m
Cost				
1 January 2016	4.8	10.7	46.6	62.1
Additions	–	0.6	4.1	4.7
Transfers	–	0.2	(0.2)	–
Disposals	–	(2.2)	(13.3)	(15.5)
1 January 2017	**4.8**	**9.3**	**37.2**	**51.3**
Additions	–	1.8	4.5	6.3
Transfers	(2.4)	–	–	(2.4)
Disposals	–	(0.7)	(1.4)	(2.1)
31 December 2017	**2.4**	**10.4**	**40.3**	**53.1**
Accumulated depreciation				
1 January 2016	–	(6.3)	(35.0)	(41.3)
Depreciation charge	–	(1.5)	(4.0)	(5.5)
Transfers	–	(0.1)	0.1	–
Disposals	–	2.0	10.1	12.1
1 January 2017	**–**	**(5.9)**	**(28.8)**	**(34.7)**
Depreciation charge	–	(1.4)	(4.2)	(5.6)
Disposals	–	0.4	1.2	1.6
31 December 2017	**–**	**(6.9)**	**(31.8)**	**(38.7)**
Net book value at 31 December 2017	**2.4**	**3.5**	**8.5**	**14.4**
Net book value at 31 December 2016	4.8	3.4	8.4	16.6

The Group's obligations under finance leases are secured by the lessor's title to the leased assets. The carrying value of plant and equipment which is subject to finance leases is £0.7m (2016: £0.9m). No other assets have been pledged to secure borrowings.

11 Investment property

	2017 £m	2016 £m
Valuation		
1 January	**6.6**	8.8
Disposals	**(0.7)**	(2.2)
31 December	**5.9**	6.6

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 2017 is based on a valuation carried out at that date by the directors. The valuation, which conforms to International Valuation Standards, was determined based on the market-comparable approach that reflects recent transaction prices for similar properties. The fair value measurement is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

12 Investments in joint ventures
The Group has the following interests in significant joint ventures:

Claymore Roads (Holdings) Limited 50% share
Claymore Roads (Holdings) Limited is a joint venture with Infrastructure Investments (Roads) Limited and is responsible for the upgrade and operation of the A92 between Dundee and Arbroath in Scotland.

English Cities Fund Limited Partnership 12.5% equity participation
English Cities Fund is a limited partnership with Homes England and Legal & General to develop mixed-use regeneration schemes in assisted areas. Joint control is exercised through the board of the general partner at which each partner is represented by two directors and no decision can be taken without the agreement of a director representing each partner.

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

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

- a 25% interest in Strategic Transformation Real Innovation and Delivery Excellence LLP (STRIDE), a joint venture with Arcadis BAC Limited and Burton Hospitals NHS Foundation Trust. STRIDE was set up as the Trust's Strategic Infrastructure and Efficiency Partner to deliver efficiency savings and infrastructure projects over the next 10 years.
- A 25% interest in The Oxleas Property Partnership LLP (TOPP), a joint venture with Arcadis BAC Limited and Oxleas NHS Foundation Trust. TOPP is a 10-year partnership that will work to develop the Trust's estate and surplus assets, helping to reduce costs and maximise revenue for the Trust which can be reinvested into healthcare delivery.

Joint control of both joint ventures is exercised through the board of directors who are appointed in proportion to the holdings of each class of ordinary shares.

hub West Scotland Limited 54% share
hub West Scotland Limited is a joint venture between **Wellspring Partnership Limited** (itself a joint venture of Morgan Sindall Investments Limited with Apollo (Hub West) Limited), Scottish Futures Trust Investments Limited, East Dunbartonshire Council, East Renfrewshire Council, West Dunbartonshire Council, Glasgow City Council, Greater Glasgow Health Board, The Board of Strathclyde Fire and Rescue, Strathclyde Joint Police Board and Clydebank Property Company Limited. The joint venture is delivering a pipeline of public sector health, education and community projects in the Glasgow area. Joint control is exercised through the board of directors who are appointed in proportion to the holdings of each class of ordinary shares.

Waterside Places (General Partner) Limited 50% equity participation
Waterside Places (General Partner) is a joint venture with The Canal and River Trust to undertake regeneration of waterside sites.

Lingley Mere Business Park Development Company Limited 50% share
Lingley Mere Business Park Development Company Limited is a joint venture with United Utilities delivering development at a site in Warrington.

Morgan Ashley Care Developments LLP 50% share
Morgan Ashley Care Developments LLP is a joint venture with Ashley House plc developing a pipeline of extra care and supported living schemes.

Morgan-Vinci Limited 50% share
Morgan-Vinci Limited is a joint venture with Vinci Newport DBFO Ltd and is responsible for the construction and operation of the Newport Southern Distributor Road.

PSBP NW Holdco Limited 45% share
PSBP NW Holdco is a joint venture with Equitix and the Department for Education. The joint venture was set up to design, build, finance and maintain 12 schools in the North West of England under the Priority Schools Building Programme. Joint control is exercised through the board of directors who are appointed in proportion to the holdings of each class of ordinary shares.

