Annual report
and accounts
2010

Morgan Sindall Group plc
taking action

MORGAN
SINDALL

Financial highlights

Revenue £m

2010	2,102
2009	2,214
2008	2,548

Profit before tax, amortisation and non-recurring items £m

2010	51.3
2009	51.5
2008	71.4

Profit before tax £m

2010	40.7
2009	44.7
2008	62.3

Adjusted EPS pence

2010	92.9
2009	93.9
2008	127.8

Basic EPS pence

2010	70.5
2009	77.9
2008	106.3

Total dividend pence

2010	42.0
2009	42.0
2008	42.0

Operating profit is profit from operations before amortisation of intangible assets and non-recurring items.

Group structure

The Group operates through four divisions and a specialist investment unit:

Construction & Infrastructure	Affordable Housing	Fit Out	Urban Regeneration	Investments
Operating as Morgan Sindall	*Operating as Lovell*	*Operating as Overbury and Morgan Lovell*	*Operating as Muse Developments*	*Operating as Morgan Sindall Investments and Community Solutions*

Cautionary statement

This directors' report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed.

The directors' report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business factors, underlying any such forward-looking information.

The directors, in preparing this directors' report, have complied with s417 of the Companies Act 2006. They have also sought to comply with the guidance set out in the Accounting Standards Board's Reporting Statement: Operating and Financial Review. This directors' report has been prepared for the Group as a whole and, therefore, gives greater emphasis to those matters which are significant to Morgan Sindall Group plc and its subsidiary undertakings when viewed as a whole.

Morgan Sindall Group

The Group has returned robust financial results in tough market conditions and continues to make progress in building leading positions in all its markets.

Chairman and Chief Executive's statement

'2010 was a year of strategic progress and we have improved our capability to deliver larger and more complex projects, added resources in strategically important sectors and streamlined our structure to serve our customers better.'

Paul Smith
Chief Executive

John Morgan
Executive Chairman

A robust performance despite challenging conditions
The Group delivered a robust financial performance in 2010 against the backdrop of continued economic challenges and reductions in public spending. We are reporting a small decline in revenue to £2,102m (2009: £2,214m) with profit before tax, amortisation and non-recurring items in line with last year at £51.3m (2009: £51.5m). Non-recurring items of £5.1m arose from the acquisition and integration of two maintenance businesses and the merger of the Construction and Infrastructure Services divisions offset by a one-off gain on Urban Regeneration's acquisition of certain joint venture interests. Profit before tax (after amortisation and non-recurring items) was £40.7m (2009: £44.7m).

Adjusted earnings per share before amortisation of intangible assets and non-recurring items was 92.9p (2009: 93.9p). The Board recommends a final dividend of 30.0p giving a total dividend for the year maintained at 42.0p (2009: 42.0p).

Our year end cash balance was strong at £149m (2009: £118m) and we achieved, as expected, an increased average cash balance for the year of £63m (2009: £31m). The Group's solid financial position, including committed banking facilities of £100m available until mid-2012, ensures that we retain the capability to fund opportunities as they arise.

Significant progress against our strategy in 2010
We continue to pursue the strategic goal of achieving leading positions in all of our chosen markets. 2010 was a year of strategic progress and we have improved our capability to deliver larger and more complex projects, added resources in strategically important sectors and streamlined our structure to serve our customers better.

Integrated capability improved through merger of Construction and Infrastructure Services divisions
The Construction and Infrastructure Services divisions merged in 2010 to create a new enlarged division, trading as Morgan Sindall. This has enhanced our capability to deliver integrated construction projects to clients covering all elements of design, construction and infrastructure. The merger created operating efficiencies and realised annualised cost savings of £6m but, more importantly, places the business in a stronger position to deliver efficiently to the private sector and respond to changing demands from the public sector. The division achieved an improved operating margin of 2.2% (2009: 2.0%) and operating profit of £26.9m (2009: £30.1m) from revenue of £1.3bn (2009: £1.5bn). The performance of the Construction & Infrastructure division is broken down on page 41.

Acquisitions transform Affordable Housing capability
Affordable Housing delivered an improved financial performance in 2010 with marginally increased revenue of £387m (2009: £374m) and operating profit of £16.1m (2009: £14.9m) demonstrating that the division's full lifecycle approach to clients' housing needs and the ability to mix all forms of tenure is creating opportunities even in the most challenging market conditions. The division acquired Powerminster in June 2010, and this was complemented by securing new clients, staff and assets from Connaught in September 2010 to create a full-service social housing business covering new build open market and social housing, and planned and response maintenance. The Connaught interests were acquired out of administration and half of the clients approached have appointed Affordable Housing as maintenance contractor. These acquisitions place Affordable Housing in a stronger position to secure both response and integrated maintenance opportunities and open up new opportunities to provide a wider service to its expanded client base.

Growth in London fit out market in 2010
Fit Out achieved significant growth in revenue during 2010 increasing by 43% to £415m (2009: £291m), with operating profit increasing to £14.8m (2009: £13.8m). This performance was driven by a number of large schemes in the London office fit out market, primarily in the financial services sector. Very challenging conditions persist in the commercial fit out and refurbishment markets where intense competition is creating downward pressure on tender prices. Consequently the operating margin reduced to 3.6% (2009: 4.7%). During 2010 the division streamlined its structure by combining Vivid Interiors and Overbury to strengthen its operations in the retail, education, hotel and leisure sectors and thereby simplified the division's offering in the market. In addition, the strength of the Overbury brand will help accelerate growth in non-office markets where there is opportunity to increase market share.

Chairman and Chief Executive's Statement *continued*

'Overall we are pleased with the financial performance of the Group in 2010 while the enhancements we have made to the Group during the year leave us well placed to meet future challenges and opportunities presented by the market.'

Innovation improves Urban Regeneration development portfolio
In 2010 Urban Regeneration saw an improvement in activity and delivered an improved operating profit of £2.0m (2009: £0.7m) on revenue of £46m (2009: £32m). This performance is due to the division's flexible approach and its ability to exploit opportunities in the development market. An increase in development management fee income, improved open market residential sales, progress on a number of forward-sold new developments and land trading have contributed to this performance. Also during 2010 a significant effort has been made to enhance the existing portfolio of development schemes through restructuring and refinancing to improve opportunities in the medium-term.

New projects increase the size of the Group's investment portfolio
The Investments unit continued to generate construction opportunities for the operating divisions and also created long-term value in its portfolio. During the year £221m of construction revenue was generated from contracts financed by the unit and its partners for the Group's clients. The directors' valuation of the investment portfolio increased during the year to £53m (2009: £38m), largely as a result of achieving financial close on the Tayside Mental Health PFI and the Hull BSF programme. The basis of calculation for this valuation is on page 49.

Continued stability and financial robustness
The Group continued to maintain tight control of working capital and to drive cost efficiencies. Further restructuring realised annualised cost savings giving £21m of savings in the year and £59m of accumulated annualised savings achieved over the last three years. We remain highly flexible and able to adjust our organisational structure, either reducing costs or making investment available in response to changes in our markets. Our cash performance improved with average cash balances for the year of £63m (2009: £31m) and a year end cash balance of £149m (2009: £118m). This position is enhanced by committed banking facilities of £100m in place through to mid-2012 and a defined benefit pension deficit of only £2m (2009: £3m). Advances in the management of our supply chain through procurement initiatives will further improve operating efficiency, helping to protect our margins and maintain our competitiveness in the market in the short-term, and improving operating margins in the medium-term when markets recover.

Board changes
As previously announced, Simon Gulliford joined the Board on 1 March 2010 and Jon Walden retired from the Board on 6 May 2010. There were no other changes to the Board during 2010.

Improved forward order book

Forward order book – Construction & Infrastructure £bn

Forward order book – Affordable Housing £bn

Forward order book – Fit Out £m

Total forward order book £bn

Development pipeline – Urban Regeneration £bn

The Group's forward order book at the year end strengthened by £0.4bn to £3.6bn (2009: £3.2bn). The forward order book represents anticipated future revenue from secured projects and an estimate of work to be awarded under framework arrangements. In addition, the Urban Regeneration division maintained its development pipeline at £1.4bn (2009: £1.4bn).

'Our capabilities in project financing, combined with the construction and lifecycle services offered by our divisions, place the Group in an excellent position to secure profitable opportunities as they arise.'

Continued opportunities are created by market changes
The UK construction market is expected to weaken over the next three years and the industry is now anticipating the likely impacts of the changes in public spending following the Comprehensive Spending Review ('CSR'). Although capital expenditure directly from the public sector will fall in line with the CSR, the underlying need for infrastructure investment remains in the key sectors of health, housing, energy, transport and education.

Our capabilities in project financing, combined with the construction and lifecycle services offered by our divisions, place the Group in an excellent position to secure profitable opportunities as they arise. Overall we are pleased with the financial performance of the Group in 2010 while the enhancements we have made to the Group during the year leave us well placed to meet future challenges and opportunities presented by the market.

John Morgan
Executive Chairman
4 March 2011

Paul Smith
Chief Executive

The Group's strategy

1. Rigour:

to exercise rigorous and prudent standards of operational and financial management and to relentlessly pursue improvement.

2. Flexibility:

to adapt to meet the needs of its clients and markets.

3. Innovation:

to innovate by empowering employees to deliver excellence and achieve the improbable.

4. Sustainability:

to operate safely and sustainably.

5. Quality:

to deliver an exceptional quality construction service to its construction clients and regeneration partners.

The Group's strategic goal is to create leading positions in all of its chosen markets which, ultimately, will be measured by the quality of operating margins achieved.

1. Rigour

The Group is committed to exercising rigorous and prudent standards of operational and financial management and relentlessly pursuing improvement by:

- managing its resources and cost base efficiently;
- managing working capital effectively;
- ensuring the right balance of financial resources are in place to fund its activities; and
- focusing on the selection and development of long-term revenue and profit opportunities.

The Group monitors progress against this strategy by measuring:

- the quality of its operating margin expressed as a percentage of revenue based on profit from operations before amortisation of intangible assets and non-recurring items;
- average cash balances reported daily throughout the year;
- year end cash balances; and
- earnings per share as shown on pages 91 and 92.

Operating margin %

2010	2.4
2009	2.3
2008	2.8

Year end cash balance £m

2010	149
2009	118
2008	120

Average cash in bank £m

2010	63
2009	31
2008	77

Committed banking facilities £m

2010	100
2009	100
2008	75

M74 completion, Glasgow
Construction underway at the final section of the M74 in Glasgow to create a dual three-lane stretch of motorway on Scotland's largest current infrastructure project.

1. Rigour

The financial strength of the Group has increased during 2010 by realising further annualised cost savings and by securing profitable long-term projects and frameworks. In addition, the directors' valuation of the investment portfolio has increased largely through the financial close of two major PFI/PPP projects and the Group has broadened its activities, establishing a full-service Affordable Housing business by strengthening its response and planned maintenance capabilities. It continues to derive benefits from sales of homes under the shared equity scheme.

£59m of cost savings realised over three years
The Group's divisions continue to make efficient use of working capital and are realising cost savings within their businesses, with £21m of saving realised in 2010. In the last three years, the Group has realised £59m of annualised cost savings consisting primarily of headcount reductions, which have helped to protect the Group's operating profit margins. In addition, the Group remains flexible and continues to adjust cost structures as market conditions change. The overhead percentage has been broadly maintained at 7.9% (2009: 7.7%) through ongoing management of the cost base.

Long-term schemes continue to be secured
The Group is involved in a number of long-term schemes and frameworks that will generate revenue into the future. The Group's forward order book was significantly improved at 31 December 2010 at £3.6bn (2009: £3.2bn), including some projects expected to run until 2020. During 2010, the Group continued to secure profitable long-term schemes, including the Hull Building Schools for the Future ('BSF') framework under which the first two schools valued at £70m were secured, the £417m five year Lee Tunnel project in joint venture, the appointment to a ten year £500m framework for E.ON and, in joint venture, the five year £75m Yorkshire Water framework. In the Affordable Housing division, further long-term schemes included a £75m three year project for Glasgow City Council and

A1M Dishforth to Barton
Bridge supports being lifted into place on the 38-kilometre stretch of the A1M between Dishforth and Barton to upgrade the dual-carriageway to a three-lane motorway.

Lovell Respond expands
Lovell Respond, the Affordable Housing division's response maintenance business, has been dramatically enhanced in 2010 by the acquisition of Powerminster and the maintenance business from Connaught. This has helped to broaden the division's capabilities.

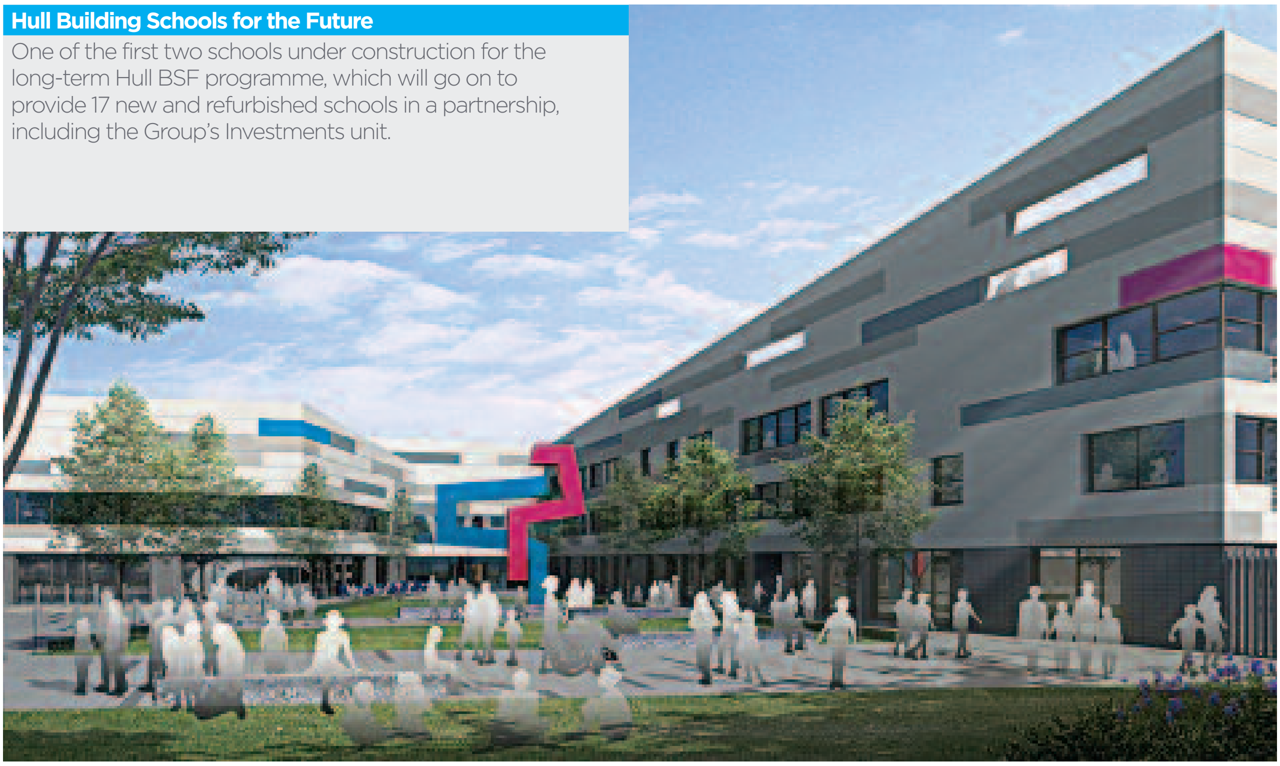
appointment to the four year £135m Places for People framework in Central Scotland. During 2010, the Urban Regeneration division enhanced its existing portfolio of development schemes through restructuring and refinancing to improve opportunities in the medium-term. Muse's ten year Doncaster project commenced construction on the first phase comprising new council offices, despite the loss of public sector grant support.

Investment portfolio grows in 2010
The directors' valuation of the Investments unit's investment portfolio, as detailed on page 49 has increased by 39% to £53m (2009: £38m), which includes committed investment in equity and subordinated debt of £12m. This was due to both increased value created from existing schemes and the achievement of financial close during 2010 on the Hull BSF Programme and Tayside Mental Health Trust. The Group's investment portfolio is another way to generate long-term returns as, over time, the asset value is expected to grow and allow profit to be realised from asset sales at some point in the future.

Working capital management
The Group monitors working capital closely, with a particular emphasis on overdue debt and work in progress as part of its core financial and commercial disciplines. The Group has established procedures to report actual and forecast cash, pays close attention to payment terms in contracts and has reported increased average levels of cash in the year. The Group generated operating cash flow of £93.1m (2009: £25.0m).

Shared equity generates cash and long-term asset growth potential
The shared equity schemes in use in both the Affordable Housing and Urban Regeneration divisions continued to stimulate open market housing sales during a period when mortgage financing remained restricted, which helped to release working capital for reinvestment in other projects. Although open market affordable housing continues to be challenging, some 40% of the divisions' sales were achieved using the shared equity schemes. This also creates a valuable asset that has potential for growth in value as markets recover.

Hull Building Schools for the Future
One of the first two schools under construction for the long-term Hull BSF programme, which will go on to provide 17 new and refurbished schools in a partnership, including the Group's Investments unit.



2. Flexibility

The Group endeavours to adapt to meet the needs of its clients and markets by:

- taking opportunities to acquire resources to increase its scope of operations;
- adapting the structure of the Group in line with changes in client and market needs; and
- divisions working together to deliver to clients, where appropriate.

The Group measures its progress against this strategy by monitoring the forward order book and its share of the development pipeline.

Forward order book £bn

2010	3.6
2009	3.2
2008	3.7

Share of development pipeline £bn

2010	1.4
2009	1.4
2008	1.3

Rackspace, Middlesex
New office space created for this leading technology business under the Fit Out division's highly flexible design and build service which delivered high quality bespoke accommodation based on the client's need.

2. Flexibility

Network Rail, Marylebone Station

Trains running normally as work is carried out overhead to refurbish the roof of this Grade II listed station in Central London using an innovative rolling temporary roof to keep the station and buildings in full use.

The Group's strategic focus on remaining flexible to meet the needs of its current and future markets continued in 2010. This focus included significant acquisition activity to enhance the integrated maintenance capabilities in the Affordable Housing division and to create a full-service capability, organisational changes to create the Construction & Infrastructure division and a streamlining of operations within the Fit Out division. Progress has also been made in further developing the role of the Investments unit in generating construction opportunities within the Group.

Acquisitions significantly enhance social housing division

As a direct strategic move to increase the Affordable Housing division's integrated maintenance capabilities, the Group acquired Gleeson's response and planned maintenance business, Powerminster, in June 2010. In September 2010, the division acquired a response and planned maintenance business from the administrators of Connaught Partnerships Limited including the right to collect outstanding invoiced and uninvoiced debt and the opportunity to secure contracts from a significant proportion of the client base. Half of the Connaught clients approached have appointed the division as a maintenance contractor. These acquisitions have significantly transformed the division's integrated maintenance capability, improved its geographical coverage and its ability to secure maintenance opportunities in the future. The integration of these businesses is largely complete and the division's greatly enhanced capability has created a full-service that is expected to drive the division's growth over coming years.

The direct result of the division's flexibility and speed of action taking on new staff meant that critical programmes of social housing maintenance could be rapidly restarted following Connaught Partnerships Limited entering administration. This included the mobilisation of the division's new response maintenance team to Norwich County Council in just three days from first discussion with the client.

Airbus, fuel testing facility
A complex lifting operation in progress at the creation of the new fuel testing facility designed to test fuel and fuel systems for one of the leaders of the aviation industry.

Doncaster regeneration
Part of the 25-acre regeneration, delivered in partnership with Doncaster Council, to create a mixed use cultural and civic quarter, which began its first phase of development in 2010.

Construction and Infrastructure Services divisions merge
The Construction and Infrastructure Services divisions merged in 2010 to create a new, enlarged division, trading as Morgan Sindall. This enhances the Group's capability to deliver integrated construction projects to clients for all elements of design, construction, infrastructure and maintenance. As an example, projects undertaken for BAA (such as the creation of a combined heat and energy plant at Heathrow) draw expertise from teams previously within the separate divisions. The merger created operating efficiencies and annualised cost savings of £6m but, more importantly, places the division in an excellent position to deliver efficiently to the private sector and respond to changing demands from the public sector.

Fit Out division streamlined
During 2010, the Fit Out division consolidated its structure and strengthened its presence in the retail, education and leisure markets by bringing its existing operations in these markets under the Overbury name. This has streamlined and simplified the division's operations and enabled it to offer clients a more integrated service, for example to RBS and Lloyds Banking Group, who each operate combined retail and office refurbishment frameworks. In addition, the strength of the Overbury brand name will help accelerate growth in these non-office markets where there is opportunity to grow market share.

Investments unit creating financing options for clients
Methods and cycles of procurement in the public sector are changing following the Comprehensive Spending Review (commented on more fully on pages 30 to 31). In direct response, the Investments unit is working closely with the operating divisions to create innovative financing options to facilitate public sector projects. During the year, the Group carried out construction work on a number of schemes facilitated by the Investments unit and financed by its partners, including the social housing regeneration continuing at Miles Platting in Manchester with the Affordable Housing division, the Tayside Mental Health PFI project with the Construction & Infrastructure division and the first two of the 17 schools to be built or refurbished under the £400m Hull Building Schools for the Future programme. The Group is also developing alternative funding models for the social housing market, including asset and land swaps, to offset the reduced level of direct public sector financing of the sector over the coming years.

3. Innovation

The Group's strategy to stimulate innovation through empowering its people is delivered by:

- employing talented people who are given the resources to achieve their potential for the Group and its clients;
- encouraging employees to develop and use innovative means of delivering projects; and
- maintaining a decentralised organisation structure to create an entrepreneurial culture where decisions can be taken locally.

The Group determines progress against this strategy through tracking:

- results of client satisfaction programmes such as Perfect Delivery (as described in more detail on pages 24 to 27;
- outcomes from employee development programmes; and
- order book as described more fully on page 05.