Slough Urban Renewal LLP 50% share
Slough Urban Renewal LLP is a partnership with Slough Borough Council to operate a local asset-backed vehicle (LABV) developing a series of sites in Slough over an initial term of 15 years extendable by 10 years.

The Bournemouth Development Company LLP 50% share
The Bournemouth Development Company LLP is a partnership with Bournemouth Borough Council to operate a LABV developing a series of sites in Bournemouth over a 20-year period.

The Compendium Group Limited 50% share

The Compendium Group Limited is a joint venture with The Riverside Group Limited and is a company formed to carry out strategic development and regeneration projects of a primarily residential nature.

Wapping Wharf (Alpha) LLP 50% partner

Wapping Wharf (Alpha) LLP is a joint venture with Umberslade which has completed development of the first phase of residential apartments within the Harbourside Regeneration Area of Bristol.

Wapping Wharf (Beta) LLP 40% partner

Wapping Wharf (Beta) LLP is a joint venture with Umberslade which will develop the second phase of residential apartments within the Harbourside Regeneration Area of Bristol.

Investments in equity-accounted joint ventures are as follows:

	2017 £m	2016 £m
1 January	**56.9**	50.3
Equity accounted share of net profits	**4.1**	7.4
Loans advanced to joint ventures	**21.4**	11.8
Loans repaid by joint ventures	**(7.2)**	(7.6)
Acquisition of joint venture[1]	**4.1**	–
Sale of loan notes	**–**	(3.8)
Dividends received	**(2.6)**	(1.2)
31 December	**76.7**	**56.9**

1 On 15 December 2017 the Group acquired a 50% share of Morgan Ashley Care Developments LLP for total consideration of £4.0m. Other acquisition costs were £0.1m.

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

	2017 £m	2016 £m
Non-current assets (100%)	**280.8**	215.8
Current assets (100%)	**325.2**	300.3
Current liabilities (100%)	**(184.7)**	(171.6)
Non-current liabilities (100%)	**(342.7)**	(255.5)
Net assets reported by equity accounted joint ventures (100%)	**78.6**	89.0
Revenue (100%)	**263.2**	383.1
Expenses (100%)	**(254.1)**	(367.4)
Net profit (100%)	**9.1**	15.7

Results of equity-accounted joint ventures:

	2017 £m	2016 £m
Group share of profit before tax	**4.1**	7.5
Group share of tax	**–**	(0.1)
Group share of profit after tax	**4.1**	7.4

13 Shared equity loan receivables

	2017 £m	2016 £m
1 January	**18.4**	20.3
Net change in fair value recognised in the income statement	**0.5**	0.6
Repayments by borrowers	**(3.3)**	(2.5)
31 December	**15.6**	18.4

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 £0.3m (2016: £nil). There were no defaults during the year (2016: no defaults).

13 Shared equity loan receivables continued

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:

	2017	2016
Assumption		
Period over which shared equity loan receivables are discounted:		
First Buy and Home Buy schemes	**20 years**	20 years
Other schemes	**9 years**	9 years
Nominal discount rate	**5.3%**	5.3%
Weighted average nominal annual property price increase	**2.4%**	2.3%
Forecast default rate	**4.6%**	2.0%
Number of loans under the shared equity scheme outstanding at the year end	**489**	595

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 2017, 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 £0.3m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2017, if the period over which the shared equity loan receivables (excluding those relating to the First Buy and Home Buy schemes) are discounted had been 10 years and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.2m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

14 Inventories

	2017 £m	2016 £m
Work in progress	**295.0**	213.9

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

15 Trade and other receivables

	2017 £m	2016 £m
Amounts due from construction contract customers (note 16)	**174.2**	147.9
Trade receivables (note 25)	**208.0**	163.9
Amounts owed by joint ventures	**2.1**	1.5
Prepayments	**10.2**	10.6
Other receivables	**9.6**	8.9
	404.1	332.8

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 £0.9m (2016: £0.5m).

16 Construction contracts

	2017 £m	2016 £m
Amounts due from construction contract customers (note 15)	**174.2**	147.9
Amounts due to construction contract customers (note 17)	**(58.3)**	(52.0)
Carrying amount at the end of the year	**115.9**	95.9
Contract costs incurred plus recognised profits less recognised losses to date	**6,378.0**	6,290.6
Less: progress billings	**(6,262.1)**	(6,194.7)
	115.9	95.9

Amounts due from construction contract customers are stated at cost plus the profit attributable to that contract, less any impairment losses. Progress payments for construction contracts are deducted from amounts due. Amounts due to construction contract customers represent amounts received in excess of revenue recognised on construction contracts.

17 Trade and other payables

	2017 £m	2016 £m
Trade payables	**162.0**	144.6
Amounts due to construction contract customers (note 16)	**58.3**	52.0
Amounts owed to joint ventures	**0.2**	0.2
Other tax and social security	**37.5**	33.2
Accrued expenses	**573.3**	482.0
Deferred income	**2.7**	–
Other payables	**20.1**	36.3
Current	**854.1**	748.3
Other payables	**9.6**	8.6
Non-current	**9.6**	8.6

The directors consider that the carrying amount of trade payables approximates to their fair value. No interest was incurred on outstanding balances. Non-current other payables have been discounted by £1.9m (2016: £1.5m) 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 £11.4m (2016: £9.8m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2017, contributions of £1.5m (2016: £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.