Queen's Theatre, London

Landmark West End theatre refurbished by the Fit Out division as part of a Perfect Delivery initiative, ensuring a high quality, on time completion, enabling the theatre to continue its scheduled productions without disruption.

3. Innovation

The Group offers innovative solutions to its clients for the delivery of their projects as well as extending and improving the lifecycle of the buildings that it constructs on clients' behalf. The Group encourages its employees to be proactive in their dealings with clients and is committed to training and developing them to achieve this.

Affordable Housing's fresh ideas help to deliver clients' projects
The Affordable Housing division is working with Hackney Council to achieve its commitment to residents of delivering high quality and affordable homes to local people. It has been awarded a contract worth £25m to build two new sustainable housing schemes for Hackney Council that will consist of 107 new affordable homes for rent as well as 42 properties for sale. The division will invest in the schemes by constructing 20 homes for council ownership in return for the council enabling the development of the 42 open market properties on a site overlooking Finsbury Park. As part of the delivery of the schemes, the division has agreed to provide construction apprenticeship opportunities for local people.

On a project for River Clyde Homes in Inverclyde, the Affordable Housing division was able to assist the client in reducing costs without affecting the quality of the work undertaken by finding ways to reuse the 26,000m^3 of excavated rock from the site both in other aspects of the project and on other local projects.

Construction & Infrastructure significantly reduces the carbon footprint of the M74 project
The team on the M74 completion project in Glasgow achieved a significant reduction in the project's carbon footprint with some innovative solutions. The route of the project has a legacy of industrial pollution with the existing ground being contaminated by heavy metals, hydro-carbons and various other industrial by-products. The nature of these contaminants meant that the nearest licensed landfill site capable of receiving this waste was almost 200 miles away in the Middlesbrough area and the

Merchant Gate, Wakefield
Developed through its English Cities Fund partnership, the first phase of Muse's £130m Merchant Gate scheme in Wakefield was completed in 2010, demonstrating the division's capability in working through public private partnerships.

Workington Bridge, Cumbria
Following the devastating Cumbria floods of November 2009, this shows the award winning temporary bridge rejoining Workington which had been divided by the River Derwent, created in just 72 days using innovative design and construction techniques.

Birmingham City Council, Pershore Road
The first council homes to be built in over 30 years, completed under partnership with Birmingham City Council and the Homes and Communities Agency, delivered using the latest construction techniques.

volume of material would have required hundreds of tipper truck journeys to dispose of it. Working in close collaboration with a specialist subcontractor and with the approval of the relevant authorities, the team used a variety of chemical and biotech treatments to neutralise the contaminants and convert the waste into a suitable engineering material for inclusion within the embankments of the new motorway. Local soft clay was also moisture conditioned with lime to ensure that it was suitable for civil engineering use, which further reduced the need for material to be brought into the project from external sources.

Improved Customer Experience drives the Fit Out division
During 2010, the Fit Out division has further developed its Customer Experience programme, which encourages staff to seek recommendations from their clients. This programme, builds on Perfect Delivery by encouraging constant innovation in delivery to clients and in its business processes. The programme rewards innovation by staff with awards and incentives, and shares best practice through regular site tours, conferences, seminars and other internal communications. The direct result is a steadily rising rate of recommendations by clients and a resulting improvement in operating margins on those projects.

Continued investment in training and development
The Group continues to recognise the link between a constantly developing workforce and innovation in its businesses. As such, importance continues to be placed on the ongoing training and development of staff to enable employees to utilise their talents for the benefit of clients. Central to the Group's approach is its management development programme, which focuses on instilling the values, attitudes and culture needed to meet clients' needs. Since its creation in 2005, 273 managers have graduated from the programme, greatly improving the depth of management talent and creating opportunities for internal succession throughout the Group. In addition, the Group offers its wider workforce a variety of different training courses including induction training, toolbox talks, apprenticeships and graduate training programmes.

4. Sustainability

In 2010, the Group continued to develop its approach to sustainability based on the themes of People, Planet, Profit by:

- constantly seeking to improve its safety culture;
- measuring and reducing carbon emissions;
- creating and implementing sustainable procurement strategies; and
- engaging with communities local to its construction activities.

The Group measures its progress by regularly:

- measuring and reporting the Accident Incident Rate (AIR), the industry standard performance indicator;
- reporting near misses and working with its insurers and suppliers to reduce operating risks;
- monitoring and reporting carbon dioxide emissions;
- monitoring waste diverted from landfill; and
- monitoring the number of apprenticeships and undergraduate positions offered.

Accident incident rate

2010	429
2009	519
2008	719

CO_2e equivalent emissions for the Group's vehicle fleet tonnes

2010	28,184
2009	27,466
2008	n/a

Wasted diverted from landfill tonnes m

2010	1.5
2009	1.4
2008	0.9

Total waste diverted %
Expressed as percentage of total waste created

2010	87
2009	83
2008	67

Number of apprentices at different stages of development

2010	196
2009	138
2008	188

Number of graduates on years out or being sponsored

2010	65
2009	94
2008	110

Number of graduates recruited during the year

2010	102
2009	50
2008	37

Further sustainability measures are shown on page 50.

Ynysowen Primary School, Wales

A highly sustainable school that provides the local community with much needed facilities such as a dedicated community room, IT suite and art facilities for local residents to use during the day and after school hours.

4. Sustainability

Setting a more ambitious approach in sustainability

2010 has been a year for building on the Group's sustainability statement *Delivering today for tomorrow*, which was adopted in 2009. The People, Planet, Profit model has been further developed, by focusing on the areas of leadership, governance, reporting and communications.

A particular initiative was to raise the profile of the Group's capability and its approach to sustainability. The Group has communicated more widely its commitment to sustainability, both internally among employees and externally to customers, subcontractors, suppliers, investors and other stakeholders. The Group's website is now being used extensively to deliver information about its approach to sustainability to both internal and external audiences, via dedicated news and case studies. In December 2010, the Group held a sustainability conference, bringing senior management and project teams together to discuss the latest developments in sustainability and provided the opportunity to hear from key customers.

The Group has made significant progress in its commitment and approach to sustainability over the last few years and it remains committed to continuous improvement by integrating its sustainable approaches more fully into its activities. Consequently, the Group's sustainability forum set more ambitious aims and objectives relating to sustainability for 2011/12. This report highlights some examples of the positive actions undertaken by the Group in 2010.

Safety culture underpins all operations

Providing a safe working environment for employees, subcontractors and suppliers is vital to the continued success of the Group and is of paramount importance to everyone in the Group. It is currently developing safety risk profiling as part of the bidding process and an active health and safety forum continues to share leading edge best practice across the Group. The Group undertakes investigations to understand the cause of all incidents and how procedures can be improved to guard against future occurrence. Training and development play key roles in establishing safe working practices. Near-misses are investigated thoroughly and lessons learned are communicated to employees. Regular toolbox talks take place on site and a newly commissioned training film, which uses real life examples of best practice, is due to be distributed in 2011. The Group has focussed on improving its health and safety performance throughout the year and the AIR shows a significant reduction.

Group aids local communities

Several recent examples of the Group's commitment to health and safety, community, training skills and education can be found on the Group's website www.morgansindall.com/sustainability. In Scotland, the Affordable Housing division's £24m River Clyde Homes development has engaged the local community at many levels. In addition to keeping residents informed through regular newsletters and meetings, schoolchildren have been given site visits to provide an insight into construction as a career. Work placement opportunities, including several apprenticeships, have also been created for local people.

Equal opportunities for all

Policies on equal opportunity employment are actively promoted throughout the Group, helping to attract and retain the best talent in the industry. Procedures are in place to provide fair treatment for anyone with a disability, especially regarding training and career development. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. Investment and resources continue to be provided to support, train and motivate all employees.

Employee communication

A key part of employee engagement is communication. The Group ensures that all significant events, economic factors and financial updates and the impact of these on the performance of the Group are communicated to employees through email alerts and regular newsletters.

Group significantly improved carbon data collection

The implementation of the Government's Carbon Reduction Commitment Energy Efficiency Scheme ('CRC') in 2011 will see the Group reporting its energy use as part of the CRC for the first time. Standards for measuring and reporting consumption were established by the Group during 2010. It is also seeking accreditation during 2011 in the Achilles CEMARS scheme, which ensures that data collection and recording can be independently verified.

As a leader in construction and regeneration, the Group recognises the important role that it plays in energy conservation. More efficient use of energy both in the way the business operates its permanent offices and in the management of project sites can help to reduce carbon

Digestor, Afan, Wales

Two 4,250m^3 tanks delivered as part of a ten year framework to upgrade Welsh Water's sewerage systems, working in close collaboration with the Environment Agency.

River Clyde Homes, Port Glasgow, Scotland
Following significant rock excavation, the project team and client were able to reuse excavated rock on nearby dockside projects, saving the client money and limiting the environmental impact of transportation and disposal.

British Ecological Society Headquarters, London
The Fit Out division transformed a 1950s office building, described prior to the fit out as a black hole with little natural light, into a bright and inspirational workplace with impressive green standards.

emissions. However, the Group's most important role in reducing carbon emissions is the positive influence it can have in recommending and implementing energy efficient construction solutions for clients. Clients are not only demanding more sustainable solutions to their construction and regeneration challenges, they also frequently seek guidance on how innovative design and construction methods can be applied to reduce energy consumption and minimise environmental impact by the occupiers of the properties. This can have a particularly beneficial impact when design and build projects are undertaken.

Innovative developments in improving the environmental performance of buildings
As one of the first UK contractors able to achieve Code for Sustainable Homes Level 6 for a new build housing project, the Affordable Housing division applied its expertise to a retro fit project in Wellingborough, Northamptonshire. The objective was to demonstrate how existing technologies and materials could be used affordably, to achieve a greater than 60% reduction in carbon emissions.

During the year, Fit Out's design and build specialist, Morgan Lovell, became the first organisation in the UK to gain accreditation for the BS EN 16001 energy management system standard. This achievement not only demonstrates the business' own commitment to improving energy efficiency, but also its ability to advise clients on the implementation of energy conservation measures during fit out projects.

Waste minimisation continues to be a focus for all divisions. Where appropriate, the Group's divisions are signatories to the Waste & Resources Action Programme 'halving waste to landfill' commitment.

Leading innovation for a sustainable supply chain
The Group has played an active role in the development of the proposed new BS 8903 standard for sustainable procurement. Sponsorship of the Construction Industry Research and Information Association project and sharing of best practice demonstrate the Group's commitment to improve sustainable practices in the construction sector. Being at the leading edge of current thinking in procurement will help the Group to further improve its competitiveness and will also ensure that the Group's supply chain delivers to a consistently high standard.

The Group has in place sustainable procurement policies, particularly in relation to responsible sourcing of materials. During 2010, the audited level of directly procured timber from sustainable sources reached 88%. Muse Developments, together with its English Cities Fund partners Legal & General and the Homes and Communities Agency, has undertaken the landmark St. Paul's Square redevelopment in Liverpool, which involved the application of a sustainable procurement plan to the entire construction, fit out and operation of the £41m third phase of the project. This not only fulfilled Regional Economic Strategy goals for procurement of raw materials and services, it also helped deliver a BRE Environmental Assessment Method ('BREEAM') Excellent rating.

5. Quality

The Group aims to deliver an exceptional quality service to its construction clients and regeneration partners by:

- working together with its supply chain to obtain maximum value for clients; and
- delivering projects on time, on budget and in accordance with client requirements.

The Group monitors its success by:

- measuring client satisfaction;
- measuring Perfect Delivery and Service First; and
- direct client feedback programmes.

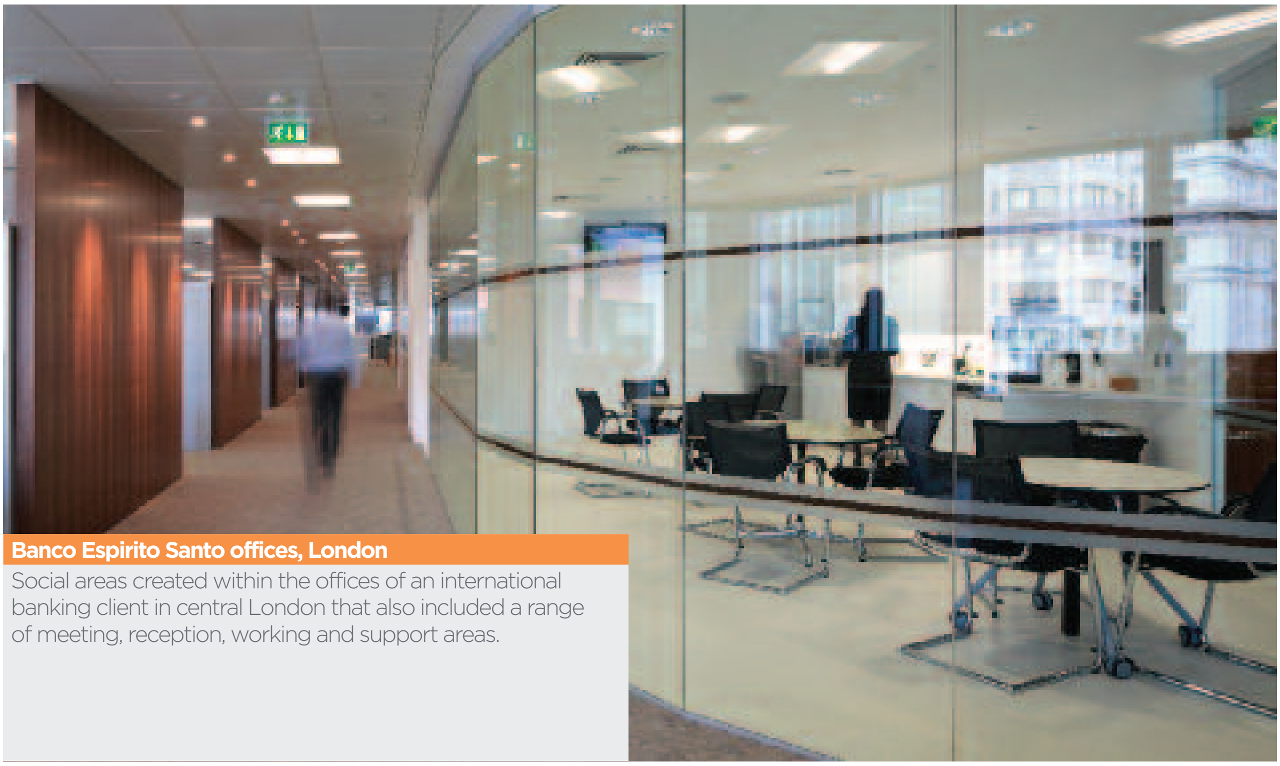
Perfect Delivery score* %

2010	83
2009	84
2008	84

*Based on client sign-off of agreed measures for all qualifying projects in the Construction & Infrastructure and Fit Out divisions.

Thames Water, Brixton to Honor Oak Tunnel
View into part of the tunnel created for the Thames Water Ring Main between Brixton and Honor Oak in London, improving the resilience of London's mains water system.

5. Quality



Banco Espirito Santo offices, London
Social areas created within the offices of an international banking client in central London that also included a range of meeting, reception, working and support areas.

During 2010, the Group continued to develop its capability to deliver exceptional quality construction. This included the enhanced capability in the Construction & Infrastructure division for technically demanding projects and the ability to offer consistent quality in the Affordable Housing division. The Group also improved its supply chain management and extended Perfect Delivery to cover 80% of the Group's activities.

The Affordable Housing division introduced a new programme of service delivery called Service First, based on four cornerstones, which include delighting the client and delivering contracts on time and with no defects. This programme was introduced in two of the division's regions in 2010 and will be extended across the whole division by the end of 2011.

Technically demanding construction capabilities
The combined design and construction capabilities of the Construction & Infrastructure division enable it to deliver highly complex projects, in line with its clients' needs for a broader range of capabilities from a single contractor. For example, the £417m seven kilometre long Lee Tunnel in Stratford, being delivered in joint venture, will improve river water quality for London by reducing sewage flowing into the Thames. This tunnel will be the deepest in the capital, around 80 metres below the ground and includes, within the scope of the project, the Beckton Pumping Station. This station is being designed to cater for flows not only from Abbey Mills but also the Thames Tunnel which will be constructed at a later stage. Also technically challenging is the £91m Airbus wing assembly plant in Broughton, where construction is being carried out in parallel with the aviation design of the components to be made at the plant. This means design and construction have to remain highly flexible and able to respond rapidly to advances in component design.

Windrush Court, Leeds
The Affordable Housing division achieved Level 4 under the Code for Sustainable Homes with a 44% energy reduction over current building regulations. The project offered apprenticeships and training opportunities for local young people.

Lee Tunnel, London
A worker looking over the site where a substantial project is underway to create a seven kilometre tunnel to enhance London's flood defences.

Breadth of capability improves service and quality
The Group has a breadth of capabilities that can be joined up as required to meet clients' needs. It is increasingly common for the divisions to work together. For example, the Affordable Housing division will undertake a project with the Urban Regeneration division during 2011 at Stockton-on-Tees and is also working with the Construction & Infrastructure division on projects in London and Birmingham. In addition, the Affordable Housing division is able to offer clients a full-service covering new build, refurbishment and maintenance, enhancing quality through continuity of staff, systems and processes. The newly merged Construction & Infrastructure division has capabilities for design, construction and infrastructure projects, offering clients a single team approach to highly complex projects which directly enhances quality through common approaches and systems.

Supply chain excellence
The Group requires a high level of quality, competitiveness and sustainability from its principal suppliers and subcontractors to ensure that it can continue to bid projects competitively and secure long-term revenue. Group procurement arrangements are put in place to realise buying gains and to ensure a consistency of performance.

The Construction & Infrastructure, Affordable Housing and Fit Out divisions operate innovative supply chain methodologies with its strategic supply chain. This improves the Group's position with critical suppliers and provides clients with exceptional and committed suppliers and subcontractors. It also fosters close working between the divisions and their supply chain to develop new products and solutions for clients' projects.

Perfect Delivery in use across 80% of the Group
The Group's innovation of Perfect Delivery, which began in the Fit Out division, is now in use across a significant majority of the Group's operations, namely the Fit Out and Construction & Infrastructure divisions. This standard encompasses measures for final quality, timeliness, defect free completion, safety performance and clients' nominated key priorities and is used to determine quality of delivery. The standard is only awarded to a project by sign off from both the client and the other professional parties involved. One of the major benefits to the Group of pursuing this initiative is that it drives improvement in margin through quality efficiencies and creates good client relationships. The Group's drive for staff training in Perfect Delivery through conferences and workshops and the use of incentive schemes continued in 2010. The application of Perfect Delivery was broadened during 2010, whilst the achievement level was significantly maintained at 83% (2009: 84 %) of qualifying projects.

Divisions

MORGAN SINDALL

The role of Morgan Sindall Group plc is to support the divisions in their performance and to harness the strength of the Group by driving strategy and culture.

Construction & Infrastructure

Offers a national service for design, construction and infrastructure to public and private sector clients.

	2010
Revenue	£1,250m
Operating profit	£26.9m
Employees	4,807

MORGAN SINDALL

Affordable Housing

A full-service social housing business covering new build open market and social housing and planned and response maintenance. The division operates a full mixed tenure model to create homes for rent, shared ownership and sale on the open market.

	2010
Revenue	£387m
Operating profit	£16.1m
Employees	2,204

LOVELL

Resources

Empowered staff that are given the resources to achieve their potential for the Group and its clients.

Respected supply chain treated fairly

- Subcontractors
- Suppliers
- Materials providers

Fit Out

Undertakes refurbishment and fit out projects in the office, education, retail, hotel and leisure sectors through Overbury as a national fit out operator and Morgan Lovell as a specialist in the design and build of offices.

	2010
Revenue	£415m
Operating profit	£14.8m
Employees	549

overbury a passion for perfection

Morgan Lovell Inspiring office transformation

Investments unit

A key resource to the Group is its Investments unit with the capability to facilitate finance options for clients, thereby providing construction revenue to the divisions.

MORGAN SINDALL INVESTMENTS

Urban Regeneration

Works in partnership with landowners, local authorities and other partners to progress development opportunities and maximise the contribution to urban renewal through mixed use projects, typically creating commercial, leisure, residential and community facilities.

	2010
Revenue	£46m
Operating profit	£2.0m
Employees	50

muse DEVELOPMENTS

Business model

Route to market

Divisions work both alone and together to offer an outstanding construction service to the Group's clients.

This involves working with other critical organisations and bodies, including:

- Professional consultants
- Joint venture partners
- Funding partners
- Landlords
- Regulatory bodies
- Strategic authorities
- Development agencies
- Public sector partners

The divisions remain flexible in their methods and structures of working relationships and will regularly work under different procurement methods, for example:

- PFI/PPP
- Framework
- Direct contract
- Joint venture
- Special purpose vehicle
- Competitive tender
- Negotiated contract

Customers

Private sector

The Group operates across a large number of private regulated sectors of the market. Examples include:

- **Offices:** resulting from the Group's market leadership in office fit out and its capability for new build.
- **Energy:** maintenance and development of electricity and gas infrastructure.
- **Water:** maintenance and development of infrastructure, including major flood defence schemes.
- **Commercial and industrial:** such as warehousing, distribution and assembly facilities.
- **Technology:** including design, construction and fit out of privately funded hi-tech facilities.
- **Transport:** including aviation, infrastructure and associated buildings.
- **Leisure:** based on the Group's build and refurbishment capabilities in theatres, hotels and other facilities.

Public sector

The Group undertakes both development and construction schemes as appointed contractors and also as development partners on behalf of central and local Government. Examples include:

- **Affordable Housing:** long established reputation for undertaking new build, refurbishment and maintenance of social and affordable housing.
- **Transportation:** includes development of major roads, rail infrastructure and stations, including tunnelling and bridges.
- **Energy and waste:** design and construction of innovative waste to energy plants, power and treatment facilities for both the public and private sectors.
- **Education:** construction and refurbishment of schools, colleges, universities and student accommodation.
- **Health:** including local services, GP and specialist treatment facilities and hospitals.
- **Defence:** secure projects for MoD facilities.