The last triennial valuation of the Retirement Plan was undertaken on 5 April 2016. The ongoing liabilities of the Retirement Plan were assessed using the projected unit credit method and the assets were taken at realisable market value. The actuarial valuation showed that the defined benefit liabilities were partly funded and the value of the assets of £12.2m represented 99% of the value of these liabilities on an ongoing funding basis. The next triennial valuation is due to be undertaken as at 5 April 2019.

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

Key assumptions used:		2017 %	2016 %
Discount rate		**2.5**	2.7
Expected rate of salary increases		**4.4**	4.5
Rate of inflation		**2.4**	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)		**87.6**	87.6
Average life expectancy for pensioner retiring in 20 years at age 65 (years)		**89.8**	89.7

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

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
1 January	**13.8**	**(11.2)**	**2.6**	11.3	(9.9)	1.4
Finance income/(expense)	**0.4**	**(0.3)**	**0.1**	0.5	(0.4)	0.1
Actuarial gain/(loss)	**0.5**	**(0.4)**	**0.1**	1.9	(1.2)	0.7
Contributions from sponsoring company	**–**	**–**	**–**	0.4	–	0.4
Benefits paid	**(0.7)**	**0.7**	**–**	(0.3)	0.3	–
31 December	**14.0**	**(11.2)**	**2.8**	13.8	(11.2)	2.6

18 Retirement benefit schemes continued

Defined benefit plan continued

The effect on the defined benefit liabilities of changing the key financial assumptions is set out below:

	Increase in liabilities £m
Decrease in discount rate of 50bps	**0.9**
Increase in inflation rate of 50bps	**0.2**
Increase in average life expectancy of one year	**0.4**

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

	2017 £m	2016 £m
Actuarial gain recognised during the year	**0.1**	0.7
Cumulative actuarial loss recognised	**(2.1)**	(2.2)

The Retirement Plan assets comprise 44% corporate bonds (2016: 55%), 52% gilts (2016: 43%) and 4% cash (2016: 2%). The fair value of all asset classes are determined based on quoted market prices.

The expected return on the Retirement Plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The history of the Retirement Plan assets, liabilities and deficit is as follows:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Present value of the Retirement Plan liabilities	**(11.2)**	(11.2)	(9.9)	(10.5)	(9.3)
Fair value of the Retirement Plan assets	**14.0**	13.8	11.3	11.3	9.3
Surplus in the Retirement Plan	**2.8**	2.6	1.4	0.8	–

No contributions are expected to be paid to the defined benefit section of the Retirement Plan during 2018.

19 Provisions

	Insurance £m	Other £m	Total £m
1 January 2016	14.5	2.4	16.9
Utilised	(2.0)	(0.7)	(2.7)
Additions	4.5	0.1	4.6
1 January 2017	**17.0**	**1.8**	**18.8**
Utilised	(1.0)	(0.5)	(1.5)
Additions	4.1	0.2	4.3
Released	(0.6)	–	(0.6)
31 December 2017	**19.5**	**1.5**	**21.0**

Insurance provisions comprise the Group's self-insurance of certain risks and include £7.3m (2016: £5.5m) held in the Group's captive insurance company, Newman Insurance Company Limited.

Other provisions include onerous lease commitments, 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 Operating lease commitments

At 31 December, the Group was committed to making the following future minimum lease payments under non-cancellable operating leases:

	2017			2016		
	Land and buildings £m	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
	£m	**£m**	**£m**	£m	£m	£m
Within one year	**6.6**	**4.9**	**11.5**	5.4	3.5	8.9
Within two to five years	**16.6**	**7.9**	**24.5**	10.1	3.9	14.0
After more than five years	**11.2**	**–**	**11.2**	6.8	–	6.8
31 December	**34.4**	**12.8**	**47.2**	22.3	7.4	29.7

The operating lease expense in the year was £13.2m (2016: £11.8m). Leases are negotiated for an average term of five years (2016: four years) and rentals are fixed for an average of five years (2016: four years).

21 Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business. As at 31 December 2017, contract bonds in issue under uncommitted facilities covered £192.0m (2016: £227.7m) of contract commitments of the Group.

22 Share capital

	2017		2016	
	Number	**£m**	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	**44,708,236**	**2.2**	44,296,003	2.2
Exercise of share options	**15,446**	**–**	412,233	–
31 December	**44,723,682**	**2.2**	44,708,236	2.2

All issued ordinary shares are fully paid. Ordinary shares are entitled to dividends when declared and each share carries the right to one vote at a meeting of the Company.

15,446 shares were issued during 2017 in respect of options exercised under the Group's Savings-Related Share Option Plan (SAYE) plan for a total consideration of £0.1m (2016: 412,233 shares were issued for a total consideration of £1.7m).

23 Share-based payments

The Group recognised a share option expense of £5.5m (2016: £4.6m) related to equity-settled share-based payment transactions. The Group has three share option schemes with unvested options or awards at 31 December 2017:

- 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 deemed not 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.
- 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 86 to 87.

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

		Share awards under 2014 LTIP		**Share options under SAYE**	**Share options under 2014 SOP**
		Awards with TSR condition	Awards with EPS condition		
Number of awards or options granted		127,613	255,240	1,192,363	1,059,922
Weighted average fair value at date of grant (per share)		£8.37	£10.36	£2.50	£2.04
Weighted average share price at date of grant		£10.36	£10.36	£11.03	£10.10
Weighted average exercise price		n/a	n/a	£8.08	£9.91
Valuation model		Monte-Carlo	Black-Scholes	Black-Scholes	Black-Scholes
Expected term (from date of grant)		3.0 years	3.0 years	3.0 years	6.5 years
Expected volatility	(a)	31.0%	n/a	30.0%	29.0%
Expected dividend yield	(b)	n/a	n/a	2.7%	3.0%
Risk free rate		0.1%	n/a	0.1%	0.6%

(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:

	2017		2016	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	**3,201,082**	**7.07**	2,841,922	6.62
Granted during the year	**2,252,285**	**8.96**	1,136,969	7.63
Lapsed during the year	**(308,550)**	**8.53**	(351,968)	8.54
Exercised during the year	**(196,613)**	**7.34**	(425,841)	4.43
Outstanding at 31 December	**4,948,204**	**7.83**	3,201,082	7.07
Exercisable at 31 December	**260,364**	**6.47**	377,693	7.32
Weighted average remaining contractual life	**8.0 years**		6.3 years	

The weighted average share price at the date of exercise for share options exercised during the year was £12.51 (2016: £7.59).

The options outstanding at 31 December 2017 had exercise prices ranging from £5.35 to £12.75.

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 £86.6m (2016: £112.5m).

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'.

	2017 £m	2016 £m
Short-term employee benefits	**8.0**	8.8
Post-employment benefits	**0.1**	0.4
Termination benefits	**0.2**	0.9
Share option expense	**2.8**	2.9
	11.1	13.0

Details of directors' remuneration are set out in the directors' remuneration report on page 88.

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 22 February 2018.

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 22 February 2018.

25 Financial instruments

Net cash

Cash and cash equivalents comprise cash in hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value. Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing as shown below:

	2017 £m	2016 £m
Cash and cash equivalents	**221.2**	228.5
Non-recourse project financing due in less than one year	**(26.5)**	(4.8)
Borrowings due within one year	**(1.3)**	–
Borrowings due between two and five years	**–**	(15.0)
Net cash	**193.4**	208.7

Included within cash and cash equivalents is £45.4m (2016: £35.4m) which is the Group's share of cash held within jointly controlled operations.

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £30m matures in March 2022 and £150m in May 2022. Additional project finance borrowings of £26.5m (2016: £4.8m) were drawn from separate facilities to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

Average daily net cash during 2017 was £118.0m (2016: £25.0m).

Financial risks and management

The Group has exposure to a variety of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, which are subject to periodic review by the Group's internal audit team and twice yearly review by management. The policies include written principles for the Group's risk management as well as specific policies, guidelines and authorisation procedures in respect of specific risk mitigation techniques such as the use of derivative financial instruments. The Group does not enter into derivative financial instruments for speculative purposes.

The following represent the key financial risks resulting from the Group's use of financial instruments:

- credit risk;
- liquidity risk; and
- 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 amounts due from construction contract customers.

The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the project. The Group's credit risk is also influenced by general macroeconomic conditions. The Group does not have any significant concentration risk in respect of amounts due from construction contract customers or trade receivable balances at the reporting date with receivables spread across a wide range of 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 2017 were £74.5m (2016: £61.6m). These will be collected in the normal operating cycle of the Group.

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

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

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

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

	2017		2016	
	Gross trade receivables £m	**Provision for impairment losses £m**	Gross trade receivables £m	Provision for impairment losses £m
Not past due	**159.4**	**–**	121.6	–
Past due one to 30 days	**16.6**	**–**	21.3	–
Past due 31 to 120 days	**10.5**	**–**	7.5	–
Past due 121 to 365 days	**9.6**	**0.5**	6.2	0.1
Past due greater than one year	**12.8**	**0.4**	7.8	0.4
	208.9	**0.9**	164.4	0.5

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

	2017 £m	2016 £m
1 January	**0.5**	1.2
Amounts recovered during the year	**(0.1)**	(0.7)
Other movements in the provision	**0.5**	–
31 December	**0.9**	0.5

The average credit period on revenue is 27 days (2016: 23 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts.

25 Financial instruments continued

Financial risks and management continued

Included in the Group's trade receivable balance are debtors with a carrying amount of £48.6m (2016: £42.3m) 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 139 days (2016: 105 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, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity is provided through cash balances and committed bank loan facilities. Additional project finance borrowings are used to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

The Group reports cash balances daily and invests surplus cash to maximise income 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.