Revenue
and inves

e, operating costs
estment

enue is derived from the activities
the Group mainly from:

- Construction project activities.
- Sale of commercial developments and residential house sales.
- Maintenance income from long-term maintenance contracts in the social housing and utilities sectors.
- Rental income from social housing stock and PFI assets.

The Group's major categories of operating costs within the divisions are as follows:

- **Staff:** Payment of salaries, benefits, incentives and employment related taxes.
- **Supply chain:** Payment of subcontractors and suppliers.
- **Property:** Rent, rates, service charges and costs of managing facilities.

The Group also invests cash in the following:

- **Working capital:** to fund its financial assets (inventories and trade receivables) particularly in the Urban Regeneration and Affordable Housing divisions.
- **Joint ventures:** equity and loans are provided to fund construction activities of joint ventures.
- **ixed assets:** invested primarily in IT equipment, ant and facilities that are used in support of our erations and construction activity.

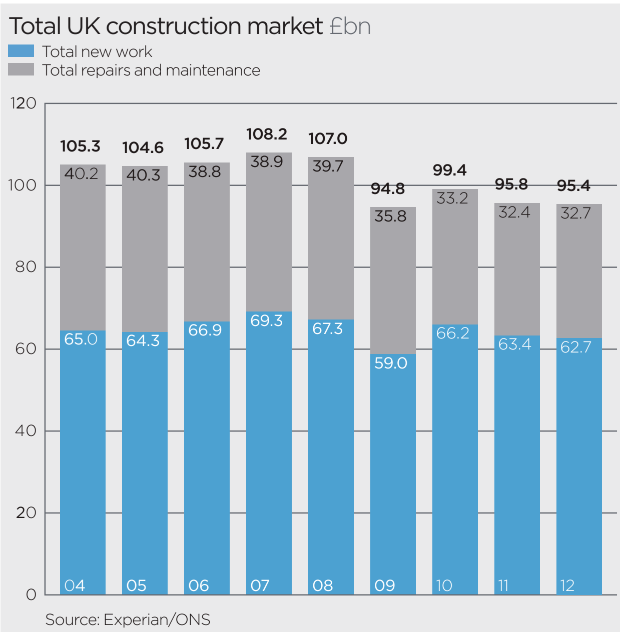
Profit

Profit generated is then used within the Group as follows:

- **Retained:** Morgan Sindall Group plc operates a strong positive cash position to ensure it is able to fund the strategic development of the Group.
- **Acquisitions:** The Group uses relevant acquisitions as a means of growing the divisions. In 2010, these included:
  - **Powerminster:** the acquisition of the response and planned business from MJ Gleeson Group plc.
  - **Connaught:** acquired the social housing maintenance business through the ability to pursue the novation of certain contracts, together with invoiced and uninvoiced debts.
- **Strategic development:** The Group uses profits generated to fund significant developments in its organisation, for example the merger in 2010 of the Construction and Infrastructure Services divisions to create a single division better equipped to meet the needs of its clients.
- **Shareholder returns:** a significant proportion of the Group's profits are returned to shareholders through dividend payments.

Business model

The market



The estimated growth of the UK construction market was 5% in 2010
Following an 11% reduction in the overall size of the UK construction market in 2009, the volume of activity was estimated to have recovered slightly in 2010 to reach £99.4bn (2009: £94.8bn), an increase of 5%.

The Group's strategic goal remains to secure leading positions in its markets measured by the quality of the operating margins achieved. Although slight, the reduction in the Group revenue in 2010 indicated a loss of absolute market share. The Group has refused to follow a volume strategy with low cost pricing and has, therefore, succeeded in maintaining its operating margins.

Public work underpinned 2010, private work expected to recover from 2012
Public work expenditure is estimated to have reached 41.4% as a proportion of overall UK construction volume during 2010 (2009: 37.8%), continuing the trend set over the last few years of increases in absolute and relative public sector spend. However, public sector construction volumes are estimated to have peaked in 2010, with a small fall in absolute and relative levels forecast in 2011 and accelerating in 2012 as the effects of the CSR begin to be felt. These reductions are forecast to be offset by a growing private sector.

Given low overall growth, the Group will succeed in what will be difficult and rapidly changing markets only by being able to identify and capitalise on opportunities. The Group will look to achieve this by concentrating on the following:

- working in areas where it has real expertise and can deliver superior quality service to clients;
- offering a breadth of service so that clients can deal with a single point of contact in their supply chain; and
- utilising the Group's skills to offer and facilitate innovative alternative financing to enable clients to continue to invest in infrastructure.

	2009 (actual)		2010 (estimated)		2011 (forecast)		2012 (forecast)	
	£bn	%	£bn	%	£bn	%	£bn	%
New work								
Public housing	2.9	3.1	4.0	4.0	3.3	3.4	2.4	2.5
Private housing	10.9	11.5	11.9	12.0	11.9	12.4	13.3	13.9
Infrastructure	9.3	9.8	11.4	11.5	11.5	12.0	12.4	13.0
Public non-residential	9.9	10.4	12.9	13.0	11.0	11.5	8.6	9.0
Private industrial	3.1	3.3	3.5	3.5	3.6	3.8	3.9	4.1
Private commercial	22.9	24.2	22.5	22.6	22.1	23.1	22.1	23.2
	59.0	**62.2**	**66.2**	**66.6**	**63.4**	**66.2**	**62.7**	**65.7**
Repairs and maintenance								
Public housing	6.1	6.4	6.0	6.0	5.7	5.9	5.6	5.9
Private housing	9.8	10.3	9.8	9.9	9.7	10.1	10.0	10.5
Public non-residential	7.6	8.0	6.9	6.9	6.5	6.8	6.2	6.5
Private non-residential	12.3	13.0	10.5	10.6	10.5	11.0	10.9	11.4
	35.8	**37.8**	**33.2**	**33.4**	**32.4**	**33.8**	**32.7**	**34.3**
Total	**94.8**	**100.0**	**99.4**	**100.0**	**95.8**	**100.0**	**95.4**	**100.0**
Public work	35.8	37.8	41.2	41.4	38.0	39.7	35.2	36.9
Private work	59.0	62.2	58.2	58.6	57.8	60.3	60.2	63.1
Total	**94.8**	**100.0**	**99.4**	**100.0**	**95.8**	**100.0**	**95.4**	**100.0**

Examples of the Group's approach in each of these areas are as follows:

Infrastructure and energy provide opportunities for growth
The CSR protected critical programmes of investment in the UK, particularly in transport and power generation infrastructure. Major schemes and future investment in rail and major road projects have been preserved. The need for investment in power generation and distribution infrastructure will create a long-term market for innovative energy and waste schemes, an area of expertise for the Group. The newly merged Construction & Infrastructure division is well placed to benefit from this investment, where recent cost savings and operational economies will enable it to compete both in its own right and with partners in joint venture.

Falling education spending will impact Construction & Infrastructure division
Reductions in spend on education building programmes are forecast and the cessation of the BSF programme has been well publicised. Longer term, the need for increased capacity in the education sector persists and local government is investigating alternative funding options, different procurement routes and standardisation. The Investments unit has the skills to be able to develop options with clients, offering a route for the Construction & Infrastructure division to continue to win work.

Market change expected to offset reduction in public funds for housing
Changes to the way social housing targets are to be met are likely to become clearer over the next 12 months as local authorities, registered social landlords and the construction industry seek to create new vehicles to address the significant persisting need for social housing in a funding environment that has changed considerably. Opportunities will arise as social landlords offer a growing proportion of new social tenants intermediate rental contracts at rent levels between those available in the market and current social housing rents, increasing social landlords' ability to invest in new schemes. Another important change is that local authorities will have decision making responsibility for grant spending, with the Homes and Communities Agency moving to an enabling role.

Though overall spend on new build public housing is expected to decline, the Group has identified the repairs and maintenance sectors as an area where it can grow profitably. The reason for this is that clients are increasingly demanding a full range of services from a marketplace that is relatively fragmented and localised. The acquisitions of Powerminster Gleeson Services and of the response and planned maintenance business from Connaught enable the Affordable Housing division to make a step change in these markets by significantly increasing its integrated maintenance capabilities and geographical spread and establishing a full-service capability.

Innovative financing options create opportunities
As reported in 2009, the Group anticipated a significant reduction in public sector spending. Alongside the activities described above, the Construction & Infrastructure and Affordable Housing divisions are working closely with the Group's Investments unit to create innovative project finance options to help stimulate projects to address the UK's underlying construction needs for new homes, schools, infrastructure and healthcare. This also creates the opportunity for profitable market share growth.

Notes to 'The Market' analysis:
Data represented within this market analysis has been sourced from Experian and the Office for National Statistics. It provides a high level view of the overall shape and trend in the UK market based on output prices that have been normalised at 2005 levels to enable ease of comparison.

Financial review

Additional information on the Group's financial performance can be found elsewhere in the annual report and accounts as follows:

- divisional trading performance is covered in note 1 to the consolidated financial statements on pages 87 and 88;
- cash flow is analysed in detail in note 26 to the consolidated financial statements on page 106;
- this financial review addresses treasury risks and risk management; the broader risks facing the Group are dealt with under Key Risks on pages 36 to 39; and
- directors' valuation of PPP/PFI investments is included under the Investments unit review on page 49.

Robust 2010 performance

Revenue £m

2010	2,102
2009	2,214

Profit from operations before amortisation and non-recurring items £m

2010	52.4
2009	50.5

Profit before tax, amortisation and non-recurring items £m

2010	51.3
2009	51.5

Profit before tax £m

2010	40.7
2009	44.7

Year end cash balance £m

2010	149
2009	118

Where stated, operating profit is profit from operations before amortisation and non-recurring items.

'The Group has delivered robust results in challenging market conditions. The Group has continued to shape its divisions either through internal merger and restructure or through acquisition, to better address the markets in which they operate.'

David Mulligan
Finance director

Overview
Although 2010 has been another difficult year for the economy, the Group has delivered robust results in challenging market conditions. The Group has continued to shape its divisions either through internal merger and restructure or through acquisition, to better address the markets in which they operate. The amended structure provides a strong platform from which to exploit opportunities and to provide future growth when conditions in the Group's markets improve. The Group continues to address its cost base and this has resulted in annualised cost savings of £59m being realised since the start of 2008. Further action will continue to be taken as necessary.

In the year, the Group has significantly extended its Affordable Housing offering through the acquisition of Powerminster in June and, in September, by acquiring from the administrators of Connaught Partnerships Limited the Connaught social housing maintenance business through the ability to pursue the novation of certain contracts, together with invoiced and uninvoiced debts. Provisional goodwill and other intangible assets of £33.9m have arisen on these two acquisitions and the Group believes that these transactions will transform the division, which now provides a unique full affordable housing service covering planned maintenance, response maintenance and new build open market and social housing.

Non-recurring items
The Group has incurred non-recurring items during the year of £3.9m in acquiring and integrating the Connaught and Powerminster businesses and £3.2m in merging its Construction and Infrastructure Services divisions. These costs were offset by a one-off gain of £2.0m that arose on Urban Regeneration's purchase of certain joint venture interests.

Revenue of £2,102m and operating profit of £52.4m
Revenue has fallen by 5% to £2,102m (2009: £2,214m), with the main components being a fall of £263m in Construction & Infrastructure offset by rises of £124m in Fit Out and smaller rises in Affordable Housing and Urban Regeneration. Most of the increase in revenue in Affordable Housing is attributable to the Powerminster and Connaught acquisitions.

Operating profit has risen by £1.9m to £52.4m (2009: £50.5m), with increases in Fit Out (£1.0m), Affordable Housing (£1.2m), Urban Regeneration (£1.3m) and Group Activities (£1.9m) being offset by a decrease of £3.2m in Construction & Infrastructure. The Investments unit incurred an operating loss of £3.3m (2009: £3.0m).

The cash position of the Group at year end was robust at £149m. Average cash during 2010 increased to £63m.

Construction & Infrastructure delivered a stronger operating margin at 2.2% (2009 2.0%). The operating margin in Fit Out has fallen to 3.6% (2009: 4.7%), due to continued tough market conditions and, at Affordable Housing it improved to 4.2% (2009: 4.0%).

Net finance expense of £1.1m
The net finance expense of £1.1m compares with net finance income of £1.0m in 2009. This change is due to £1.7m of other finance charges being recognised in the net finance expense in 2010. Lower interest rates on what have been higher average cash balances, have also contributed to the impact on net finance cost.

Overall, profit before tax, amortisation and non-recurring items is in line with the previous year at £51.3m (2009: £51.5m). Amortisation in the year was £5.5m (2009: £6.8m).

Tax
The Group's tax charge of £10.9m (2009: £11.8m) represents an effective tax rate of 26.8% (2009: 26.4%). The effective tax rate is lower than the standard rate of corporation tax largely due to prior year adjustments of £0.9m (2009: £1.2m). The Group continues to discuss with HMRC the corporation tax treatment of the fair value adjustments which arose following the 2007 acquisition of certain businesses and assets from Amec. As a result of these discussions, the Group reduced the payments of corporation tax which it would otherwise have made to HMRC during 2010 by £3.9m. In 2009, the Group reduced its corporation tax payments by £9.2m and received repayments from HMRC of £9.5m. No benefit has been recognised in the tax charge in the income statement in respect of this matter, as discussions are still progressing and the eventual outcome is unclear.

Financial review
continued

Earnings per share

Adjusted basic earnings per share before amortisation and non-recurring items have fallen by 1% from 93.9p to 92.9p, reflecting the slight fall in adjusted profit before tax and the slight increase in the effective tax rate. Basic earnings per share have fallen by 9% from 77.9p to 70.5p.

The Group has £100m of committed facilities available through to mid-2012.

Dividend

The Board recommends a final dividend of 30.0p payable on 16 May 2011 to shareholders on the register at the close of business on 26 April 2011. This will give a total dividend for the year maintained at 42.0p (2009: 42.0p). This is covered by adjusted earnings per share 2.2 times (2009: 2.2 times). The Group's long-term policy remains one of increasing the dividend broadly in line with the growth in earnings, aiming to cover the dividend by earnings between two-and-a-half and three times. Although in the short-term the cover has remained at 2.2 times, the Board is comfortable with this as the dividend is covered by operating cash flows. The Group will seek to re-establish the longer-term level of cover as and when profits increase.

Continuing balance sheet strength

Total equity increased to £221.7m (2009: £209.3m). The number of shares in issue at 31 December 2010 was 43.2m (2009: 43.2m). The small increase of 28,000 shares was due to the exercise of options under employee share option schemes.

Group has substantial year end cash balances

The cash position of the Group at the year end was robust at £149m (2009: £118m). Average cash during 2010 increased to £63m (2009: £31m).

The net cash inflow from operating activities was £93.1m (2009: £25.0m). This is primarily the result of the working capital improvement of £53.7m (2009: worsening of £31.3m). Additionally, the Group has £13.9m (2009: £9.0m) of shared equity receivables relating to open market sales in the Affordable Housing and Urban Regeneration divisions. There were net payments of £35.2m to acquire subsidiaries and other businesses (2009: £1.1m), capital expenditure was £3.1m (2009: £7.5m) and payments to increase interests in joint ventures were £4.3m (2009: £4.2m), all of which reflect ongoing investment in the business. Cash dividends of £0.8m (2009: £2.2m) were received from joint ventures. After tax payments, dividends and servicing of finance, the net increase in cash and cash equivalents was £30.9m (2009: £2.6m decrease). It is anticipated that these cash resources will be available for the development of the Group's businesses, either to fund acquisitions or invest in working capital as required.

Banking facilities of £100m committed until 2012

The Group has £100m of committed facilities available through to mid-2012. The banking facilities are subject to financial covenants, all of which have been met during the year. These committed facilities supplement the cash balances in providing financial security to the Group.

Consistent approach to treasury risk management

The Group has clear treasury policies which set out approved counterparties and determine the maximum period of borrowings and deposits. Deposits are restricted to periods of no longer than three months. The Group has very limited exposure to foreign exchange risk because its operations are based almost entirely in the UK; non-UK suppliers are used only occasionally.

Although the Group does not use derivatives, some of its joint venture businesses use interest rate swaps to hedge floating interest rate exposures and Retail Prices Index swaps to hedge inflation exposure. The Group considers that its exposure to interest rate and inflation movements is appropriately managed. Further information on the Group's use of financial instruments is explained in the consolidated financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in this business review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described above. In addition, note 29 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk. 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 Group and achieve a suitable balance between higher returns that may be possible through borrowing and the stability afforded by a sound capital position. 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.

As at 31 December 2010, the Group had cash of £149m and committed banking facilities of £100m extending until mid-2012.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current banking facilities.

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

Key risks

The Group's achievement of its goal and strategies is subject to a number of key risks. Risk management processes are designed to continually assess, identify, understand the key risks and challenge the effectiveness of mitigating actions. The Board considers that the most significant risks and the main mitigating actions are:

Market and economic environment
The market sectors in which the Group operates are affected to varying degrees by general macroeconomic conditions and changes in Government spending priorities. The Group is particularly focused at present on managing the impact of the challenging economic conditions and continuing to invest for the long-term to be prepared for opportunities when they arise.

Risks
- Shortage of opportunities caused by macroeconomic factors
- Changes in Government spending
- Reliance on key customers and sectors and increased competition
- Projects consuming excessive capital inhibit growth
- Inability to manage overheads during downturn
- More onerous financial security such as bonding and other financial guarantees required in the current market in order to qualify for work

Impacts
- Loss of revenue
- Profit effect magnified if overheads not managed appropriately
- Increased competition leads to falling margin on work
- Reduced pipeline of work
- Excessive consumption of cash leads to inability to carry out work

Mitigation
- Investigation and proposal to clients of new methods of project finance provided by the Group and its partners
- Delegated authorities in place throughout the Group require approval of tenders at appropriate levels
- Refusal to compete solely on price: Perfect Delivery quality programme seeks to differentiate the Group's offering on service and quality
- Adequacy of cash resources and facilities available
- Bonding lines and insurance programme are kept under constant review
- Sector spread and diversification offer some protection against decline in individual sectors
- Regular feedback from clients and others used to tailor the Group's offering
- Regular monitoring and reporting of financial performance, work won, prospects and pipeline of opportunities
- Regular review of resource levels against anticipated workload
- Scale gives some protection by enabling us to compete and work in areas with higher barriers to entry

Regulatory environment

The Group operates within a constantly changing regulatory environment governed by legislation and industry specific regulation. Non-compliance with legislation or regulations can damage the Group's reputation, market standing and ability to secure new business and may lead to financial penalties.

Risks

- Regulatory or legislative breach, failure to understand regulatory environment
- Failure of employees and subcontractors to comply with legislation

Impacts

- Loss of reputation and market share
- Cost of investigation, fines and prosecution

Mitigation

- Regular communication of relevant regulation, including changes and amendments
- Key regulatory risks dealt with in Group policies and induction processes
- Regular training and updates for those with responsibility for ensuring compliance
- Regular reporting of significant measures relevant to regulation
- Systems of management to identify risks and controls, audits and reviews to ensure that controls are operating effectively
- Periodic reviews by external professionals and involvement of external experts in training where necessary
- Raising concerns and ethical policies and procedures in place

Health, safety and environmental risks

The Group's health and safety and environmental performance affect employees, subcontractors and the public and, in turn, can affect its reputation and commercial performance.

Risks

- Environmental or safety incidents caused by the Group's activities

Impacts

- Harm to individuals and communities
- Loss of reputation
- Loss of market share
- Fines and prosecution

Mitigation

- Key executives with specific responsibility for HSE are identified in each division and on the Board
- Health and safety and environmental policy frameworks are communicated and senior managers appointed in each division
- Well established safety systems, site visits, monitoring and reporting (including near miss and potential hazard reporting) in place
- Investigation and root cause analysis of accidents and near misses
- Regular health and safety and environmental training and updates including behavioural training
- Certification of workforce under Construction Skills Certification Scheme

Key risks
continued

Developing talent

The ability of the Group to secure and deliver projects successfully to clients, grow in profitability and develop strong, sustained financial performance relies on the quality of its employees. It is critical that talented individuals are attracted, developed and retained.

Risks

- Failure to attract talented individuals to the Group
- Inadequate succession planning
- Failure to retain talented individuals
- Talented people see better opportunities for reward and satisfaction in other industries or with competitors

Impacts

- Quality of service and of project delivery falls
- The Group fails to develop the people necessary to provide future growth

Mitigation

- Senior executives focused on creating a dynamic working environment based on shared characteristics and core values driven by the Board
- Management development programmes in place alongside formal individual appraisal and development processes
- Regular review of remuneration levels and competitive bonus structure
- Long-term incentivisation through Save As You Earn and share option schemes
- Succession and staff development considered in annual and longer-term business planning cycles

Acquisitions

The Group regularly identifies and evaluates potential acquisitions and it is important that acquisitions deliver the planned benefits.

Risks

- Group fails to deliver benefits sought at time of the acquisition, through issues with due diligence, strategic assessment, alignment of cultures or other reasons
- Unknown liabilities are uncovered subsequent to completion

Impacts

- Loss of profitability and reputation
- Excessive resources required to be directed towards the acquisition

Mitigation

- All acquisitions approved at Board level
- Commercial and financial due diligence led by senior teams, with clear roles and responsibilities
- Post acquisition integration plans prepared and monitored
- KPIs established and monitored post acquisition

Contractual risks

The Group undertakes several hundred contracts each year and it is important that contractual terms reflect risks arising from the nature and complexity of the works and the duration of the contract.

Risks

- Acceptance of work outside core competences
- Acceptance of unprofitable work
- Poor project management leading to delays and cost overruns
- Inability to agree valuation of additional work and variations
- Significant levels of volatility in input prices for key materials

Impacts

- Loss of reputation
- Excessive resources and attention devoted to poorly performing projects
- Loss of profitability on contracts or streams of work

Mitigation

- System of delegated authorities governs tenders and the acceptance of work
- Work carried out under standard terms wherever possible
- Well established systems of measuring and reporting project progress and estimated outturns
- Strategic trading arrangements in place with key suppliers
- For very significant purchases on large projects, forward orders can be placed on a longer timescale
- Collation and review of client feedback
- Lessons learned exercises carried out on projects
- Use of accredited subcontractors with established relationships wherever possible
- Staff incentivised on basis of contract performance
- Cross regional peer reviews

Counterparty and liquidity risks

The terms on which the Group trades with counterparties affect its liquidity. Without sufficient liquidity, the Group's ability to meet its liabilities as they fall due would be compromised, which could ultimately lead to its failure to continue as a going concern. Further disclosure on liquidity risks and liquidity risk management is contained in the consolidated financial statements on pages 111 to 114.

Risks

- Insolvency of key client, subcontractor or supplier
- Inadequate liquidity

Impacts

- Significant financial loss due to bad debt
- Cost of replacing supplier
- Reputational impact
- Group cannot continue in business or cannot grow as desired, due to lack of funds

Mitigation

- Work only carried out for financially sound clients, established through credit checks
- Specific commercial terms, including payment terms, with escrow accounts used as appropriate
- Seek and secure financial security where appropriate
- Work with approved suppliers wherever possible
- Contracts with clients, subcontractors or suppliers only entered into after review at appropriate level of delegated authority
- Work carried out under standard terms of contract as far as possible
- Regular monitoring of cash levels and forecasting of cash balances
- Regular stress testing of longer-term cash forecasts
- Regular assessment of the level of banking facilities available to the Group

Construction & Infrastructure

NIBSC Research Facility

External view of the highly sophisticated National Institute for Biological Standards Research Facility designed and built by Morgan Sindall, containing a laboratory and controlled environments.

The division
The Group's Construction & Infrastructure division was created during 2010 by the merger of the existing Construction division with the Infrastructure Services division; it also includes the design activities of Morgan Sindall Professional Services.

The new division offers a national integrated service for design, construction and infrastructure to public and private sector clients.

Margin improvement underpins financial performance

Revenue £m

	Construction	Infrastructure	Total
2010	737	513	1,250
2009	743	770	1,513
2008	813	799	1,612

Operating profit £m

	Construction	Infrastructure	Total
2010*	14.3	12.6	26.9
2009	13.0	17.1	30.1
2008	9.5	14.4	23.9

Operating margin %

	Construction	Infrastructure	Total
2010*	1.9	2.5	2.2
2009	1.7	2.2	2.0
2008	1.2	1.8	1.5

Construction
Infrastructure

*Before amortisation and non-recurring items.

Order book £bn

2010	2.0
2009	1.6
2008	2.2

Revenue for the year reduced by 17% due to a slowdown in the infrastructure market caused by the timing of some major projects compounded by the completion of some long-term frameworks in the utilities sector. The operating profit margin has increased to 2.2% (2009: 2.0%) due to a combination of realised cost savings and improving margin performance underpinned by the division's improving operational performance.

The division's operating profit of £26.9m (2009: £30.1m) represents a robust performance given the competitive pressures in the market and the change in priorities brought about by the CSR.

Key projects and frameworks secured in 2010
The Construction & Infrastructure division continued to perform well, in securing a number of high quality projects and frameworks during 2010. Significant projects included the five year Lee Tunnel for Thames Water, a £417m joint venture project in which the division has a 50% share, the successful appointment, in joint venture, to the Highways Agency's four year £2bn motorways framework and the £400m Hull Building Schools for the Future programme. In addition, the division has been appointed, in joint venture, to the five year £75m Yorkshire Water framework and a ten year £500m framework for E.ON in central England.

Cautious construction outlook with opportunities in infrastructure
We remain cautious about the outlook in the short-term due to the sharp reduction in public sector capital spending and the anticipated modest recovery of the commercial sector. Opportunities remain in the infrastructure market due to the planned investment in power generation and utilities infrastructure.

The forward order book for Construction & Infrastructure has increased by £0.4bn to £2.0bn (2009: £1.6bn). This level of secured workload provides underlying stability for the division whilst its extended capabilities ensures that it remains in a strong position to secure further high quality, technically demanding projects. In addition the division is working with both Urban Regeneration, on the Wakefield and Doncaster regeneration schemes, and the Investments unit to create innovative financing options to enable projects to progress.

'2010 has been a year of change as we have adapted our operating structure to better align us to growing sectors of the construction market. Our extended capabilities, trading under the Morgan Sindall name, enable us to better serve our current clients and importantly to offer a service that meets the needs of our future markets. Growth opportunities will come from both the private and regulated sectors and through new procurement styles likely to evolve in the public sector.'

Graham Shennan
Managing Director, Construction & Infrastructure

Affordable Housing

Canalside, Blackburn
Design and build scheme that created new affordable housing at a canal-side site in Blackburn, next to the former Infirmary hospital. The project was delivered in close collaboration with the local community, employing local labour and achieved a Code 3 for sustainable homes.

LOVELL

The division

The Group's Affordable Housing division operates under the Lovell name providing a full-service capability to develop, construct, refurbish and maintain affordable housing. The division operates a full mixed tenure model to create homes for rent, shared ownership and sale on the open market.

Improved financial performance from expanded capabilities

Revenue £m

2010	387
2009	374
2008	377

Operating profit £m

2010*	16.1
2009	14.9
2008	21.0

Operating margin %

2010*	4.2
2009	4.0
2008	5.6

Order book £bn

2010	1.5
2009	1.3
2008	1.3

*Before amortisation and non-recurring items.

Although it has been another tough year for open market housing due to the lack of available mortgage finance, the impact of new acquisitions has enabled Affordable Housing to increase revenue in 2010 to £387m (2009: £374m).

The operating profit margin has been improved to 4.2% (2009: 4.0%) and operating profit was £16.1m (2009: £14.9m). This increase in revenue and profit was largely driven by the growth in the division's response and planned maintenance capability.

Full service provision created by extending response maintenance capability

The Affordable Housing division has extended its client base during 2010 and continued to secure key schemes across all work streams in the affordable housing market. As a direct result of the Powerminster and Connaught acquisitions, the division has been able to secure new long-term contracts with 45 local authorities and housing associations. The acquisitions have transformed Affordable Housing and helped it to become a full-service provider of affordable housing covering open market and new build social housing, planned and response maintenance. They have also reinforced the division's national coverage as well as extending its geographic coverage in the south and south-west of England.

In addition to the acquisition, key new project wins in 2010 included a three year, £75m redevelopment framework for Glasgow City Council, a £45m new build social housing contract to create 545 new homes for West Lothian Council and a position on the £135m four year framework to deliver 1,500 new homes in central Scotland for Places for People. The division also secured three schemes for Southampton City Council to build energy efficient homes worth over £30m. Another notable contract secured was its first project under the Homes and Communities Agency's Delivery Partner Panel at Longfield Drive, Bradford (£6m).

Innovative approaches to address changes in funding model

The value of the division's forward order book at the start of 2011 was improved at £1.5bn (2009: £1.3bn). The division has largely completed the integration of Powerminster and Connaught and expects further expansion of its activities in 2011 as it seeks to build on these broader capabilities and exploit both response and integrated maintenance opportunities. In addition, the division is pursuing cross-subsidy mixed tenure projects as well as other innovative financing options with the Investments unit to address the changes in the UK social housing model announced in the CSR.

'This has been a year of considerable change for the Affordable Housing division, underlined by a robust financial performance. Our capability to work with our clients through the entirety of their housing property cycle gives an exciting proposition to the market. Added to this, the transformation of our integrated maintenance capabilities through the two acquisitions in the year leaves us in a good position for further expansion of our activities in 2011 and beyond.'

Stewart Davenport
Managing Director, Affordable Housing

Fit Out

Bank of China, London

A large scale fit out to create a London headquarters building for one of China's 'big four' banks. The accommodation included reception, meeting and working areas and supporting social spaces. This is one of a series of international banking projects carried out by the division during 2010.

overbury
a passion for perfection

Morgan Lovell
Inspiring office transformation

The division

The Group's Fit Out division undertakes refurbishment and fit out projects in the office, education, retail, hotel and leisure sectors. Following a reorganisation in 2010, this is now delivered through Overbury as a national fit out operator and Morgan Lovell as a specialist in the design and build of offices.

Market recovery drives significant revenue growth and improved operating profit

Revenue £m

2010	415
2009	291
2008	474

Operating profit £m

2010*	14.8
2009	13.8
2008	25.8

Operating margin %

2010*	3.6
2009	4.7
2008	5.4

Order book £m

2010	180
2009	171
2008	124

*Before amortisation and non-recurring items.

The improvement in the commercial fit out market led to Fit Out's revenue increasing significantly by 43% to £415m (2009: £291m). This growth was due in the most part to a higher volume of large projects in the Central London market driven by financial services clients taking advantage of large prime floorplates being available. Operating profit was £14.8m (2009: £13.8m), driven by revenue growth, tight control of overheads, continuing focus on profitable opportunities and close collaboration with the supply chain to realise efficiencies. The operating profit margin reduced to 3.6% (2009: 4.7%) due primarily to continued price competition in the market.

Key projects secured across a broad spread of sectors

Fit Out continued to pursue and secure high quality fit out and refurbishment projects during 2010. Key contracts secured for the division included the delivery of a media learning campus for the University of Salford, refurbished offices in Glasgow for Hewlett Packard and for Microsoft in Reading. In London, significant contracts included the refurbishment of the Shell office headquarters building on the South Bank, the fit out of new offices for Macquarie Bank, the Bank of China and the Bank of Tokyo, and new trading facilities at Barclays Capital. In addition, the division secured projects under long-term frameworks for RBS and Lloyds Banking Group. In the education and leisure sectors, key projects included the refurbishment of the London Palladium and Thompson's Hotel in Belgravia as well as education sector projects for the University of London and London Metropolitan University.

Outlook

The division's forward order book is at a similar level to the start of 2010 at £180m (2009: £171m). Both the London and regional office markets are expected to remain competitive and tighten in 2011. In London, the lack of major property developments completing in 2011 will mean the fit out market is expected to tighten in the short-term.

'2010 was a year of strong growth in revenue as Overbury was able to secure a high percentage of larger, London office fit out projects, a consequence of occupiers chasing limited grade A space. Tough competition persists in both the London and regional office markets. However, our reorganisation, combined with our drive for Perfect Delivery and the best customer experience, will continue to differentiate us in our markets and enable us to secure high quality opportunities as they become available.'

Steve Elliott
Managing Director, Fit Out

Urban Regeneration

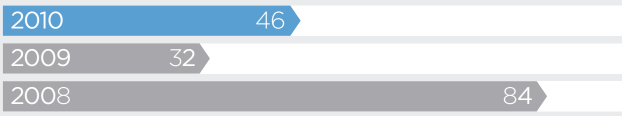
Chatham Place, Reading

A major mixed use urban regeneration scheme comprising social and private housing, retail, offices and leisure amenities, the final housing phase of which was released to market during 2010 and all units were sold.

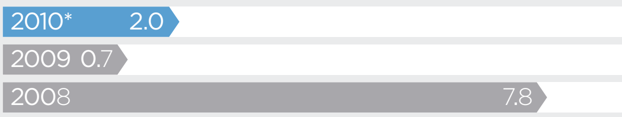
The division
The Group's Urban Regeneration division works in partnership with landowners, local authorities and investors to progress development opportunities and maximise the contribution to urban renewal through mixed use projects, typically creating commercial, leisure, residential and community facilities.

Modest improvement in the market drives recovery in operating profit

Revenue £m



Operating profit £m



Share of development pipeline £bn

*Before amortisation and non-recurring items.

Urban Regeneration saw a modest improvement in market conditions, which helped it to deliver revenue of £46m (2009: £32m). This growth was delivered through strong sales of open market residential units, an increase in development management fee income from regeneration projects, progress on a number of forward-sold new developments and land trading opportunities. The increased activity led to a recovery in operating profit to £2.0m (2009: £0.7m). Also as part of its strategy to enhance its portfolio, the division was successful during the year in buying out its joint venture partners on three schemes, which generated a one-off gain of £2.0m in addition to the division's operating profit of £2.0m.

Progress made on major regeneration schemes
The division continued with its strategy of targeting and developing high quality regeneration opportunities. During the year, it commenced construction of two new major regeneration projects; at Doncaster, a £300m town centre redevelopment where the first phase comprises 185,000 sq ft of new council offices and at Canning Town where the first phase will deliver 271 residential apartments in a 21 storey tower. It also brought forward the latest phase of its development at Eurocentral Business Park in Lanarkshire with the construction of two new energy efficient distribution units totalling 150,000 sq ft. At Wakefield, following the completion of the first phase of apartments, offices and retail, construction has begun on the new council offices. 2010 also saw the release and subsequent sale of the final 54 residential units at Chatham Place, Reading.

Focus on development of existing portfolio
The division's share of its development pipeline, its best measure of forward activity, remains at £1.4bn. This is due to the division concentrating its resources on continuing to develop its existing portfolio whilst there have been few quality development opportunities in the market during 2010. This portfolio is now in an enhanced position and, through the restructuring of deals, the division is well placed to act on opportunities as they present themselves in the medium-term.

'Our innovative development of existing schemes and acquisition of partners' shareholdings in a number of our joint venture companies has enhanced our portfolio in 2010. Strong residential sales in the first half of the year, increased fee income and opportunistic land trading have underpinned our financial performance. Good progress also continues to be made with our two national strategic partnerships, ECf and ISIS Waterside Regeneration. Closer joint working within the Group is creating new opportunities for us.'

Matt Crompton and Nigel Franklin
Joint Managing Directors, Urban Regeneration

Investments

Wigan Life Centre

Wigan Life Centre, facilitated through Morgan Sindall's Investments unit, under construction in 2010, will be completed in 2011 creating a state-of-the-art leisure, health, learning and information complex and revitalise the town's civic heart.

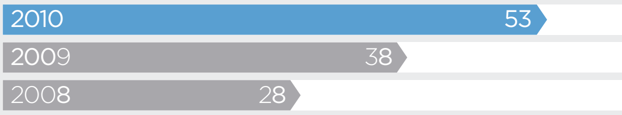
MORGAN SINDALL INVESTMENTS

The unit

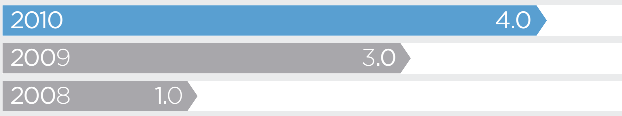
The Investments unit facilitates project finance for a range of construction, regeneration and infrastructure projects. The unit functions as a facilitator for projects that involve other Group divisions as a delivery partner in order to secure construction revenue as well as investment returns.

Further growth in portfolio's value to £53m

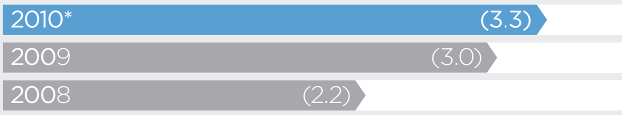
Portfolio value £m



Revenue £m



Operating profit £m



*Before amortisation and non-recurring items.

2010 review

The directors' valuation of the investment portfolio increased significantly during 2010 to £53m (2009: £38m). This is due to both increased value created from existing schemes and the achievement of financial close during 2010 on the Hull BSF Programme and Tayside Mental Health PFI Project. Revenue was £4m (2009: £3m) and the operating loss was £3.3m (2009: £3.0m). This reflects the significant upfront costs of creating and securing project opportunities.

The role of Investments is likely to become increasingly important as changes to procurement methods and reductions in public sector spend through traditional routes affect the market. Its ability to develop alternative financing options can help the public sector achieve its underlying construction needs, particularly in health, education, infrastructure and housing. The structure and expertise of Investments places the Group in an excellent position to create opportunities for construction-related projects and reinvigorate schemes in an uncertain funding environment.

Directors' valuation of investment portfolio

	Equity and sub-debt £m	Valuation £m
Invested	14.5	41
Committed	12.0	12
	26.5	53

At 31 December 2010, the Group had total equity and subordinated debt, invested and committed, in its portfolio of PPP/PFI concessions of £26.5m (2009: £19.2m). Of this total, £14.5m had been invested and £12.0m is committed to be invested over the next three years.

At 31 December 2010, the directors' valuation of the PPP/PFI concession portfolio, prior to the application of Group tax, is £53m (2009: £38m). The valuation is derived from the Group's latest detailed financial models discounted using rates appropriate to the particular scheme's nature and stage of development. These vary from 7.0% to 9.0% (post tax). Committed, but not currently invested, subordinated debt is added to this discounted cash flow value to give the directors' valuation. Investment properties are valued on a traditional basis using property yields that reflect the nature of the leases and stability of the tenants.

The valuation of this portfolio is based on discounting expected future cash flows but does not include potential refinancing gains or projects at preferred bidder stage or profit made by Investments from providing services or profit made by other parts of the Group that perform the construction, maintenance or facilities management work.

'Whilst 2010 has been a year of uncertainty for many public sector schemes the Investments unit has been able to continue to grow its portfolio and improve its offer to clients following the change of Government. There is now an appetite in the market for innovative and flexible financing options to help tackle the country's continuing need for new homes, schools, health facilities and improvements in infrastructure. We are ideally placed to be able to stimulate activity in the market and facilitate construction opportunities for the Group's divisions.'

Ernie Battey
Managing Director, Investments unit

Key performance indicators table

KPI's			2010	2009	2008
Financial	Revenue	£m	2,102	2,214	2,548
	Profit before tax, amortisation and non-recurring items	£m	51.3	51.5	71.4
	Profit before tax	£m	40.7	44.7	62.3
	Adjusted EPS	pence	92.9	93.9	127.8
	Basic EPS	pence	70.5	77.9	106.3
	Total dividend	pence	42.0	42.0	42.0
	Operating margin	%	2.4	2.3	2.8
	Average cash in bank	£m	63	31	77
	Year end cash balance	£m	149	118	120
	Committed banking facilities	£m	100	100	75
	Forward order book	£bn	3.6	3.2	3.7
	Share of development pipeline	£bn	1.4	1.4	1.3
Non-financial	People				
	Fatalities	no.	0	0	1
	Major incidents	no.	32	45	79
	Over three day incidents	no.	50	68	94
	Total of all reportable incidents	no.	82	113	173
	Accident incident rate(1)		429	519	719
	Average number of employees	no.	7,662	7,977	8,585
	Average absence due to sickness days	no.	3.0	2.0	4.5
	Proportion of women employed	%	13	16	15
	Proportion of ethnic minorities employed	%	15	7	6
	Average training days per employee	no.	2.0	5.0	5.0
	Apprentices at different stages of development	no.	196	138	188
	Undergraduates on years out or being sponsored	no.	65	94	110
	Graduates recruited during the year	no.	102	50	37
	Planet				
	Total waste diverted from landfill	tonnes	1,483,518	1,411,358	938,090
	Total waste produced	tonnes	1,699,569	1,701,214	1,400,262
	Total waste diverted from landfill	%	87	83	67
	Percentage of directly purchased timber from FSC/PEFC certified sources	%	88	88	77
	Electricity used in permanent buildings(2)	kWh	8,686,252	4,537,548	N/R
	Gas used in permanent buildings	kWh	1,986,000	1,442,676	N/R
	CO_2 equivalent emissions for Group vehicle fleet	tonnes	28,184	27,466	N/R
	Profit				
	Perfect Delivery scores	%	83	84	84

(1) The accident incident rate is per 100,000 persons employed and is calculated as:

$$\frac{\text{Number of reported incidents}}{\text{Average number of people employed}} \times 100{,}000$$

(2) During 2010, the Group has reviewed and improved its reporting of data for carbon equivalent emissions. The 2010 figure reflects the increased number of permanent buildings for which the Group has collected data from 29 to 41.

Directors' report: governance

Board of directors

John Morgan
Executive chairman

John is the executive chairman, taking overall responsibility for the Group's strategy and ensuring that the Board functions effectively. He co-founded Morgan Lovell in 1977 which then reversed into William Sindall plc in 1994 to form Morgan Sindall Group plc. He was chief executive from 1994 to 2000 and has been executive chairman since 2000.

Paul Smith
Chief executive

Paul is the Group's chief executive and takes responsibility for developing and implementing the Group's strategy and for managing the business. Appointed chief executive in March 2003, his previous positions include managing director of Accord plc, managing director of Cleanaway Limited and manager at McKinsey & Co. Inc.

David Mulligan
Finance director

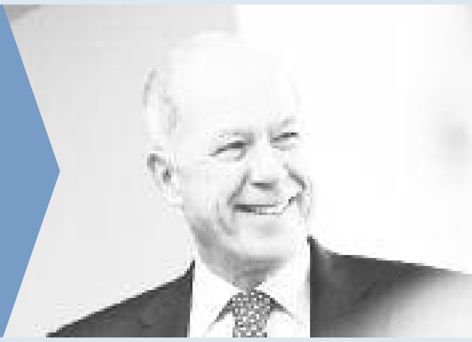
David, as the Group's finance director, has Board responsibility for the Group's financing, financial reporting and information systems. Appointed finance director in April 2004 having been with the Group in finance roles since 1997, he had previously worked at Smiths Group plc and Ernst & Young where he qualified as a chartered accountant.

Paul Whitmore
Commercial director

Paul, as commercial director, is the Group's senior executive for commercial operations. In addition, he has Board responsibility for health, safety and sustainability. Appointed a director in April 2000, he is a chartered surveyor and had previously held the position of chief executive of Laing Construction plc during his 27 years with John Laing plc.

Adrian Martin
Senior independent non-executive director
Appointed: December 2008

Adrian assumed the role of senior independent director in May 2010 after two years with the Group. His career includes 30 years with BDO Stoy Hayward, the last eight as managing partner, before becoming chief executive and then consultant at Reynolds Porter Chamberlain LLP until 2009. Adrian brings experience from a number of other non-executive directorships, including H R Owen plc, M&C Saatchi plc and Safestore Holdings plc.



Gill Barr
Independent non-executive director
Appointed: September 2004

Gill is currently group marketing director of Co-operative Group Limited. Gill's previous positions include senior roles at MasterCard UK, John Lewis plc, Woolworth plc, Kingfisher plc and KPMG plc.