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

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

The Group does not have any material derivative or non-derivative financial liabilities with the exception of trade and other payables, current tax liabilities and finance lease liabilities. Trade and other payables are generally non-interest bearing and, therefore, have no weighted average effective interest rates. Finance lease liabilities are carried at the present value of the minimum lease payments. Trade and other payables are due to be settled in the Group's normal operating cycle.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or equity prices, will affect the Group's income or the carrying amount of its holdings of financial instruments. The objective of market risk management is to achieve a level of market risk that is within acceptable parameters as set out in the Group risk management framework.

Interest rate risk

The Group is not exposed to significant interest rate risk as it does not have significant interest-bearing liabilities and its only interest-bearing asset is cash invested on a short-term basis.

Certain of the Group's equity accounted joint ventures have entered into interest rate swaps to manage their exposure to interest rate risk arising on floating rate bank borrowings.

The Group's share of joint ventures' interest rate swap contracts have a nominal value of £13.6m (2016: £14.0m) and fixed interest payments at an average rate of 5.1% (2016: 5.1%) for periods up until 2033.

Currency risk
The majority of the Group's operations are carried out in the UK and the Group has a low level of exposure to currency risk on sales and purchases. The Group's policy is to hedge foreign currency transactions where they are material, at which point derivative financial instruments are entered into so as to hedge forecast or actual foreign currency exposures.

In order to hedge foreign currency exposures for a construction joint arrangement the Group has entered into foreign exchange forward contracts with third-party banks, and has entered into corresponding contracts with the joint arrangement. The cash flows are expected to arise on various dates within two years of the balance sheet date. The Group has designated a portion of the contracts with the banks, equal to its share of the joint arrangement, as hedging instruments for the purposes of the consolidated financial statements. The fair value of the foreign exchange forward contracts with the third-party banks is an asset of £1.6m (2016: £2.9m) and the fair value of the contracts with the other joint arrangement partners is a liability of £1.1m (2016: £1.9m). The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts and is classified as Level 2 as defined by IFRS 7 'Financial Instruments: Disclosures'.

Capital management
The Board aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business, and its approach to capital management is explained fully in the financial review on pages 20 to 23.

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.

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
At the balance sheet date the Group was working on a limited number of projects with Carillion plc through joint operations. Subsequently, on Monday 15 January 2018, the High Court appointed the Official Receiver as liquidator of Carillion plc. The Group is committed to completing these projects. The directors have reviewed each of the contracts, and believe the completion of these will not have a material adverse effect on the Group's reported financial position. There were no other significant subsequent events that affected the financial statements of the Group.

Company balance sheet

at 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Property, plant and equipment		**1.3**	1.1
Investments	1	**426.3**	426.3
Retirement benefit asset		**2.8**	2.6
Non-current assets		**430.4**	430.0
Trade receivables		**0.3**	0.1
Amounts owed by subsidiary undertakings			
– due within one year		**67.2**	52.6
– due after one year		**2.9**	2.9
Deferred tax asset		**0.6**	0.8
Other receivables		**4.8**	3.2
Prepayments and accrued income		**3.9**	2.0
Cash at bank and in hand		**70.2**	42.1
Current assets		**149.9**	103.7
Total assets		**580.3**	533.7
Liabilities			
Bank overdrafts		**(17.7)**	(73.9)
Finance lease obligations		**(0.3)**	(0.3)
Trade payables		**(1.5)**	(0.9)
Amounts owed to subsidiary undertakings		**(408.3)**	(307.0)
Corporation tax payable		**(0.9)**	(6.0)
Other tax and social security		**(0.9)**	(0.2)
Other payables		**(2.3)**	(3.4)
Accrued expenses		**(10.1)**	(7.3)
Current liabilities		**(442.0)**	(399.0)
Net current liabilities		**(292.1)**	(295.3)
Total assets less current liabilities		**138.3**	134.7
Bank loans		**–**	(15.0)
Finance lease obligations		**(0.1)**	(0.4)
Provision for liabilities	2	**(12.6)**	(11.8)
Non-current liabilities		**(12.7)**	(27.2)
Net assets		**125.6**	107.5
Capital and reserves			
Share capital		**2.2**	2.2
Share premium account		**33.8**	33.7
Capital redemption reserve		**0.6**	0.6
Special reserve		**13.7**	13.7
Retained earnings		**75.3**	57.3
Shareholders' funds		**125.6**	107.5

The Company reported a profit for the financial year ended 31 December 2017 of £30.6m (2016: £14.5m).

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 22 February 2018 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 2017

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
1 January 2016	2.2	32.0	0.6	13.7	54.1	102.6
Profit for the year	–	–	–	–	14.5	14.5
Other comprehensive income:						
Actuarial gain arising on retirement benefit asset	–	–	–	–	0.7	0.7
Tax arising on actuarial gain	–	–	–	–	(0.1)	(0.1)
Total comprehensive income	**–**	**–**	**–**	**–**	**15.1**	**15.1**
Share option expense	–	–	–	–	4.6	4.6
Issue of shares at a premium	–	1.7	–	–	–	1.7
Purchase of shares in the Company by the Trust	–	–	–	–	(3.3)	(3.3)
Dividends paid	–	–	–	–	(13.2)	(13.2)
1 January 2017	**2.2**	**33.7**	**0.6**	**13.7**	**57.3**	**107.5**
Profit for the year	–	–	–	–	30.6	30.6
Other comprehensive income:						
Actuarial gain arising on retirement benefit asset	–	–	–	–	0.1	0.1
Total comprehensive income	**–**	**–**	**–**	**–**	**30.7**	**30.7**
Share option expense	–	–	–	–	5.5	5.5
Tax relating to share options	–	–	–	–	(0.6)	(0.6)
Issue of shares at a premium	–	0.1	–	–	–	0.1
Purchase of shares in the Company by the Trust	–	–	–	–	(1.1)	(1.1)
Exercise of share options and vesting of share awards	–	–	–	–	0.3	0.3
Dividends paid	–	–	–	–	(16.8)	(16.8)
31 December 2017	**2.2**	**33.8**	**0.6**	**13.7**	**75.3**	**125.6**

Significant accounting policies

for the year ended 31 December 2017

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

The Company's accounting policies are consistent with those described in the consolidated accounts of Morgan Sindall Group plc, except that, as permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and related party transactions. Where required, equivalent disclosures are given in the consolidated accounts. In addition, disclosures in relation to retirement benefit schemes (note 18), share capital (note 22) and dividends (note 7) have not been repeated here as there are no differences to those provided in the consolidated accounts.

These financial statements have been prepared on the going concern basis as set out in the finance review on page 23, 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 2017

1 Investments

	Subsidiary undertakings £m
Cost	
1 January 2017 and 31 December 2017	**429.8**
Provisions	
1 January 2017 and 31 December 2017	**(3.5)**
Net book value at 31 December 2017	**426.3**
Net book value at 31 December 2016	426.3

A list of all subsidiary, associated undertakings and significant holdings owned by the Group is show below:

Morgan Sindall Group

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Backbone Furniture Limited	Direct	100
Barnes & Elliott Limited	Direct	100
Bluebell Printing Limited	Direct	100
Elec-Track Installations Limited	Direct	100
Hinkins & Frewin Limited	Direct	100
Lovell Partnerships (Northern) Limited	Direct	100
Lovell Partnerships (Southern) Limited	Direct	100
Morgan Est (Scotland) Limited (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* (n)	Direct	100
Roberts Construction Limited	Direct	100
Sindall Eastern Limited	Indirect	100
Sindall Limited	Direct	100
SMHA Limited	Direct	100
Snape Design & Build Limited	Indirect	100
Snape Roberts Limited	Indirect	100
Stansell Limited	Direct	100
T J Braybon & Son Limited	Direct	100
The Snape Group Limited	Direct	100
Underground Professional Services Limited	Direct	100
Vivid Interiors Limited	Direct	100
Wheatley Construction Limited	Direct	100

1 Investments continued

Construction & Infrastructure

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Construction & Infrastructure Ltd	Indirect	100
Bluestone Limited	Indirect	100
Magnor Plant Hire Limited	Direct	100
Morgan Est Rail Limited	Indirect	100
Morgan Sindall Engineering Solutions Limited	Indirect	100
Morgan Sindall Holdings Limited	Direct	100
Morgan Utilities Limited	Indirect	100
MS (MEST) Limited	Indirect	100
Baker Hicks Limited	Direct	100
Morgan Sindall Professional Services (France) Ltd	Indirect	100
Morgan Sindall Professional Services (Switzerland) Ltd	Indirect	100
Morgan Sindall Professional Services AG* [(g)]	Indirect	100
Morgan Sindall Professional Services GmbH* [(h)]	Indirect	100

Fit Out

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Overbury plc	Direct	100
Morgan Lovell plc	Direct	100

Property Services

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Property Services Limited	Direct	100
Lovell Powerminster Limited	Indirect	100
Manchester Energy Company Limited	Indirect	100

Partnership Housing

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Lovell Partnerships Limited	Direct	100
Lovell Bow Limited	Indirect	100
Lovell Director Limited [(a)]	Indirect	100
Lovell Guf Limited [(a)]	Indirect	100
Lovell Plus Limited	Indirect	97
Lovell Property Rental Limited	Indirect	100
The Compendium Group Limited	Indirect	50
Yallops Yard Management Company Limited [(a)]	Indirect	50