Geraldine Gallacher
Independent non-executive director
Appointed: August 2007

Geraldine is currently managing director of The Executive Coaching Consultancy. Previously, she was head of group management development for The Burton Group plc (now Arcadia plc) and with the Ford Motor Company.

Patrick De Smedt
Independent non-executive director
Appointed: December 2009

Patrick's career includes 23 years with Microsoft, culminating as chairman for Europe, Middle East and Africa from 2003. Since leaving Microsoft in 2006, he has served on the boards of a number of European public and private companies. He is currently a non-executive director of Victrex plc, CPP Group plc and a number of private companies as well as a member of the advisory board to a division of ING Bank NV.

Simon Gulliford
Independent non-executive director
Appointed: March 2010

Simon is currently chief marketing officer at Standard Life plc and has run his own marketing consultancy since 1992, after leaving Ashridge College where he was head of the marketing faculty. He has previously held marketing roles at companies including Sears plc, EMAP plc and Barclays plc.

Corporate governance statement

Board complies with the Code

The Board recognises the importance of high standards of corporate governance and is committed to managing the Group's affairs in accordance with the principles of good governance set out in section 1 of the Combined Code on Corporate Governance published in June 2008 by the Financial Reporting Council ('the Code'). A copy of the Code is available from the FRC's website (www.frc.org.uk).

In accordance with the Listing Rules, the Company is required to confirm whether it has complied with the relevant provisions of section 1 of the Code and to report on how it has applied the main principles of section 1 of the Code.

The Board has complied with the provisions of section 1 of the Code throughout the year ended 31 December 2010 and up to the date of this report. A summary of how the Company has applied the main principles of the Code is set out below.

The Board has noted the introduction of the UK Corporate Governance Code, which applies to accounting periods beginning on or after 29 June 2010, and will report on its compliance with this code next year.

Directors

Changes to the Board

The Board currently comprises an executive chairman, three further executive directors and five non-executive directors. Simon Gulliford joined the Board as a non-executive director on 1 March 2010 and Jon Walden served during the year as a non-executive director until the annual general meeting on 6 May 2010. All of the non-executive directors are considered by the Board to be independent and the Board's structure, therefore, meets the requirements of the Code.

Adrian Martin is the senior independent director.

Executive chairman and chief executive have clear roles and responsibilities

The Board has a separate chairman and chief executive. John Morgan, as executive chairman, takes responsibility for the overall strategy of the Group and for leading the Board and ensuring that it functions effectively whilst Paul Smith, as chief executive, is responsible for managing the business and critically assessing the Group's strategy. The Board has set out and agreed a schedule that describes their individual roles and responsibilities.

The Board considers that the balance of relevant experience amongst its members enables it to exercise effective leadership and control of the Group. It also ensures that the decision making process cannot be dominated by any individual or small group of individuals.

Procedures for managing conflicts of interest operating satisfactorily

The directors are aware of their duties under the Companies Act 2006 provisions relating to the management of conflicts of interest. The Company's articles of association ('the Articles') were amended in 2008 to give the Board a general power to authorise potential conflicts of interest. In addition to the directors' duty to seek Board approval for any new potentially conflicting situations or changes to existing interests, the register of potential conflicts is circulated for review by the Board on an annual basis. This process was carried out satisfactorily during the year.

John Morgan, Paul Whitmore, David Mulligan, Gill Barr and Geraldine Gallacher standing for election

The Articles require each director to submit himself or herself for election by shareholders at the first annual general meeting after his or her appointment and for re-election at every third annual general meeting thereafter. John Morgan, Paul Whitmore, David Mulligan, Gill Barr and Geraldine Gallacher were all last appointed in 2008 and will submit themselves for re-election at the forthcoming annual general meeting. Their biographies are set out on pages 52 and 53. The Board has considered the recommendation of the nominations committee on the composition of the Board. In particular, Gill Barr's reappointment for a seventh year was subject to a particularly rigorous review, in accordance with the provisions of the Code relating to non-executive directors who serve for more than six years. It has also considered the formal performance evaluation described below of the Board's performance and that of individual directors. Following such performance evaluation, the Board believes that the performance of the non-executive directors, Gill and Geraldine, continues to be effective and that they continue to show commitment to the role. In particular, Gill continues to contribute to Board discussion, drawing on her experience in retail and marketing, whilst Geraldine's strength is her experience in executive development and people skills.

Description of Board activities

Ten scheduled meetings of the Board were held during the year. The key purposes of the scheduled meetings were to review all significant aspects of the Group's activities, to supervise the executive management, to review the overall system of internal control and risk management and to make decisions in relation to those matters that are specifically reserved to the Board. There is a formal schedule of these matters, which includes the approval of the Group's strategic plans, annual budget, significant capital expenditure and investment proposals, major projects, acquisitions and disposals, internal control arrangements and annual and half year results. Other specific responsibilities are delegated to the Board committees described below and under the Group's delegated authorities.

A formal agenda for each scheduled meeting is agreed with the chairman and is circulated in advance of the meeting to allow time for proper consideration, together with relevant papers including key strategic, operational and financial information.

Attendance of individual directors during 2010 at scheduled Board meetings and meetings of the remuneration, audit and nominations committees are set out below.

	Board	Remuneration committee	Audit committee	Nominations committee
Total no. of meetings	10	6	3	2
John Morgan	10	—	—	2
Paul Smith	10	—	—	—
David Mulligan	10	—	—	—
Paul Whitmore	10	—	—	—
Gill Barr	10	6	2	2
Patrick De Smedt	10	5	3	2
Geraldine Gallacher	10	2	—	2
Adrian Martin	10	4	3	2
Simon Gulliford(1)	8	—	—	1
Jon Walden(2)	3	4	1	1

(1) Simon Gulliford attended all the Board and nominations committee meetings after his appointment.

(2) Jon Walden ceased to be a director on 6 May 2010.

Non-attendance by directors at committee meetings was due to illness or conflicting commitments and, in the latter case, was previously agreed with the chairman of the committee. Where possible, papers were read in advance and comments passed to the chairman prior to the meeting.

Three of the scheduled board meetings in 2010 were held at offices of the Group's divisional operations and were combined with site visits and presentations by divisional management. These meetings provided the non-executive directors with the opportunity to meet the senior managers in the divisions and to increase their knowledge and understanding of the Group's operations and thus contribute more effectively to discussions of strategic and operational issues.

In addition to the scheduled meetings, the Board held a strategy day at which the strategy and direction of the Group were reviewed and debated.

Training, development and advice is provided
Newly appointed directors receive a full induction, including a detailed information pack, visits to the Group's operations and meetings with senior divisional management. Training on the role and responsibilities of directors is offered on appointment and subsequently as necessary. The non-executive directors update their knowledge of and familiarity with the Group by regular visits to its operations. 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.

Board evaluated its performance
The Board continues to find its internal process an effective method of evaluating the Board's performance, and that of its committees. During the year, this process took the form of an internally developed assessment form, requiring each director to provide a rating and comments against a series of statements. Particular emphasis was given to matters highlighted as action points from last year's evaluation process.

The statements relating to the Board as a whole involved consideration of a broad range of matters including:

- the structure and composition of the Board;
- the quality of information provided to the Board;
- the effectiveness of its meetings;
- the ability of the chairman to lead the Board;
- the ability of the Board to understand the significant risks facing the Group and to monitor corporate performance;
- the Group's management of risk; and
- the allocation of time devoted to matters such as corporate governance, sustainability, business risk and succession issues.

In relation to the committees, the assessment form focused on the frequency and conduct of meetings, the quality of information provided to the committee and of reports from the committee to the Board and the extent to which the committees were fulfilling their terms of reference.

Evaluation of individual directors took the form of written feedback from the other directors, which was followed by one to one meetings between the chairman and each director and, in the case of the chairman's evaluation, between himself and the senior independent director.

The responses to the assessment form and the written feedback were aggregated and circulated to the directors and discussed at a subsequent Board meeting, leading to a number of agreed actions for the forthcoming year.

Board committees
The Board has established three committees: the audit, remuneration and nominations committees. Each committee has terms of reference, approved by the Board, setting out its authorities and responsibilities. Copies of the terms of reference are available on the Company's website.

Audit committee

Members
Adrian Martin (chair) Gill Barr Patrick De Smedt Jon Walden (resigned 6 May 2010)

All committee members are independent non-executive directors. Adrian Martin took over as chair when Jon Walden retired at the annual general meeting in May 2010. Biographical details of each member of the committee are set out on page 53. The Board is satisfied that Adrian Martin, who is a fellow of the Institute of Chartered Accountants in England and Wales and formerly a partner in BDO Stoy Hayward, has the recent and relevant financial experience required to fulfil the role.

Responsibilities

- to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control;
- to monitor the integrity of the financial statements and related information of the Company and, where practicable, any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them;
- to review the Company's internal financial controls;
- to approve the appointment and replacement of the Group head of audit and assurance and to monitor and review the effectiveness of the Company's internal audit function;
- to make recommendations to the Board regarding the appointment, reappointment and removal of the external auditors and to approve their remuneration and terms of engagement;
- to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process;
- to apply the Board's policy on the engagement of the external auditors to supply non-audit services with the objective of ensuring that the provision of such services does not impair their independence or objectivity; and
- to review the Company's procedures for raising concerns.

Corporate governance statement *continued*

Activities

The committee had three scheduled meetings during the year. The first took place prior to the announcement of the Company's results for 2009 and approval of the annual report, the second prior to the announcement of its half year results and the third before commencement of the audit for 2010. Senior representatives from the external auditors, the finance director and the Group head of audit and assurance were invited to attend each of these meetings. The committee also met privately with the external auditors and the Group head of audit and assurance.

The main purpose of the meetings was to review the scope and results of the audit and the effectiveness of the external audit process, to monitor the integrity of the annual and half year financial statements and to discuss with the external auditors their overall work plan for the forthcoming audit. In addition, at each meeting the committee reviewed reports from the Group head of audit and assurance on the results of reviews carried out by the internal audit team. Further details of the internal audit function are set out under internal controls below.

The chairman of the audit committee reports to the full Board on matters of significance arising at meetings of the committee.

External auditors

Monitoring the independence and objectivity of the external auditors

To fulfil its obligations, the committee reviewed the external auditors' presentation of their policies and safeguards to ensure their continued independence within the meaning of all regulatory and professional requirements and to ensure that the objectivity of the audit engagement partner and audit staff had not been impaired. This included details of changes in external audit executives in the audit plan in accordance with the external auditors' policy on rotating audit executives. Those policies and safeguards, together with the Company's own policy on engaging the external auditors for non-audit work, enabled the committee to confirm that it was satisfied with Deloitte LLP's continued independence and objectivity.

Assessing the effectiveness of the external auditors

As part of its responsibility for assessing the effectiveness of the external audit, the committee discussed the external audit plan at the audit committee meeting held in November. At the meeting prior to the announcement of the preliminary results, it reviewed the external auditors' fulfilment of the agreed audit plan and any major issues highlighted as part of the external audit.

Reviewing the use of the external auditors for non-audit work

The Company's policy on the engagement of the external auditors for non-audit related services provides that, where the fees for such services would exceed either an absolute limit or a specified proportion of the audit fee, they should be referred to the committee for approval. Where fees fall below the threshold, they have to be approved by the finance director. No non-audit services to the Company provided by Deloitte LLP in 2010 required the approval of the committee. The fees for non-audit services during the year are set out in note 2 to the consolidated financial statements on page 89. These represented approximately 9% of the audit fee and comprised taxation services to joint ventures. The committee has reviewed the nature of the work and level of fees for these services and concluded that this has not affected Deloitte LLP's objectivity or independence.

Reappointment of external auditors

The committee considers the reappointment of the external auditor each year and makes a recommendation to the Board. The committee has satisfied itself that Deloitte LLP, the external auditors, remains independent and effective. The committee has recommended to the Board that Deloitte LLP be reappointed.

External call line introduced for raising concerns

The committee also reviewed the Group's raising concerns policy containing arrangements by which employees may, in confidence, raise concerns about possible wrongdoing in the workplace, unethical behaviour or other matters of concern. Following recommendations made by the committee, during the year the Company introduced an external call line provider and a new process for investigating and following up calls in order to improve the effectiveness of these arrangements and to encourage employees with concerns to bring them to the attention of the Group. The committee reviews a summary of the calls received at each meeting, although any significant matter arising from a call would be brought to the attention of the committee without delay.

Remuneration committee

Members
Gill Barr (chair) Patrick De Smedt Geraldine Gallacher Adrian Martin Jon Walden (resigned 6 May 2010)

Responsibilities

- to set all elements of remuneration and any compensation payments for executive directors and the executive chairman;
- to monitor the structure and level of remuneration for divisional managing directors;
- to ensure that the requirements for disclosure of directors' remuneration are fulfilled; and
- to select remuneration consultants to advise the committee.

Activities

The activities of the committee during the year are set out in the separate remuneration report on pages 59 to 67.

Nominations committee

Members
John Morgan (chair) Gill Barr Patrick De Smedt Geraldine Gallacher Adrian Martin Simon Gulliford (appointed 1 March 2010) Jon Walden (resigned 6 May 2010)

Responsibilities

- to review the structure, size and composition of the Board;
- to make recommendations to the Board for any changes considered necessary;
- to approve the description of the role and capabilities required for a particular appointment; and
- to ensure suitable candidates are identified and recommended for appointment to the Board.

Activities

The committee recommended to the Board that Simon Gulliford be appointed as an additional non-executive director. This followed an introduction to the Company through a personal recommendation and a careful review of Simon's skills and experience as well as several interviews and meetings with the committee and the executive directors.

The nominations committee also met formally during the year to review the structure, size and composition of the Board. Its recommendation to the Board was that, following the changes to the Board at the end of 2009 and during 2010, no further changes were required at this time.

Company welcomes regular dialogue with all its shareholders

The executive directors undertake a programme of regular communication with institutional shareholders and with analysts covering the Company's activities. In particular, presentations are made to institutional investors and analysts following the announcements of the preliminary and half year results. Written feedback from these meetings and presentations is distributed to all members of the Board. The senior independent director meets from time to time with major shareholders and the other non-executive directors are also available to meet with them to listen to their views.

The Company encourages all shareholders to use the annual general meeting as an opportunity for effective communication with the Company. All of the directors attended the annual general meeting held in 2010. Details of proxy votes submitted for each resolution at general meetings, including proxy directions to withhold votes, are published on the Company's website.

Internal controls

The Board acknowledges that it has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The internal control 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. It can only provide reasonable, but not absolute, assurance against material misstatement or loss. The system of internal control, which includes financial, operational and compliance controls, is based on a process of identifying, evaluating and managing risks. It accords with the guidance in the Turnbull Report and was in place for the year under review and up to the date of approval of this report.

The key features of the Group's system of internal control are as follows:

Group structure

The Group's operating structure comprises four operating divisions and one specialist unit, each with its own management board which is given authority and responsibility for managing its division or unit within a framework of overarching Group policies, reporting lines and detailed delegated authorities, which ensure that decisions and approvals are made at the appropriate level. Whilst responsibility for managing each division is delegated to the individual management team as far as practicable, responsibility for certain of the Group's key functions, including treasury, internal audit, pensions and insurance, is retained at Morgan Sindall Group plc level.

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

Scrutiny of investment and capital expenditure

There are detailed procedures and defined levels of authority in relation to corporate transactions, investment, capital expenditure, significant cost commitments and asset disposals with approvals required from the Board, the executive directors or divisional boards, depending on the value and/or nature of the investment or contract.

Detailed review of tenders and project selection

Individual tenders or projects 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.

Corporate governance statement *continued*

Robust contract controls
Robust procedures exist to manage the ongoing risks associated with contracts with monthly reviews at an appropriate level of each contract's performance covering both financial and operational issues.

Continual monitoring of working capital
The Group continually monitors current and forecast cash and working capital balances through a regime of daily and monthly reporting.

Health, safety and environmental issues
The Group has well established safety systems including site visits and regular training and updates. Monthly monitoring and reporting to the Board includes a report on the Group's performance in relation to health and safety matters and environmental compliance. Further details are included under Sustainability on pages 20 to 23.

Risk management
The Board has reserved to itself specific responsibility for the formulation of the risk management strategy of the Group. A formal process is in place through which the Group identifies the significant risks attached to its strategy and objectives, confirms the control strategy for each risk, identifies the root cause and appropriate treatment for each, including the relevant internal controls and actions required. Internal control and risk management systems are embedded in the operations of the divisions. A consolidated report of each of the divisional risk reviews, together with risks identified at Group level, are compiled in a Group risk register, which is updated and reviewed by the Board twice yearly. The principal risks identified as facing the Group are highlighted in the business review on pages 36 to 39. In addition to the standing risk register review process, the Board devotes time during some of the scheduled Board meetings to considering the commercial issues which at the time represent the greatest risks to the achievement of the Group's objectives and the mitigating actions in place to address these risks.

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. Internal audit and assurance work carried out during the year included operational, project and financial reviews across the key business units within the Group. The results of these reviews were recorded in audit reports and presented to the audit committee. The status of agreed management actions to address identified operational weaknesses is actively tracked until implementation.

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

The internal audit process is supplemented by a rolling programme of peer group reviews within the divisions, which assist in the professional development of the individual staff concerned whilst, at the same time, providing a mechanism for the cross-fertilisation of ideas and best practice throughout the divisions. These reviews are overseen by the divisional heads of internal audit and tracking of agreed management actions is included within the overall internal audit process.

Board review of effectiveness of internal controls
The Board has conducted a review of the effectiveness of the system of internal controls for the year ended 31 December 2010 and for the period to the date of this report. The process included a formal review conducted by the Board of the Group risk register, referred to under Risk management above, as well as a review of the results of internal audit work and the overall effectiveness of the process.

Remuneration report

Despite robust financial and operational performance by the Group in 2010, our markets continue to face economic challenges and cuts in public spending. The Remuneration committee has continued to monitor its remuneration policy for senior executives to ensure that it remains aligned to the Group's strategy. We continue to constrain fixed costs, although we considered that it was appropriate for there to be a modest increase in base salary levels in line with the average of the workforce generally, following two years without an increase. The key issue for the committee remains how to set appropriate targets for both short-term and long-term incentives in these challenging times and to ensure that the level of risk encouraged through the incentive plans remains appropriate. Once again, the committee carried out a careful review of the annual bonus and long-term incentive arrangements and believes that the awards to be granted this year will prove sufficiently challenging whilst still realistic, relevant and therefore valued by the recipients.

Gill Barr
Chair of the Remuneration Committee

This report has been prepared by the Remuneration committee ('the committee') on behalf of the Board in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and the Combined Code on Corporate Governance ('the Code'). A resolution to approve the report will be proposed at the annual general meeting of the Company to be held on 5 May 2011.

The Companies Act 2006 ('the Act') requires the auditors to report to the Company's members on certain parts of the remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The report has, therefore, been divided into separate sections for unaudited and audited information.

Unaudited information

Members of the committee
The members of the committee during 2010 were Gill Barr (chair), Jon Walden (until 6 May 2010), Geraldine Gallacher, Adrian Martin and Patrick De Smedt. All members during the year were independent non-executive directors.

Responsibilities of the committee
The committee is responsible for determining and agreeing with the Board the broad policy for the remuneration of the executive directors, including the executive chairman and it sets their salaries and remuneration packages. In addition, the committee monitors the structure and level of remuneration for other senior executives in the Group and is aware of pay and conditions in the workforce generally.

External advice received
During the year, the committee received advice from Hewitt New Bridge Street ('HNBS') in relation to its consideration of the structure of the executive directors' remuneration for 2011. The committee also consulted the chief executive and the executive chairman but, in each case, not in relation to their own remuneration. HNBS provided advice to the Company on accounting for share awards but provided no other material services to the Company or the Group.

The committee's approach to executive directors' remuneration
The general principles underlying the committee's approach to developing remuneration packages for the executive directors are:

- to attract, retain and motivate the best possible person for each position, without paying more than is necessary;
- that the remuneration packages should be perceived as simple and fair and, therefore, should be valued by participants;

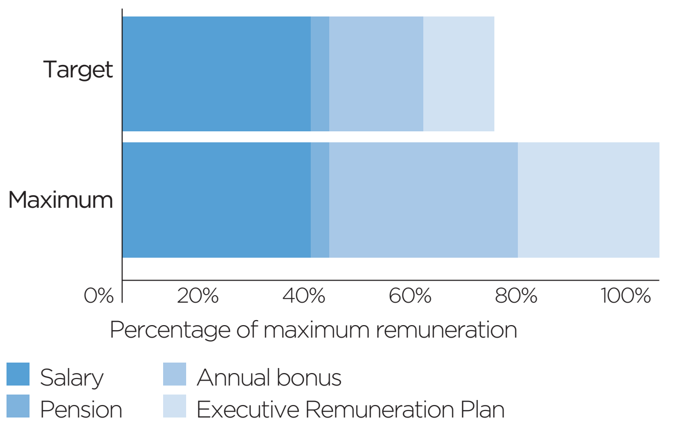
Remuneration report
continued

- to ensure that the fixed element of remuneration (salary, pension and other benefits) is determined in line with market rates, taking account of individual performance and experience, and that a significant proportion of the total remuneration package is determined by the Company's performance;
- to recognise the importance of rewarding over performance (but not under performance) in both the short and long-term;
- to focus the conditions for performance linked pay on the achievement of financial performance objectives, as this creates a clear line of sight for individuals between performance and reward and provides a focus on improving profitability (something which management can influence) rather than rewarding directly through share price performance (which management cannot influence directly);
- to ensure that financial performance metrics and associated sliding scale ranges are calibrated carefully to ensure that performance is incrementally rewarded and that executives are not incentivised inadvertently to take inappropriate business risks;
- to recognise that executives should be able to have different share-based incentive structures depending on their appetite for individual risk;
- to provide a significant proportion of performance linked pay in share-based form, providing an opportunity for executives to build significant shareholdings in the business; and
- to align the interests of executives with those of the Company's shareholders.