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
Brook House (Brixton) Management Company Limited [3]	Indirect	100
Bromley Park (Holdings) Limited	Indirect	50
Chatham Place (Building 1) Limited	Indirect	100
Chatham Place Building 1 (Commercial) Limited	Indirect	100
Chatham Place (Phase 1) Estate Manco Limited[i] [3]	Indirect	100
Chatham Square Limited	Indirect	100
Cheadle Royal Management Company Limited[i] [4]	Indirect	28
ECF (General Partner) Limited[j]	Indirect	33
English Cities Fund[j] [5]	Indirect	13
Eurocentral Partnership Limited	Indirect	99
EPL Contractor (Plot B West) Limited	Indirect	99
EPL Contractor (Plot F East) Limited	Indirect	99
EPL Contractor (Plot F West) Limited	Indirect	99
EPL Developer (Plot B West) Limited	Indirect	99
EPL Developer (Plot F East) Limited	Indirect	99
EPL Developer (Plot F West) Limited	Indirect	99
Hulme High Street Limited[k]	Indirect	80
Hulme Management Company Limited[k] [3]	Indirect	33
ICIAN Developments Limited	Indirect	100
Intercity Developments Limited	Indirect	50
Ivor House (Brixton) Management Company Limited[3]	Indirect	100
Lewisham Gateway Developments (Holdings) Limited	Indirect	100
Lewisham Gateway Developments Limited	Indirect	100
Lewisham Gateway (Plot A & B) Management Company Limited[3]	Indirect	62
Lewisham Gateway Estate Management Company Limited[3]	Indirect	81
Lingley Mere Business Park Development Company Limited[l]	Indirect	50
Logic Leeds Management Company Limited[3]	Indirect	50
Muse 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[k]	Indirect	80
Sovereign Leeds Limited	Indirect	100
St Andrews Brae Developments Limited	Indirect	50
Wapping Wharf (Alpha) LLP[1]	Indirect	50
Wapping Wharf (Beta) LLP[1]	Indirect	40
Warp 4 General Partner Limited	Indirect	100
Warp 4 General Partner Nominees Limited	Indirect	100
Warp 4 Limited Partnership[5]	Indirect	100
Waterside Places (General Partner) Limited[m]	Indirect	50
Waterside Places Limited Partnership[m] [5]	Indirect	50

1 Investments continued

Investments

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Investments Limited	Direct	100
Claymore Roads (Holdings) Limited[(c)]	Indirect	50
Community Solutions for Education Limited	Indirect	100
Community Solutions for Emergency Services Limited	Indirect	100
Community Solutions for Leisure Limited	Indirect	100
Community Solutions for Leisure (Basildon) Limited	Indirect	100
Community Solutions Limited	Indirect	100
Community Solutions Living Limited	Indirect	100
Community Solutions Management Services Limited	Indirect	100
Community Solutions Management Services (Hub) Limited	Indirect	100
Community Solutions Partnership Services Limited	Indirect	100
Community Solutions for Regeneration (Bournemouth) Limited	Indirect	100
Community Solutions for Regeneration Limited	Indirect	100
Community Solutions for Regeneration (Slough) Limited	Indirect	100
Hampshire LIFT Management Services Limited[(d)]	Indirect	50
Hamsard 3134 Limited	Indirect	100
Hamsard 3135 Limited	Indirect	100
HB Community Solutions Holdco Limited	Indirect	79
HB Community Solutions Living Limited[(2)]	Indirect	50
Health Innovation Partners Limited	Indirect	50
hub West Scotland Limited[(f)]	Indirect	54
Morgan Ashley Care Developments LLP[(1)(o)]	Indirect	50
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50
PSBP NW Holdco Limited	Indirect	45
Slough Urban Renewal LLP[(1)]	Indirect	50
The Bournemouth Development Company LLP[(1)]	Indirect	50
Towcester Regeneration Limited	Indirect	100
WellSpring Finance Company Limited	Indirect	50
WellSpring Partnership Limited[(e)]	Indirect	90
WellSpring SubDebt Limited	Indirect	50
Weymouth Community Sports LLP[(1)]	Indirect	100

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

Unless otherwise stated the registered office address for each of the above is Kent House, 14-17 Market Place, London W1W 8AJ.

Registered office classification key:

(a) One Eleven, Edmund Street, Birmingham, West Midlands B3 2HJ
(b) 1 Rutland Court, Edinburgh EH3 8EY
(c) Cannon Place, 78 Cannon Street, London EC4N 6AF
(d) 15th Floor, Colbalt Square, 83-85 Hagley Road, Birmingham B16 8QG
(e) C/o, Anderson Strathern, 1 Rutland Court, Edinburgh EH3 8EY
(f) Suite 7/3, Skypark 1, 8 Elliot Place, Glasgow G3 8EP
(g) Badenstrasse 3, 4057, Basel, Switzerland
(h) Engelbergerstrasse 19, DE-79106, Freiburg im Breisgau, Germany
(i) Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES
(j) One Coleman Street, London EC2R 5AA
(k) Booths Park, Chelford Road, Knutsford, Cheshire WA16 8QZ
(l) Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP
(m) First Floor North Station House, 500 Elder Gate, Milton Keynes MK9 1BB
(n) Willis Management (Guernsey) Limited, PO Box 384 The Albany, South Esplanade, St Peter Port, Guernsey GY1 4NF
(o) Unit 1, Barnes Wallis Court Wellington Road, Cressex Business Park, High Wycombe HP12 3PS

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.

Unless otherwise stated, the Group's interest is in the ordinary shares issued (or the equivalent of ordinary shares issued in the relevant country of issue).

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

2 Provisions

	Insurance £m	Other £m	Total £m
1 January 2016	10.9	0.4	11.3
Utilised	(1.2)	–	(1.2)
Additions	1.7	–	1.7
1 January 2017	**11.4**	**0.4**	**11.8**
Utilised	(0.7)	–	(0.7)
Additions	1.5	–	1.5
31 December 2017	**12.2**	**0.4**	**12.6**

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

Financial calendar 2018

The following dates have been announced:

Financial year end	31 December 2017
Full year results announcement	22 February 2018
Publication of 2017 responsible business report	Mid-April 2018
Annual general meeting and trading update	4 May 2018
Final dividend:	
Ex-dividend date	26 April 2018
Record date	27 April 2018
Payment date	21 May 2018
Half year results announcement	August 2018
Interim dividend payable	October 2018
Trading update	November 2018

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**

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

Dividend mandates

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

Group website and electronic communications

The 2017 annual report and other information about the Company are available on our website. We operate a service whereby you can register to receive notice by email of all announcements released by the Company.

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

Shareholder documents are now, following changes in Company law and shareholder approval, primarily made available via the Company's website, unless a shareholder has requested to continue to receive hard copies of such documents. If a shareholder has registered their up-to-date email address, an email will be sent to that address when such documents are available on the website. If shareholders have not provided an up-to-date email address and have not elected to receive documents in hard copy, a letter will be posted to their address that is recorded on the register of members notifying them that the documents are available on the website. Shareholders can continue to receive hard copies of shareholder documents by contacting the Registrar.

If you have not already registered your current email address, you can do so at **investorcentre.co.uk**.

Investors who hold their shares via an intermediary should contact the intermediary regarding the receipt of shareholder documents from the Company.

A wide range of information is available on our website including:

- finance information – annual reports and half year results, financial news and events;
- share price information;
- shareholder services information; and
- press releases – both current and historical.

Multiple accounts

Shareholders who receive more than one copy of communications from the Company may have more than one account in their name on the Company's register of members. Any shareholder wishing to amalgamate such holdings should write to the Registrar giving details of the accounts concerned and instructions on how they should be amalgamated.

Unsolicited mail, investment advice and fraud

The Company is obliged by law to make its share register publicly available and, as a consequence, some shareholders may receive unsolicited mail. In addition, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence, typically from overseas 'brokers', concerning investment matters.

These callers can be very persistent and extremely persuasive and their activities have resulted in considerable losses for some investors. It is not just the novice investor that has been deceived in this way; many victims have been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.

If you receive any unsolicited mail or investment advice:

- Make sure you get the correct name of the person and organisation.
- Check the Financial Services Register at **fca.org.uk**.
- Use the details on the Financial Services Register to contact the firm.
- Call the FCA Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call them back.
- Search the list of unauthorised firms and individuals to avoid doing business with at **fca.org.uk/scams**.
- Report a share scam by telling the FCA using the share fraud reporting form in the 'Consumers' section of the FCA website.
- If the unsolicited phone calls persist, hang up.
- If you wish to limit the amount of unsolicited mail you receive, contact The Mailing Preference Service on **020 7291 3310** or visit the website at **mpsonline.org.uk**.

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

Share dealing services

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

The Company's Registrar also offers an internet and telephone dealing service. Further details can be found at **computershare.trade** or by telephoning **+44 (0) 370 703 0084**.

Annual general meeting (2018 AGM)

The AGM of the Company will be held at 10.00am on Friday 4 May 2018 at the offices of Jefferies International Limited, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ. The Notice of Annual General Meeting can be found in the investors section on the Morgan Sindall Group plc website.

Electronic voting

Shareholders can submit proxies for the 2018 AGM electronically by logging on to **investorcentre.co.uk** and selecting 'Share Activities'. Electronic proxy appointments must be received by the Company's registrar no later than 10.00am on Wednesday 2 May 2018 (or not less than 48 hours before the time fixed for any adjourned meeting).

Analysis of shareholdings at 31 December 2017

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 1,000	725	51.20	336,694	0.75
1,001 to 5,000	418	29.52	935,911	2.09
5,001 to 100,000	209	14.76	5,351,460	11.97
100,001 to 1,000,000	55	3.88	16,822,144	37.61
Over 1,000,000	9	0.64	21,277,439	47.58
	1,416	100.00	44,723,648	100.00

Shareholder communication

Email: **cosec@morgansindall.com**

Telephone: **020 7307 9200**

Company information

Registered in England and Wales
Company number: 00521970

Registered office

Kent House, 14-17 Market Place, London W1W 8AJ

Advisers

Brokers: Jefferies International Limited
Numis Securities Limited

Solicitors: Slaughter and May

Registrars: Computershare Investor Services PLC

Independent auditor

Deloitte LLP London

Forward-looking statements

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