The committee considers pay and employment conditions of employees elsewhere in the Group when determining executive directors' remuneration
The Committee takes account of remuneration levels offered to other senior executives within the Group as well as pay awards affecting Group employees when determining policy in relation to executive directors. During the year, the committee reviewed a breakdown of the total compensation received by the divisional managing directors during the last three financial years as well as details of their base salaries and annual bonus performance targets for the current financial year and a summary of employee pay awards for 2011 operating throughout the Group.

Fixed versus performance related remuneration
A significant proportion of the package is subject to performance related elements. The chart below shows that just under half of the value of the package at a broadly target level of performance comprises performance related elements whilst at a maximum level of reward (assuming a maximum bonus and full vesting of the Executive Remuneration Plan awards) more than 60% of the total remuneration comprises performance related elements.

Proportionate breakdown of directors' remuneration at target and maximum reward



Modest increases to base salary levels for 2011
The base salary of individual executive directors is determined by the committee prior to the beginning of each year and, if appropriate, in the event of a change in an individual's position or responsibilities. A formal benchmarking exercise of executive directors' remuneration is carried out periodically on behalf of the committee to ensure that it remains aware of relevant market data. The committee is aware, however, of the risk of an upward ratchet in remuneration levels through the use of comparative pay surveys.

At its meeting in November 2010, the committee noted the budgeted level of increases for the wider management group and the workforce generally (average of c.3%) and the current level of UK inflation and determined that the salaries of John Morgan, Paul Smith and David Mulligan for 2011 should be increased by 3% to £438,000, £515,000 and £304,000 respectively.

The committee has, however, increased the base salary of Paul Whitmore by 11% to £300,000. It decided that this increase was appropriate to recognise the increasing complexity and scope of his role as commercial director, arising from the Group's divisions undertaking larger and more complex projects. The impact of this salary increase on the total remuneration package has been quantified by reference to market data and, overall, the package remains in line with the committee's policy and is broadly mid-market compared with comparator businesses.

Pension arrangements
The Company makes contributions equivalent to 10% of base salary, in the case of Paul Smith and David Mulligan, to The Morgan Sindall Retirement Benefits Plan ('the Plan') and, in the case of the other executive directors, to their individual personal pension plans.

The Company operates a salary exchange process that allows all employees who are members of the Plan flexibility in setting the proportion in which salary and bonus is distributed between cash payments and additional 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 ('NIC').

In response to the Government's changes to the taxation treatment of pension contributions from April 2011, the Company has agreed to relax the requirement that employees contribute a minimum percentage of their base salary to their pension saving where such contributions would result in the Annual Allowance or Lifetime Allowance being exceeded. It has also offered to reduce the employer pension contributions of senior employees whose contributions would otherwise exceed the Annual or Lifetime Allowance and to pay instead an additional cash allowance of an amount equal to the reduction less one half of the additional NIC cost to the Company. The committee has sanctioned these changes for the executive directors and, in particular, has agreed that with effect from 1 April 2011 the Company will pay Paul Smith a cash allowance equal to 10% of his base salary in lieu of any pension contribution less half of the Company's additional NIC cost.

Other benefits
The executive directors receive certain other benefits, principally a car allowance, private medical insurance, permanent health insurance and life assurance.

Challenging targets for annual bonus
For the 2011 annual bonus plan, the committee has retained a performance condition based on a profit before tax and amortisation ('PBTA') target range, set relative to the Group's budget. This has the benefit of transparency and simplicity and encourages the executive directors to focus on the overall financial performance of the Group. Other performance measures have been considered by the committee but, as most of the Company's annual financial performance is reflected in its PBTA, the use of other financial and non-financial measures was considered inappropriate due to the additional complexity and, in the case of the latter, potential lack of objectivity around target measurement.

The committee has sought to structure the bonus with an appropriate sliding scale range around a challenging target for executives recognising, however, that the target has to be realistic in order to serve as a proper incentive and needs to take into account the difficult economic environment in which the Company continues to operate.

The maximum potential annual cash bonus for executive directors for 2011 is unchanged from 2010 at 100% of base salary.

Long-term incentives
The Group's current long-term incentive arrangement for senior executives is the Morgan Sindall Executive Remuneration Plan 2005 ('the 2005 Plan'). The 2005 Plan was approved by shareholders in April 2005.

A summary of the 2005 Plan is set out below.

Award levels reviewed regularly and structure remains appropriate
In normal circumstances, the maximum annual award, which is subject to the achievement of testing performance targets, is for an award of performance shares worth (at face value as at the time of grant) 75% of base salary (100% of salary in exceptional circumstances). For a number of years, executives have been given the choice at the time of grant of receiving their awards either in the form of performance shares or by electing to receive market price share options to replace some or all of their performance shares at a rate of four share options for every one performance share.

In 2009, the committee reviewed the structure of the 2005 Plan and how it had been operating since first introduced in 2005. It concluded that the normal maximum award level of performance shares at 75% of base salary remained appropriate and that the ability to choose between an award of performance shares or a grant of share options catered for individual attitudes to risk and was, therefore, valued by the executives. The 4:1 ratio of share options to performance shares was also considered and, in view

Remuneration report
continued

of the additional share price risk attached to the value of the options and the tougher performance conditions which are imposed, the committee determined that this ratio remained appropriate. The committee has decided that the conclusions reached in 2009 remain valid and has adopted a similar structure for awards to be granted in 2011.

Adjusted EPS remains the basis of the performance conditions
The committee continues to believe that long-term incentives should be structured so as to focus executives on maximising long-term profitability by use of a performance condition based on earnings per share before amortisation of intangible assets and non-recurring items ('adjusted EPS') measured at the end of a single three year period, as this provides a clear linkage between performance and reward for senior executives and should be reflected over time in enhanced shareholder value.

The committee has decided to retain an absolute EPS performance condition for awards to be made in 2011 and the EPS target ranges required in respect of the financial year ended 2013 are set out below.

Targets remain challenging
The committee remains committed to setting challenging EPS targets for each award. For the awards made in 2011, despite the fact that the lower end of the target range is lower than actual adjusted EPS for the year ended 31 December 2010, the committee is satisfied that the range is at least as challenging in the circumstances as targets that have been attached to prior years' awards. In highly challenging and uncertain market conditions, these targets are considered an appropriate incentive to preserve and maximise long-term profitability within an appropriate risk framework, thereby providing a good link with the strategy of the business.

In setting this range, the committee recognises that the value of the award is relatively low compared to market norms and the structure of the sliding scale (with zero vesting at the EPS performance threshold and a significant upside stretch) is tougher than market norms.

Adjusted EPS performance for the year ending 31 December 2013:

Performance shares	Share options	Vesting percentage
Less than 69.5p At 81.7p	Less than 77.6p At 81.7p	0% 50%
Between 69.5p and 81.7p	Between 77.6p and 81.7p	Pro rata on a straight-line basis
102.2p or more	102.2p or more	100%
Between 81.7p and 102.2p	Between 81.7p and 102.2p	Pro rata on a straight-line basis

The adjusted EPS performance required for the threshold vesting point for share options has been maintained at a more challenging level than for performance shares. This is considered appropriate in light of the potential award level of the share options compared with the performance shares.

The committee will continue to set targets for future awards appropriate to the economic outlook prevailing at the time, ensuring that such targets remain challenging in the circumstances, whilst remaining realistic enough to motivate and incentivise management. The committee will also bear in mind the need to avoid incentive arrangements which encourage management to take undue risk.

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.

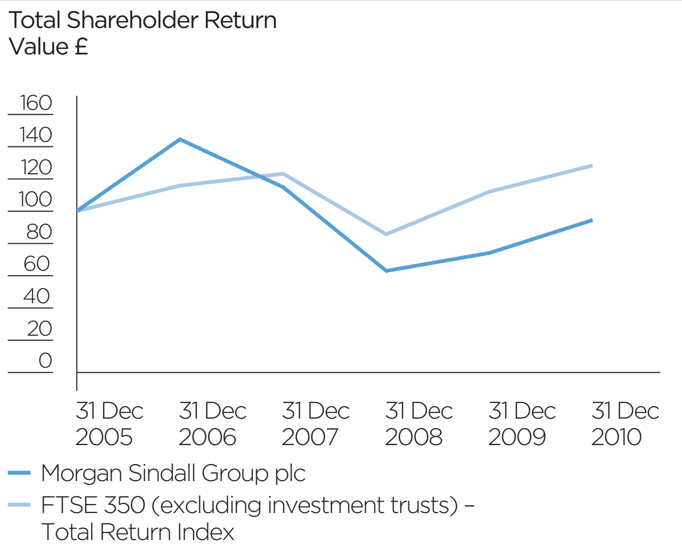
Other share plans
The Company currently operates two other share plans for its employees:

- The Morgan Sindall Sharesave Plan, in which executive directors are permitted to participate on the same terms as other employees; and
- The Morgan Sindall Employee Share Option Plan 2007 ('the 2007 Scheme'), under which executive directors do not receive awards.

Dilution and share usage under employee share plans
Shares required for the Morgan Sindall 1995 Executive Share Option Scheme are satisfied by new issue shares, those for the 2007 Scheme are satisfied by shares purchased in the market via the Company's employee benefit trust and shares for the 2005 Plan may be satisfied using either new issue shares or market purchased shares. The Company's present intention is to use market purchase shares to satisfy awards under the 2005 Plan. However, it retains the ability to use new issue shares instead and may decide to do so up to the dilution limits recommended by the Association of British Insurers (10% of issued ordinary share capital for all employee share plans over a ten 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 4.4% of the current issued ordinary share capital under all employee share plans, of which 2.0% relates to discretionary share plans.

Separately, the employee benefit trust currently holds 781,444 shares which may be used to satisfy awards.

Five year performance graph
The graph below shows a comparison of Total Shareholder Return ('TSR') for the Company's shares over the last five financial years against TSR for the companies in the FTSE 350 index excluding investment trusts. This is considered by the committee to be the most suitable comparable broad index against which the Company's performance should be measured for this purpose, as the Company was a constituent of this index for most of the five year measurement period.



The graph shows the value to 31 December 2010 of £100 invested in Morgan Sindall Group plc on 1 January 2005, compared with the value of £100 invested in the FTSE 350.

Source: Thomson Reuters

Service contracts
It is the Company's policy that executive directors' service contracts should be terminable on one year's notice. In circumstances of termination by notice (except in cases of removal for misconduct), compensation will be determined by the committee having regard to the particular circumstances of the case. The committee's guidelines will be to determine an equitable compensation package whilst avoiding rewarding poor performance and having regard to the departing director's obligations to mitigate his loss.

In ordinary circumstances, base salary and employer pension contributions for the full period of notice of one year would be paid, together with accrued bonus entitlements and shares or share options granted under long-term incentive schemes where the relevant performance criteria had been satisfied. Other employee benefits would also be maintained for the notice period subject to the rules of the appropriate Group scheme. There are no specific provisions for compensation on early termination or loss of office due to a takeover bid nor is there a provision for an amount in lieu of bonus to be payable over any part of the notice period not worked.

The dates of the executive directors' contracts are:

John Morgan	28 October 1994
Paul Smith	18 February 2003
David Mulligan	1 March 2004
Paul Whitmore	21 March 2000

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. None of the executive directors is currently receiving fees for non-executive positions with other companies.

Non-executive directors' terms of engagement
The dates of the terms of engagement of the non-executive directors are:

Gill Barr	11 August 2004
Patrick De Smedt	26 November 2009
Geraldine Gallacher	16 August 2007
Adrian Martin	28 November 2008
Simon Gulliford	24 February 2010

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 always to the requirements for re-election and the Act. Their remuneration is determined by the Board within the limits set by the Articles and is based on surveys, together with external advice as appropriate. Having remained constant since 2008, the basic fee for non-executive directors has been increased for 2011 by 3%, in line with the level of increase for most of the executive directors, to £41,200. The additional fee payable to the chair of the audit committee will remain at £7,500 but the additional fee payable to the chair of the remuneration committee has been increased from £5,000 to £6,000 to reflect the additional time commitment involved in the role. Non-executive directors receive no other benefits and do not participate in short-term or long-term reward schemes.

Remuneration report
continued

Audited information

Aggregate directors' remuneration
The total amounts for directors' remuneration were as follows:

	2010 £'000s	2009 £'000s
Emoluments	3,274	2,156
Amounts vesting under long-term incentive schemes	58	201
Gains made on the exercise of share options	–	–
Money purchase pension contributions	154	163

Directors' emoluments

Name of director	Fees/basic salary £'000s	Benefits £'000s	Annual cash bonuses[1] £'000s	Total 2010 £'000s	Total 2009 £'000s
Executive					
John Morgan	425	20	425	870	559
Paul Smith[2]	500	21	500	1,021	655
David Mulligan[2]	295	16	295	606	390
Paul Whitmore	270	18	270	558	360
	1,490	75	1,490	3,055	1,964
Non-executive					
Gill Barr	45	–	–	45	45
Patrick De Smedt	40	–	–	40	3
Geraldine Gallacher	40	–	–	40	40
Adrian Martin	45	–	–	45	40
Simon Gulliford[3]	33	–	–	33	–
Jon Walden[4]	16	–	–	16	48
Bernard Asher	–	–	–	–	16
	219	–	–	219	192
Totals	1,709	75	1,490	3,274	2,156

(1) Group PBTA (after non-recurring items) in 2010 of £51.3m resulted in the executive directors becoming entitled to 100% of the maximum cash bonus. The maximum cash bonus required PBTA of £50.0m and the threshold PBTA was £40.0m.

(2) The Company operates a salary exchange process for members of The Morgan Sindall Retirement Benefits Plan, which allows employees flexibility in setting the proportion in which salary and bonus is distributed between pay and additional pension. The figures shown for both 2009 and 2010 represent the salary and bonus entitlements before any salary exchange has taken place.

(3) Simon Gulliford was appointed with effect from 1 March 2010.

(4) Jon Walden ceased to be a director on 6 May 2010.

Pension contributions

The Company contributes 10% of salary to The Morgan Sindall Retirement Benefits Plan ('the Plan') in the case of Paul Smith and David Mulligan and to personal pension plans in the case of the other executive directors.

As explained in the pension arrangements in the unaudited section of this report and under directors' emoluments above, the Company operates a salary exchange process for members of the Plan. Both Paul Smith and David Mulligan have participated in this process and the contributions set out below include the additional 6.4% enhancement to any salary or bonus exchanged (representing half of the saved employer's National Insurance Contribution) but exclude any other contributions made through the salary exchange mechanism.

The contributions paid by the Company to these plans were as follows:

	2010 £'000s	2009 £'000s
John Morgan	43	43
Paul Smith	52	61
David Mulligan	32	32
Paul Whitmore	27	27

The 2005 Plan

The following long-term incentive awards have been made to executive directors under the 2005 Plan during 2010:

Performance shares awarded and vested during 2010

	No. of awards outstanding as at 1 Jan 2010	No. of shares awarded March 2010	No. of dividend equivalent shares awarded March 2010[1]	Total no. of shares vested March 2010[3]	Monetary value of vested shares[2] £'000s	No. of shares lapsed March 2010[3]	No. of awards outstanding as at 31 Dec 2010
Paul Smith	64,263	33,784	694	4,166	23	(10,417)	84,158
David Mulligan	35,608	19,932	339	2,036	11	(5,093)	48,750
Paul Whitmore	67,158	36,486	709	4,258	24	(10,649)	89,446

Notes

(1) The rules of the 2005 Plan provide that, if the committee so determines, executives are entitled to receive the value of dividends paid on performance shares during the three year performance period. In respect of the performance shares which vested in March 2010, this was satisfied by the transfer of additional shares to the executives. These additional shares are included in the 'Total no. of shares vested' column.

(2) Based on the HMRC value on the date of vesting of £5.55205. Awards that vested during the year were granted on 6 March 2007 when the Company's share price was £12.32.

(3) In respect of the performance shares awarded on 6 March 2007, the Company achieved average adjusted EPS growth of RPI + 4% for the three years ended 31 December 2009, resulting in 25% of the performance shares vesting and the remaining performance shares lapsing.

Details of performance shares outstanding as at 31 December 2010

	Date of award	No. of shares awarded	Date awards vest
Paul Smith	9 April 2008	18,046	9 April 2011
	30 March 2009	32,328	30 March 2012
	17 March 2010	33,784	17 March 2013
David Mulligan	9 April 2008	9,745	9 April 2011
	30 March 2009	19,073	30 March 2012
	17 March 2010	19,932	17 March 2013
Paul Whitmore	9 April 2008	18,046	9 April 2011
	30 March 2009	34,914	30 March 2012
	17 March 2010	36,486	17 March 2013

The market price of a share on 9 April 2008 was £10.34, on 30 March 2009 was £5.61 and on 17 March 2010 was £5.52.

Remuneration report
continued

Options granted and lapsed during 2010

	No. of options outstanding as at 1 Jan 2010	No. of options granted 17 March 2010	No. of options lapsed[1] 6 March 2010	No. of options outstanding as at 31 Dec 2010
John Morgan	625,740	229,728	(94,444)	761,024
Paul Smith	373,706	135,136	(55,556)	453,286
David Mulligan	206,248	79,730	(27,160)	258,818

(1) The threshold performance condition for the options granted on 6 March 2007 was not met and the options lapsed.

Details of share options outstanding as at 31 December 2010

	Date of grant	No. of share options granted	Exercise price	Date from which exercisable
John Morgan	20 May 2005	107,736	£7.24	20 May 2008
	5 April 2006	81,016	£12.59	5 April 2009
	9 April 2008	122,716	£10.39	9 April 2011
	30 March 2009	219,828	£5.80	30 March 2012
	17 March 2010	229,728	£5.55	17 March 2013
Paul Smith	20 May 2005	68,370	£7.24	20 May 2008
	5 April 2006	47,656	£12.59	5 April 2009
	9 April 2008	72,814	£10.39	9 April 2011
	30 March 2009	129,310	£5.80	30 March 2012
	17 March 2010	135,136	£5.55	17 March 2013
David Mulligan	20 May 2005	35,220	£7.24	20 May 2008
	5 April 2006	28,594	£12.59	5 April 2009
	9 April 2008	38,980	£10.39	9 April 2011
	30 March 2009	76,294	£5.80	30 March 2012
	17 March 2010	79,730	£5.55	17 March 2013

Notes

- no options were exercised during the year;
- the share options detailed above will, if not exercised, lapse ten years from the date of grant;
- the awards of performance shares and share options made in 2008 are subject to an adjusted EPS performance condition measured over a three year period with full vesting of awards for average adjusted EPS growth of RPI + 10% per annum, reducing on a sliding scale to 25% vesting for average growth of RPI + 4% per annum (performance shares) or RPI + 5% per annum (share options). The awards of performance shares and share options made in 2009 are subject to an absolute adjusted EPS performance target with full vesting of awards for achieving adjusted EPS of 133.0p or more for the year ending 31 December 2011, reducing on a sliding scale to 0% vesting for achieving 103.0p (performance shares) or 115.0p (share options). The awards of performance shares and share options made in 2010 are subject to an absolute adjusted EPS performance target with full vesting of awards for achieving adjusted EPS of 101.2p or more for the year ending 31 December 2012, reducing on a sliding scale to 50% vesting for achieving 81.0p and reducing on a sliding scale to 0% vesting for achieving 68.9p (performance shares) or 77.0p (share options); and
- average adjusted EPS growth for the three financial years ended 31 December 2007 and 31 December 2008 respectively exceeded RPI + 10% and the options granted on 20 May 2005 and 5 April 2006 are, therefore, fully exercisable. The threshold performance conditions for both the performance shares and the options granted on 9 April 2008 were not met and the awards and the options have lapsed.

The market price of a share on 31 December 2010 was £7.05 and the range during the year was £4.91 to £7.25.

The Morgan Sindall Savings Related Share Option Scheme ('the SAYE scheme')
The executive directors hold the following options granted under the SAYE scheme, further details of which are given in note 24 on page 103.

	Outstanding as at 31 Dec 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 Dec 2010	Option exercise price	Dates within which exercisable
Paul Smith	1,338	–	–	–	1,338	£7.02	1/9/2011-28/2/2012
David Mulligan	1,338	–	–	–	1,338	£7.02	1/9/2011-28/2/2012
Paul Whitmore	1,338	–	–	–	1,338	£7.02	1/9/2011-28/2/2012

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

Gill Barr
Chair of the Remuneration Committee
4 March 2011

Other statutory information

Requirement for business review
The Companies Act 2006 ('the Act') requires the Company to set out in the directors' report a fair review of the business of the Group during the financial year ended 31 December 2010 and the position of the Group at the end of the year, including but not limited to a description of the principal risks and uncertainties facing it and analysis using key performance indicators. The information required to fulfil these requirements of the Act can be found in this governance section of the directors' report and in the chairman and chief executive's statement on pages 02 to 05 and in the business review section of the directors' report on pages 06 to 50, each of which is incorporated by reference into (and is deemed to form part of) the directors' report. The liabilities of the directors in connection with this report shall be limited as provided by applicable English law.

The Group's principal activities
Morgan Sindall is a construction and regeneration group with four divisions: Construction & Infrastructure, Affordable Housing, Fit Out and Urban Regeneration and one specialist unit, Investments. The principal subsidiary companies operating within this divisional structure are listed in note 14 of the Company financial statements on page 127.

Results and dividends
The Group's profit before tax for the year amounted to £40.7m (2009: £44.7m). An interim dividend of 12.0p (2009: 12.0p) per share amounting to £5.1m (2009: £5.0m) was paid on 16 September 2010. The directors recommend a final dividend for the year of 30.0p (2009: second interim dividend 30.0p) per share amounting to £12.8m (2009: £12.7m) payable on 16 May 2011 to shareholders on the register at close of business on 26 April 2011. Together with the interim dividend, this makes a total dividend of 42.0p for the year (2009: 42.0p).

Share capital and shareholders' rights
As at 23 February 2010, the Company's issued share capital comprised a single class of ordinary shares of 5p each ('shares'). During the year, 27,870 shares were allotted and issued on the exercise of options under the Company's employee share option schemes. No other shares were issued during the year. Details of the Company's share capital and capital structure, including the rights attaching to the shares, are set out in note 24 of the consolidated financial statements on page 103. Note 24 also gives details of shares held by the Morgan Sindall Employee Benefit Trust, voting rights of which are exercisable at the discretion of the trustees and dividends in respect of which have been waived.

The following paragraphs summarise certain provisions of the Articles and applicable English law concerning companies. The Articles were amended by special resolution at the annual general meeting held on 6 May 2010 and the following paragraphs describe the Articles as so amended.

Subject to applicable statutes (in this section the Act), 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 Articles may decide. Subject to the Articles, the Act and other shareholders' rights, unissued shares are at the disposal of the Board.

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 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 in respect of the joint holding.

No member shall be entitled to vote at any general meeting in respect of any share held by him if any call or other sum then payable by him 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 in the transfer of shares or on voting rights.

Dividends and other 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 (as defined in the Articles) 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.

Variation of rights
Subject to the Act, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths 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.

Restrictions on transfer of securities in the Company
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); or

- pursuant to the Listing Rules of the Financial Services Authority 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.

Amendment of articles of association
Any amendments to the Articles may be made in accordance with the provisions of the Act by way of special resolution.

Appointment and replacement of directors
The directors shall be not less than two and not more than twelve in number. The maximum number of directors was increased from ten to twelve at the annual general meeting on 6 May 2010. The Company may by ordinary resolution vary the minimum and/or maximum number of directors. Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next annual general meeting of the Company and is then eligible for reappointment.

At every annual general meeting of the Company, any director who has been appointed by the Board since the last annual general meeting, or who held office at the time of the two preceding annual general meetings and who did not retire at either of them, shall retire from office and may offer himself for reappointment by the members. The Company may, by special resolution, remove any director before the expiration of his period of office. The office of a director shall be vacated if: (i) he resigns or offers to resign and the Board resolves to accept such offer; (ii) his resignation is requested by all of the other directors and all of the other directors are not less than three in number; (iii) he is or has been suffering from mental ill health and the Board resolves that his office be vacated; (iv) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; (v) he becomes bankrupt or compounds with his creditors generally; (vi) he is prohibited by law from being a director; (vii) he ceases to be a director by virtue of the Act; or (viii) he is removed from office pursuant to the Articles.

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

Powers in relation to the Company issuing its own shares
The directors were granted authority at the annual general meeting on 6 May 2010 to allot relevant securities up to a nominal amount of £107,901. That authority will apply until the conclusion of this year's annual general meeting and a resolution to renew the authority will be proposed at the forthcoming annual general meeting, as explained further in the circular to shareholders accompanying this document.

A special resolution will also be proposed to renew the directors' power to make non-pre-emptive issues for cash, as explained in the circular accompanying this document.

Other statutory information
continued

Purchase of own shares
At the annual general meeting on 6 May 2010, a resolution was passed giving the directors authority to make market purchases of its shares up to 4,316,042 shares at a maximum price based on the market price of a share at the relevant time, as set out in the resolution. No purchases of shares were made during the year pursuant to this authority. The authority expires on 6 August 2011 and a resolution to renew the authority will be proposed at the forthcoming annual general meeting, as explained further in the circular to shareholders accompanying this document.

Significant agreements
There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment occurring because of a takeover bid. The Group's banking facilities are described in the business review on page 34; its facilities for surety bonding require provision of cash collateral for outstanding bonds upon a change of control of the Company.

Directors
The names of the directors as at the date of this report are set out below under Directors' interests. All of these directors held office throughout the year except for Simon Gulliford who was appointed as a non-executive director with effect from 1 March 2010. Jon Walden retired at the annual general meeting in May 2010 and so is not listed in the table below.

John Morgan, David Mulligan, Paul Whitmore, Gill Barr and Geraldine Gallacher will retire at the annual general meeting to be held on 5 May 2011 and, being eligible, offer themselves for re-election. Their biographical details, including details of significant external commitments, are set out on pages 52 and 53.

Directors' interests
The interests of the directors, all of which are beneficial, in the shares of the Company are given below:

	2010 No. of shares	2009 No. of shares
John Morgan	4,497,508	4,497,508
Paul Smith	217,915	213,749
David Mulligan	24,544	22,508
Paul Whitmore	62,840	60,328
Gill Barr	1,013	1,013
Geraldine Gallacher	7,772	7,772
Adrian Martin	2,000	2,000
Patrick De Smedt	–	–
Simon Gulliford	–	–

There have been no changes in the interests of the directors between 31 December 2010 and 4 March 2011.

The directors' share options and interests in shares under long-term share incentive and other schemes are set out in the remuneration report on pages 65 to 67.

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.

In addition, and in common with many other companies, the Company had during the year and continues to have in place directors' and officers' insurance in favour of its directors and other officers in respect of certain losses or liability to which they may be exposed due to their office.

Substantial shareholdings
As at 4 March 2011, the Company had been notified of the following interests in voting rights attaching to the Company's shares in accordance with chapter 5 of the Disclosure and Transparency Rules:

Name of holder	No. of shares	Percentage of total
Aviva plc	5,545,900	12.84%
John Morgan	4,497,508	10.41%
Standard Life Group	3,033,392	7.02%
John James Clifford Lovell	2,415,273	5.64%
Aberdeen Asset Management plc	2,234,219	5.17%
JPMorgan Chase & Co	2,123,287	4.94%
Barclays Global Investors	1,303,861	3.03%

Research and development
The Group undertakes research and development activity in creating innovative construction techniques and designs integral to the delivery of its projects. The direct spending incurred is generally not separately identifiable as the investment is usually contained within project work performed for customers.

Employment
The average number of employees in the Group during the year is given in note 3 to the consolidated financial statements on page 89.

Information on the Group's employment policies and practices, including its policies on equal opportunities for disabled employees and employee consultation, are included in the business review on page 22. Details of the Company's share option schemes are set out in note 24 of the consolidated financial statements on page 103.

Supplier payment policy
The Company's policy, which is also adopted by the Group, is to agree clearly and set down terms of payment with suppliers and subcontractors when agreeing the terms for each transaction and to make payments in accordance with its obligations, save in cases of genuine dispute.

As at 31 December 2010, the Group's number of creditor days outstanding was equivalent to 25 days' purchases (2009: 23 days), based on the average daily amount invoiced by suppliers during the year.

Political and charitable contributions
During the year, the Group made charitable donations of £60,314 (2009: £118,950), principally to local charities serving the communities in which it operates. More details of the Group's involvement in the community can be found in the business review on pages 20 to 23.

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

Fixed assets
There is no material difference between the book value and current market value of the Group's interest in land and buildings.

Disclosure of information to the external auditors
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 auditors are unaware and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

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

Annual general meeting
The annual general meeting of the Company will be held at the offices of RBS Hoare Govett, 250 Bishopsgate, London EC2M 4AA on 5 May 2011 at 12.00 noon. The formal notice convening the annual general meeting, together with explanatory notes, can be found in the separate circular accompanying this document and is available on the Company's website at www.morgansindall.com. Shareholders will also find enclosed with this document a form of proxy for use in connection with the meeting.

The directors' report from pages 02 to 72 inclusive was approved by the Board and signed on its behalf by:

Mary Nettleship
Company Secretary
4 March 2011

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') 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 (UK Accounting Standards and applicable law). 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 judgments 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

Responsibility statement
Each of the directors, whose names are set out on page 70, confirms that to the best of his or her 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; and
- the management report, which is incorporated into the directors' 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.

By order of the Board

Paul Smith
Chief Executive
4 March 2011

David Mulligan
Finance Director
4 March 2011

Consolidated financial statements

Independent auditors' report

We have audited the Group financial statements of Morgan Sindall Group plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion, the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, the information given in the directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the directors' statement, contained within the financial review, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review;
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter
We have reported separately on the parent company financial statements of Morgan Sindall Group plc for the year ended 31 December 2010 and on the information in the directors' remuneration report that is described as having been audited.

Ian Krieger
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
4 March 2011

Consolidated income statement
for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Continuing operations			
Revenue	1	2,101.9	2,213.5
Cost of sales		(1,884.7)	(1,993.0)
Gross profit		217.2	220.5
Amortisation of intangible assets	1, 2, 9	(5.5)	(6.8)
Non-recurring items	2	(5.1)	–
Other administrative expenses		(165.2)	(170.1)
Total administrative expenses		(175.8)	(176.9)
Share of net profit of equity accounted joint ventures	1, 12	0.1	0.1
Other gains and losses	13	0.3	–
Profit from operations	1	41.8	43.7
Finance income	5	1.7	3.3
Finance costs	5	(2.8)	(2.3)
Net finance (costs)/income		(1.1)	1.0
Profit before income tax expense	1	40.7	44.7
Income tax expense	6	(10.9)	(11.8)
Profit for the year	2	29.8	32.9
Attributable to:			
Owners of the Company		29.9	33.0
Non-controlling interests		(0.1)	(0.1)
		29.8	32.9
Earnings per share			
From continuing operations			
Basic	8	70.5p	77.9p
Diluted	8	69.7p	77.1p

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

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Profit for the year		29.8	32.9
Other comprehensive income/(expense):			
Actuarial gain/(loss) arising on defined benefit obligation	19	0.8	(0.6)
Deferred tax on defined benefit obligation	20	(0.3)	–
Movement on cash flow hedges in equity accounted joint ventures	12	(1.4)	0.6
Other comprehensive expense for the year, net of income tax		(0.9)	–
Total comprehensive income for the year		28.9	32.9
Attributable to:			
Owners of the Company		29.0	33.0
Non-controlling interests		(0.1)	(0.1)
		28.9	32.9

Consolidated balance sheet
at 31 December 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Goodwill	9	213.2	184.4
Other intangible assets	9	16.6	16.6
Property, plant and equipment	10	27.8	31.3
Investment property	11	4.3	1.8
Investments in equity accounted joint ventures	1, 12	45.4	50.2
Investments		0.1	0.1
Shared equity loan receivables	13	13.9	9.0
Deferred tax assets	20	3.2	3.8
		324.5	297.2
Current assets			
Inventories	14	141.1	141.2
Amounts due from construction contract customers	16	178.4	192.5
Trade and other receivables	15	229.2	142.3
Cash and cash equivalents	29	148.6	117.7
		697.3	593.7
Total assets	1	1,021.8	890.9
Current liabilities			
Trade and other payables	17	(667.2)	(576.3)
Amounts due to construction contract customers	16	(70.7)	(49.0)
Current tax liabilities		(30.6)	(27.3)
Finance lease liabilities	18	(1.7)	(1.8)
Provisions	21, 25	(6.6)	–
		(776.8)	(654.4)
Net current liabilities		(79.5)	(60.7)
Non-current liabilities			
Trade and other payables	17	–	(0.1)
Finance lease liabilities	18	(6.0)	(7.1)
Retirement benefit obligation	19	(1.9)	(3.2)
Provisions	21	(15.4)	(16.8)
		(23.3)	(27.2)
Total liabilities		(800.1)	(681.6)
Net assets		221.7	209.3
Equity			
Share capital	24	2.2	2.2
Share premium account		26.7	26.7
Capital redemption reserve		0.6	0.6
Own shares		(5.9)	(6.0)
Hedging reserve		(3.1)	(1.7)
Retained earnings		201.4	187.6
Equity attributable to owners of the Company		221.9	209.4
Non-controlling interests		(0.2)	(0.1)
Total equity		221.7	209.3

The consolidated financial statements of Morgan Sindall Group plc (company number 00521970) were approved by the Board and authorised for issue on 4 March 2011 and signed on its behalf by:

Paul Smith
Chief Executive

David Mulligan
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Net cash inflow from operating activities	26	93.1	25.0
Cash flows from investing activities			
Interest received		1.9	3.4
Dividend from joint ventures	12	0.8	2.2
Proceeds on disposal of property, plant and equipment		1.1	1.0
Purchases of property, plant and equipment		(3.1)	(7.5)
Payments to acquire interests in joint ventures	12	(4.3)	(4.2)
Payments for the acquisition of subsidiaries and other businesses	25	(35.2)	(1.1)
Net cash outflow from investing activities		(38.8)	(6.2)
Cash flows from financing activities			
Net payments to acquire own shares		–	(0.1)
Dividends paid		(17.8)	(17.7)
Repayments of obligations under finance leases		(5.6)	(3.7)
Proceeds on issue of share capital		–	0.1
Net cash outflow from financing activities		(23.4)	(21.4)
Net increase/(decrease) in cash and cash equivalents		30.9	(2.6)
Cash and cash equivalents at the beginning of the year		117.7	120.3
Cash and cash equivalents at the end of the year			
Bank balances and cash		148.6	117.7

Consolidated statement of changes in equity

for the year ended 31 December 2010

	Attributable to owners of the Company								
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Reserve for own shares held £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2009	2.2	26.6	0.6	(6.4)	(2.3)	171.6	192.3	–	192.3
Total comprehensive income for the year:									
Net profit	–	–	–	–	–	33.0	33.0	(0.1)	32.9
Other comprehensive income:									
Actuarial loss arising on defined benefit obligation (note 19)	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Movement on cash flow hedges in equity accounted joint ventures (note 12)	–	–	–	–	0.6	–	0.6	–	0.6
Total comprehensive income for the year, net of income tax	–	–	–	–	0.6	32.4	33.0	(0.1)	32.9
Share-based payments	–	–	–	–	–	1.0	1.0	–	1.0
Issue of shares at a premium	–	0.1	–	–	–	–	0.1	–	0.1
Exercise of share options	–	–	–	0.5	–	(0.5)	–	–	–
Movement on deferred tax asset on share-based payments	–	–	–	–	–	0.8	0.8	–	0.8
Own shares acquired in the year	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Dividends paid:									
Final dividend for 2008	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Interim dividend for 2009	–	–	–	–	–	(5.0)	(5.0)	–	(5.0)
Balance at 31 December 2009	2.2	26.7	0.6	(6.0)	(1.7)	187.6	209.4	(0.1)	209.3
Balance at 1 January 2010	2.2	26.7	0.6	(6.0)	(1.7)	187.6	209.4	(0.1)	209.3
Total comprehensive income for the year:									
Net profit	–	–	–	–	–	29.9	29.9	(0.1)	29.8
Other comprehensive income:									
Actuarial gain arising on defined benefit obligation (note 19)	–	–	–	–	–	0.8	0.8	–	0.8
Deferred tax on defined benefit obligation (note 19)	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Movement on cash flow hedges in equity accounted joint ventures (note 12)	–	–	–	–	(1.4)	–	(1.4)	–	(1.4)
Total comprehensive income for the year, net of income tax	–	–	–	–	(1.4)	30.4	29.0	(0.1)	28.9
Share-based payments	–	–	–	–	–	0.7	0.7	–	0.7
Issue of shares at a premium	–	–	–	–	–	–	–	–	–
Exercise of share options	–	–	–	0.1	–	(0.1)	–	–	–
Movement on deferred tax asset on share-based payments	–	–	–	–	–	0.6	0.6	–	0.6
Own shares acquired in the year	–	–	–	–	–	–	–	–	–
Dividends paid:									
Second interim dividend for 2009	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Interim dividend for 2010	–	–	–	–	–	(5.1)	(5.1)	–	(5.1)
Balance at 31 December 2010	2.2	26.7	0.6	(5.9)	(3.1)	201.4	221.9	(0.2)	221.7

Share premium account
The share premium account represents the difference between the fair value of consideration received and the nominal value of the shares issued.

Capital redemption reserve
The capital redemption reserve was created on the redemption of preference shares in 2003.

Reserve for own shares held
The shares are held as 'treasury shares' and represent the cost to Morgan Sindall Group plc of shares purchased in the market and held by the Morgan Sindall Employee Benefit Trust (the 'Trust') to satisfy options under the Group's share incentive schemes (note 24).

The number of shares held by the Trust at 31 December 2010 was 781,444 (2009: 797,034).

Cash flow hedging reserve
Under cash flow hedge accounting, movements on the effective portion of hedges are recognised through the hedging reserve, whilst any ineffectiveness is taken to the income statement.

Significant accounting policies

for the year ended 31 December 2010

Reporting entity
Morgan Sindall Group plc (the 'Company') is domiciled and incorporated in the UK. The report and accounts includes the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the 'Group') and the Group's interest in joint ventures and separate financial statements for the Company. The nature of the Group's operations and its principal activities are set out in note 1 and in the business review on pages 02 to 50.

Basis of preparation
(a) Statement of compliance
The consolidated financial statements have been prepared on a going concern basis as discussed in the business review on page 35 and in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union and, therefore, comply with Article 4 of the EU IAS Regulation.

(b) Basis of accounting
The consolidated financial statements have been prepared under the historical cost convention, except where otherwise indicated.

(c) Functional and presentation currency
These consolidated financial statements are presented in pounds sterling which is the Group's functional currency. All financial information, unless otherwise stated, has been rounded to the nearest £0.1m.

(d) Changes in accounting policy and disclosures
(i) New and revised accounting standards adopted by the Group
The Group has adopted the following new, amended and revised standards and interpretations from 1 January 2010:

- IFRS 3 (revised) 'Business combinations': requires expensing of all acquisition related transaction costs (previously certain costs were included as part of consideration) and the recognition and measurement of contingent consideration at fair value, with subsequent changes in fair value usually taken through the income statement. The revision also provides the option of measuring non-controlling interests at fair value and, in the case of a business combination achieved in stages, requires goodwill to be determined only at the acquisition date, rather than at each stage. Any previously held equity interest is remeasured to fair value with any resulting gain or loss recognised in the income statement.

  This revised standard has been applied to all of the acquisitions that occurred during the year as outlined in note 25 and has resulted in £3.2m of costs that would previously have been included in the consideration. Adoption of this standard has also resulted in a loss of £0.3m being recognised in respect of the Group's previously held equity interest in Eurocentral Holdings Limited.

- International Financial Reporting Interpretations Committee ('IFRIC') 12 'Service Concession Arrangements': addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services where the assets are not controlled by the operator, typically under PPP and PFI arrangements. Under IFRIC 12, infrastructure assets are not recognised as the property, plant and equipment of the operator, rather as a financial asset because the operator has an unconditional right to receive a specified amount of cash or investment or other financial asset over the life of the agreement. Consequently, the operator now recognises investment income in respect of the financial asset on an effective interest rate basis. The interpretation results in a change in the timing of profit recognition over the life of the contract. However, there is no change in the overall project cash flows arising or in the directors' valuation.

IFRIC 12 was applied with retrospective effect. The effect of the adoption on comparative amounts was immaterial, and so comparative amounts have not been restated.

During the year, the Group has also adopted the following standards, amendments and interpretations. However, they have not had any material impact on the Group's consolidated financial statements or are not currently relevant to the Group (but may affect future transactions and events):

- IAS 27 (revised) 'Consolidated and separate financial statements';
- IAS 38 (amendment) 'Intangible assets';
- IFRS 2 (amendment) 'Group cash-settled and share-based payment transactions';
- IFRIC 18 'Transfers of assets from customers';
- International Accounting Standards Board ('IASB') annual improvements 2009;
- IFRIC 9 'Reassessment of embedded derivatives' and IAS 39 'Financial Instruments: Recognition and measurement'; and
- Improvements to IFRSs (2009).

(ii) Accounting standards, amendments and interpretations to existing standards not yet effective, endorsed by the EU and not adopted early by the Group
The following have been published and, when approved by the EU, will be mandatory for periods beginning on or after 1 January 2011 and have not been adopted early by the Group:

- IFRS 9 'Financial instruments': the first step in the IASB's replacement programme for IAS 39. IFRS 9 seeks to simplify the classification and measurement of financial instruments according to a business model approach, which requires recognition and measurement according to how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Although approved by the IASB (and effective from 1 January 2013), this has not been endorsed by the EU and endorsement is not expected until the IAS 39 replacement programme is complete.
- IAS 24 (amended) 'Related party transactions': although endorsed by the EU, the revised standard is not yet effective. IAS 24 clarifies and simplifies the definition of a related party and removes certain disclosures in respect of government related entities.
- Amendments to IFRS 7 'Financial Instruments: Disclosures': improves disclosures in respect of transfer transactions of financial assets (where an asset is transferred but not derecognised).

Significant accounting policies for the year ended 31 December 2010
continued

- Prepayments of a minimum funding requirement (amendment to IFRIC 14): although endorsed by the EU, the amendment is not yet effective. The amendment removes an unintended consequence of IFRIC 14 where entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions.

- IFRIC 19 'Extinguishing financial liabilities with equity instruments': IFRIC 19 has been endorsed by the EU and clarifies the accounting in respect of debt for equity swaps.

- IASB annual improvements 2010: requires a number of smaller amendments to existing IFRS with implementation dates throughout 2011. The impact of these amendments is currently being assessed.

(e) Critical accounting judgments and key sources of estimation uncertainty
The preparation of financial statements under IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis and any revision to estimates or assumptions are recognised in the period in which they are revised.

(i) Critical accounting judgments
The following are critical judgments, 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 consolidated financial statements.

- *Accounting for tax in relation to the Amec acquisition fair value adjustments*
  The Group continues to discuss with HMRC the corporation tax treatment of the fair value adjustments which arose following the 2007 acquisition from Amec. Pending the resolution of the discussions, the Group has materially reduced its net tax payments to HMRC. As the outcome of these discussions is unclear, the Group has not recognised any benefit from this matter in the tax charge in the income statement. Accordingly, a balance of £23.2m (2009: £22.0m) is recorded in respect of this matter within current tax liabilities.

- *Determination of cash-generating units for goodwill impairment testing*
  For the purposes of performing the Group's annual impairment testing, goodwill is allocated to the cash-generating unit or groups of cash-generating units which represent the lowest level at which goodwill is monitored for management purposes and which are expected to benefit from the business combination giving rise to the goodwill.

- *Disclosure of non-recurring items*
  The Group has presented certain items of a one-off and material nature as non-recurring items in the income statement. These items have been disclosed because the directors view their presentation as relevant to the understanding of the Group's underlying financial performance. Inclusion within this category is restrictive and is applied consistently to one-off costs and one-off gains.

- *Fair value adjustments in business combinations*
  The Group has made certain fair value adjustments in respect of the acquisition of the business, obligations and certain assets from the administrators of Connaught Partnerships Limited. These are provisional due to the inherent uncertainty relating to asset realisation and quantification of provisions.

(ii) Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year, are discussed below.

- *Accounting for construction and service contracts*
  Recognition of revenue and margin is based on judgments made in respect of the ultimate profitability of a contract. Such judgments are arrived at through the use of estimates in relation to the costs and value of work performed to date and to be performed in bringing contracts to completion, including satisfaction of maintenance responsibilities. These estimates are made by reference to recovery of pre-contract costs, surveys of progress against the construction programme, changes in work scope, the contractual terms under which the work is being performed, costs incurred and external certification of the work performed. The Group has appropriate control procedures to ensure all estimates are determined on a consistent basis and subject to appropriate review and authorisation.

- *Recognition and measurement of intangible assets*
  The Group recognises certain intangible assets in respect of secured customer contracts, other contracts and related relationships, software, non-compete agreements and goodwill. Recognition and subsequent measurement requires management to make certain assumptions and estimates, particularly in respect of the future potential benefits to be derived and the estimated useful lives over which the future economic benefits are expected to flow to the Group. To assist in making these judgments, the directors engage independent experts to assist in the determination of the fair values and the estimated useful lives of these assets.

- *Impairment of goodwill and other intangible assets*
  Goodwill and other intangible assets are subject to an impairment test on an annual basis or earlier where any event or change in circumstance is identified that indicates that the carrying value may not be recoverable. Testing for impairment requires a comparison of the carrying amount of goodwill and other intangible assets against the recoverable amount, which is the value-in-use of the cash-generating unit to which the goodwill and other intangible assets are allocated.

  Value-in-use requires estimation of the future cash flows expected from the cash-generating unit as well as an appropriate growth factor and discount rate to calculate the present value of the cash flows.

- *Impairment of work in progress*
  In assessing whether work in progress is impaired, estimates are made of future sales revenue, timing and build costs. The Group has controls in place to ensure that estimates of sales revenue are consistent, and external valuations are used where appropriate.

- *Accounting for the Group's defined benefit plan*
The directors engage an independent and qualified actuary to calculate the Group's liability in respect of the defined benefit plan. In order to arrive at this valuation, certain assumptions in respect of discount rates, salary escalations, expected return on the plan's assets and future pension increases have been made. Estimates and judgments regarding future mortality are derived using published statistics and mortality tables. As the actual rates of increase and mortality may differ from those assumed, the actual pension liability may differ from that recognised in these consolidated financial statements.

- *Insurance provisions*
In valuing the provision for the Group's retained insurance risks, estimates are made of the rate of occurrence and severity of events for which the Group will bear liability and external valuations are used where appropriate.

- *Private Finance Initiative ('PFI')/Private Public Partnership ('PPP') derivative financial instruments*
Certain Group joint ventures use swaps to hedge interest rate and Retail Price Index (inflation) risk to which PFI/PPP concessions are exposed. These are initially recognised and subsequently remeasured at each year end, at fair value derived from current market rates.

- *Financial receivables*
In assessing the fair value of certain financial receivables, including trade receivables and those held by joint ventures, estimates are made of future cash flows and the appropriate discount rate to be used.

- *Tax*
Judgments are required in establishing the Group's liability to pay taxes where tax positions are uncertain.

- *Share-based payments*
Recognition and measurement of share-based payments requires estimation of the fair value of awards at the date of grant and, for cash-settled awards, remeasurement at each reporting date. Judgment is exercised when estimating the number of awards that will ultimately vest and these estimates have a significant impact on the amounts recognised in the income statement and the balance sheet. To assist in determining each award's fair value, the directors engage a qualified and independent valuation expert. Assumptions in relation to the number of awards that will ultimately vest is based on estimates at the reporting date of the extent to which performance conditions are anticipated to be satisfied, anticipated future lapses by leavers and the current intrinsic value of those awards.

- *Recognition and measurement of embedded derivatives contained in shared equity loans*
The Group's balance sheet includes loans that arise on the sale of properties under shared equity home ownership schemes which are recognised and measured at fair value through profit or loss (as discussed in the Group's accounting policies below). Because it is impracticable to obtain regular market valuations on a property-by-property basis, except as required at repayment, the Group makes judgments on the fair value of the loans on a portfolio basis. This approach requires judgment on inputs used to determine fair value and which include property price indices, the discount rate, the anticipated loan duration and the expected rate of debtor default. Assumptions made in relation to these inputs have a material impact on the carrying value of the loan portfolio recognised on the balance sheet and the fair value movement recognised in the income statement.

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 (its subsidiaries), together with the Group's share of the results of joint ventures made up to 31 December each year.

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

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Subsequent to acquisition, non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest's share of the changes in equity since the date of the combination.

(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.

Significant accounting policies for the year ended 31 December 2010
continued

Non-controlling interests in the net assets of the acquiree are initially measured at the non-controlling interests' share of the net fair value of the assets and liabilities recognised or at fair value, as determined on an acquisition-by-acquisition basis.

(b) Joint ventures
A joint venture 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) Jointly controlled entities
A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. 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. 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 consolidated 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) Jointly controlled operations
Construction contracts carried out in joint venture without the establishment of a legal entity are jointly controlled operations. The Group's share of the results and net assets of these jointly controlled operations are included under each relevant heading in the income statement and the balance sheet.

(c) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investments are eliminated to the extent of the Group's interest in that investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue and margin recognition
Revenue and margin are recognised as follows:

(a) Construction contracts
Revenue comprises the fair value of construction carried out in the year based on an internal assessment of work carried out. This assessment is carried out by reference to the construction programme, the construction contract, costs incurred and external certification of the work performed. Once the outcome of a construction contract can be estimated reliably, margin is recognised in the income statement on a stage of contract completion basis by reference to costs incurred to date and total forecast costs on the contract as a whole. Losses expected in bringing a contract to completion are recognised immediately in the income statement as soon as they are forecast.

Where 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 on sale completion and margin is recognised using the same principle as for the construction contract element of the development.

(b) Service contracts
Revenue comprises the fair value of work performed in the year based on an internal assessment of work carried out. This assessment is carried out by reference to the service contract, costs incurred, surveys of work performed and external certification of work performed.

(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 were 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.

In the case of PPP/PFI contracts, all costs incurred before the appointment as preferred bidder are expensed.

Where pre-contract costs are reimbursable, the amount received is applied against amounts expensed with any surplus over this amount being applied to costs which have been recognised as contract assets.

(e) Mobilisation costs:
Mobilisation costs are those costs specifically incurred to enable performance of obligations in a contract after its award and form an integral part of the overall costs of a contract. Such costs are amortised over the period of the contract except where the contract becomes loss making, in which case the balance is immediately expensed.

(f) Government grants
Funding received in respect of developer grants, where funding is awarded to encourage the building and renovation of affordable housing, is recognised as revenue on a stage of completion basis over the life of the project to which the funding relates.

Funding received to support the construction of housing where current market prices would otherwise make a scheme financially unviable is recognised as revenue on a legal completion basis when the properties to which it relates are sold.

Finance income and expense
Finance income comprises interest income on funds invested and other interest earned. Interest income is recognised as it accrues in the income statement using the effective interest rate method.

Finance expense comprises interest on bank overdrafts, the unwinding of discounts on provisions, impairment losses recognised on financial assets, amortisation of prepaid bank facility arrangement fees, commitment fees charged by lenders on the undrawn portion of available bank facilities and losses on hedging instruments recognised through the income statement. The finance charge component of minimum lease payments made under finance leases is also recognised as a finance expense using the effective interest rate method.

Borrowing costs are recognised in the income statement on an effective interest rate method in the period in which they are incurred except where such costs relate to qualifying assets for which the commencement date for capitalisation was on or after 1 January 2009. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are included as part of the cost of that asset.

Income tax
The income tax expense represents the current and deferred tax charges. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the Group's expected tax liability on taxable profit for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Taxable profit differs from that reported in the income statement because it is adjusted for items of income or expense that are assessable or deductible in other years and is adjusted for items that are never assessable or deductible.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases used in tax computations. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit, or differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is recognised on temporary differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at the tax rates expected to apply when they reverse based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted and are only offset where there is a legally enforceable right to offset current tax assets and liabilities.

Intangible assets
(a) Goodwill
(i) Initial recognition
Goodwill arises on the acquisition of subsidiaries, associates, joint ventures and other business assets and liabilities. Goodwill represents the excess of the cost of an acquisition over the Group's share of the identifiable net assets of the acquiree at the acquisition date. Where that excess is negative, it is immediately recognised in the consolidated 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. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

(ii) Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investments, goodwill acquired directly is included in the carrying amount of the investment.

(iii) Impairment
Goodwill is allocated to cash-generating units for the purpose of impairment testing. The cash-generating units to which the goodwill has been allocated is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The largest group to which goodwill is allocated for impairment testing purposes is the operating segment level.

If the recoverable amount of the cash-generating unit is lower than the carrying amount of the unit, then the impairment loss is first applied to the goodwill allocated to the cash-generating unit and then to the other assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. Any such impairment loss is recognised immediately in the income statement and is not subsequently reversed.

(b) Other intangible assets
Other intangible assets, such as those 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.

Significant accounting policies for the year ended 31 December 2010
continued

The Group has the following significant classes of finite life intangible assets:

(i) Secured customer contracts
On acquisition, value is attributable to customer contracts to the extent that future economic benefits are expected to flow from the contracts. The fair value of customer contracts recognised in the consolidated financial statements has been determined with the assistance of an independent expert. Secured customer contracts are amortised over their expected useful lives at a rate to match the expected future economic benefits.

(ii) Other contracts and related relationships
On acquisition, value is attributed to non-contractual relationships and other contracts with long-standing or valued clients to the extent that future economic benefits are expected to flow from the relationships. The fair value of other contracts and related relationships recognised in the consolidated financial statements has been determined with the assistance of an independent expert. Other contracts and related relationships are amortised over their expected useful lives at a rate to match the expected future economic benefits.

(iii) Software
Software acquired on acquisition is valued on a replacement cost basis and is amortised over its expected useful life on a straight-line basis.

(iv) Non-compete agreements
Value is attributable to contractual non-compete agreements acquired through acquisition to the extent that they ensure that the value paid for a business is not diminished by the previous owner or its employees taking away revenue through competition. Non-compete agreements are amortised over their useful lives on a straight-line basis.

The estimated useful lives for the Group's finite life intangible assets are:

secured customer contracts	1–3 years
other contracts and related relationships	1–12 years
software	1–3 years
non-compete agreements	3 years

Property, plant and equipment
Freehold and leasehold property, plant, machinery and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost or valuation of the assets, other than land, over their estimated useful lives using the straight-line method on the following basis:

plant, machinery and equipment	between 8.3% and 33% per annum
freehold property	2% per annum
leasehold property	over the period of the lease

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Residual values of property, plant and equipment are reviewed and updated annually. Assets under construction are not depreciated until they become available for productive use.

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

Investment property
Investment property, which is property held to earn rentals and/or capital appreciation is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Shared equity scheme receivables
The Group offers shared equity home ownership schemes under which qualifying home buyers can defer payment of part of the agreed sales price up to a maximum of 25% until the earlier of ten years, 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 Institute 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 shared equity loans receivable are a hybrid financial instrument consisting of an initial principal component and an embedded derivative whose fair value varies in accordance with movements in the specific property prices to which the loan relates. The loans are non-interest bearing.

The Group has elected to designate the financial assets resulting from the shared equity schemes as fair value through profit or loss. This election can only be made at initial recognition and is irrevocable. As it is not practicable to obtain current market valuations on a property-by-property basis at each reporting date, the fair value of the loans is calculated on a portfolio basis using region specific property price indices, a discount rate which reflects the prevailing interest rate and a suitable risk premium for the borrowers, an anticipated loan duration and the expected rate of debtor default. Fair value movements are recognised in operating profit and the resulting financial asset is presented as a non-current receivable.

At each reporting date, the accuracy of each of these assumptions is reviewed and, where appropriate, adjusted to reflect changes in market conditions and the Group's experience with the debtors.

Revenue resulting from the sale of properties under the shared equity scheme is recognised at the fair value of the consideration received or receivable.

Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of work in progress comprises raw materials, direct labour, other direct costs and related overheads. Net realisable value is the estimated selling price less applicable costs.

Trade receivables
Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement when there is objective evidence that the asset is impaired.

Cash and cash equivalents
Cash and cash equivalents 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 change in value.

Trade payables
Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Leased assets
(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 against income.

(b) Operating leases
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Retirement benefit schemes
(a) Defined contribution plan
A defined contribution plan is a post-retirement benefit plan under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The Group recognises payments to defined contribution pension plans as staff costs in the income statement as and when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction on future payments is available.

(b) Defined benefit plan
A defined benefit plan is a post-retirement plan other than a defined contribution plan. The Group's net liability is recognised in the balance sheet and is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting this to its present value. Any unrecognised past service costs and the fair value of the plan's assets are deducted.

The calculation of the net liability is performed by a qualified actuary on an annual basis using the projected unit credit method. The cost of the plan is charged to the income statement based on actuarial assumptions at the beginning of the financial year. Where the calculation results in a benefit to the Group, the asset recognised is limited to the net of the total unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of the plan are improved, the portion of increased benefit relating to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. Where the benefits vest immediately, the expense is recognised in the income statement immediately.

Actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur. Net pension obligations are included in the balance sheet at the present value of the plan liabilities, less the fair value of the plan assets.

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 assets, 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.

With the exception of available for sale financial assets, 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.

Government grants
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.

Revenue arising from Government grants is recognised on either a stage of completion or legal completion basis.

Share-based payments
The Group issues equity-settled and cash-settled share-based payments (share awards or share options) to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant and are recognised as an employee expense, with a corresponding increase in equity, over the period from the date of grant to the date on which the employees become unconditionally entitled to the awards or options.

Significant accounting policies for the year ended 31 December 2010
continued

Cash-settled share-based payments are measured at fair value at each balance sheet date and recognised as an expense, with a corresponding increase in liabilities, over the period from the date of grant to the date on which the employees become unconditionally entitled to the payment. Any changes in the fair value of the liability are recognised as an employee expense in the income statement. Fair value is measured by use of a modified Black-Scholes model. None of these awards when granted was subject to a share price related performance condition.

Related National Insurance Contributions are accrued on the basis of the intrinsic value of outstanding share-based payments and are remeasured at each reporting date.

The Group has applied the requirements of IFRS 2 'Share-based Payments' ('IFRS 2'). In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

Financial receivables
Certain joint ventures' financial receivables are measured at fair value at the balance sheet date. The fair value is determined by discounting the future cash flows directly associated with the financial receivables at a risk-adjusted discount rate. The change in fair value is recognised in equity to the extent of the Group's equity accounted investment.

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.

Under IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'), interest rate and RPI swaps 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.

Embedded derivatives are separated from the underlying host contract where the economic characteristics and risks of the host contract and the embedded derivative are not closely related except, as is the case with the Group's shared equity loan receivables, an election has been made to designate the financial asset which contains an embedded derivative as fair value through profit or loss as permitted by IAS 39. This designation can only be made at initial recognition and is irrevocable but can be made on a transaction-by-transaction basis.

Dividends
Dividends to the Company's shareholders are recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the consolidated financial statements

1 Business segments

The Group has merged its Construction and Infrastructure Services segments, which are now reported in the new Construction & Infrastructure segment. The comparative result for the year to 31 December 2009 has been restated. Revenue is generated from each of the Group's operating segments as follows:

- Construction & Infrastructure: offers a national service for design, construction and infrastructure to public and private clients;
- Affordable Housing: development and construction of social and open market affordable housing, and planned and response maintenance of social housing;
- Fit Out: undertakes refurbishment and fit out projects in the offices, education, retail, hotel and leisure sectors;
- Urban Regeneration: development through partnership agreements of large-scale mixed use urban regeneration projects with a view to letting and/or sale;
- Investments: facilitates project finance and provides investment management expertise to the Group's PPP/PFI activities and investment portfolio; and
- Group Activities: represents costs and income arising from corporate activities which cannot be allocated to the operating segments. These include costs for central activities such as treasury management, corporate tax coordination, insurance management, pension administration and company secretarial and legal services.

For management purposes, the Group is organised into four operating divisions: Construction & Infrastructure, Affordable Housing, Fit Out, Urban Regeneration and one specialist unit, Investments. Group Activities includes activities of the parent Company, Morgan Sindall Group plc. The divisions and the specialist unit are the basis on which the Group reports its segment information. Segment information about the Group's continuing operations is presented below:

2010

	Construction & Infrastructure £m	Affordable Housing £m	Fit Out £m	Urban Regeneration £m	Investments £m	Group Activities £m	£m	Eliminations £m	Total £m
Revenue: external	1,249.8	387.3	415.1	45.8	3.9	–	2,101.9	–	2,101.9
Revenue: inter-segment	49.6	2.2	3.5	–	–	–	55.3	(55.3)	–
Operating profit/(loss) before amortisation and non-recurring items	26.9	16.3	14.8	2.5	(4.1)	(4.1)	52.3	–	52.3
Share of results of associates and joint ventures after tax	–	(0.2)	–	(0.5)	0.8	–	0.1	–	0.1
Profit/(loss) from operations before amortisation and non-recurring items	26.9	16.1	14.8	2.0	(3.3)	(4.1)	52.4	–	52.4
Amortisation of intangible assets (note 9)	(0.5)	(0.3)	–	(4.7)	–	–	(5.5)	–	(5.5)
Non-recurring items (note 2)	(3.2)	(3.9)	–	2.0	–	–	(5.1)	–	(5.1)
Profit/(loss) from operations	23.2	11.9	14.8	(0.7)	(3.3)	(4.1)	41.8	–	41.8
Net finance income							(1.1)		(1.1)
Profit before income tax expense							40.7		40.7

Notes to the consolidated financial statements
continued

1 Business segments continued

2009 (restated)

	Construction & Infrastructure £m	Affordable Housing £m	Fit Out £m	Urban Regeneration £m	Investments £m	Group Activities £m	£m	Eliminations £m	Total £m
Revenue: external	1,513.2	373.8	291.2	31.9	3.4	–	2,213.5	–	2,213.5
Revenue: inter-segment	13.1	–	–	–	6.1	–	19.2	(19.2)	–
Operating profit/(loss) before amortisation	30.1	14.9	13.8	0.6	(3.0)	(6.0)	50.4	–	50.4
Share of results of associates and joint ventures after tax	–	–	–	0.1	–	–	0.1	–	0.1
Profit/(loss) from operations before amortisation	30.1	14.9	13.8	0.7	(3.0)	(6.0)	50.5	–	50.5
Amortisation of intangible assets (note 9)	(1.5)	–	–	(5.3)	–	–	(6.8)	–	(6.8)
Profit/(loss) from operations	28.6	14.9	13.8	(4.6)	(3.0)	(6.0)	43.7	–	43.7
Net finance income							1.0		1.0
Profit before income tax expense							44.7		44.7

Balance sheet analysis of business segments:

2010

	Construction & Infrastructure £m	Affordable Housing £m	Fit Out £m	Urban Regeneration £m	Investments £m	Group Activities £m	Total £m
Goodwill	151.1	45.7	–	16.4	–	–	213.2
Other intangible assets	0.1	4.4	–	12.1	–	–	16.6
Equity accounted joint ventures	–	–	–	28.3	17.1	–	45.4
Other assets	418.8	229.0	118.9	21.7	0.5	(42.3)	746.6
Total assets	570.0	279.1	118.9	78.5	17.6	(42.3)	1,021.8
Total liabilities	(449.7)	(189.3)	(99.1)	(13.6)	(19.6)	(28.8)	(800.1)
Other information:							
Amortisation of intangible assets (note 9)	0.5	0.3	–	4.7	–	–	5.5
Depreciation (note 10)	6.7	0.3	1.0	0.2	0.1	0.5	8.8
Property, plant and equipment additions (note 10)	3.9	0.2	0.2	–	–	0.2	4.5

2009 (restated)

	Construction & Infrastructure £m	Affordable Housing £m	Fit Out £m	Urban Regeneration £m	Investments £m	Group Activities £m	Total £m
Goodwill	151.2	16.5	–	16.7	–	–	184.4
Other intangible assets	0.5	–	–	16.1	–	–	16.6
Equity accounted joint ventures	–	0.1	–	35.2	14.9	–	50.2
Other assets	372.4	168.7	73.1	14.7	3.8	7.0	639.7
Total assets	524.1	185.3	73.1	82.7	18.7	7.0	890.9
Total liabilities	(321.9)	(131.0)	(44.0)	(39.8)	(18.4)	(126.5)	(681.6)
Other information:							
Amortisation of intangible assets (note 9)	1.5	–	–	5.3	–	–	6.8
Depreciation (note 10)	7.2	0.2	1.1	0.3	0.2	0.3	9.3
Property, plant and equipment additions (note 10)	7.9	0.1	0.1	0.2	–	0.2	8.5

Significantly, all of the Group's operations are carried out in the UK.

2 Profit for the year

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

	2010 £m	2009 £m
Non-recurring items (see below)	5.1	–
Depreciation of property, plant and equipment (note 10)	8.8	9.3
Gain on disposal of property, plant and equipment	(0.5)	(0.4)
Staff costs (note 4)	368.4	389.8
Amortisation of intangible assets (note 9)	5.5	6.8
Write downs in work in progress recognised as an expense	–	1.0
(Write back)/impairment of trade receivables (note 29)	(0.6)	0.6
Auditors' remuneration for audit and other services (see below)	1.1	1.0

A more detailed analysis of non-recurring items is provided below:

	2010 £m	2009 £m
Acquisition related costs	3.9	–
Integration costs	3.2	–
One off gain from a bargain purchase	(2.0)	–
Total non-recurring items	5.1	–
Total non-recurring items post income tax	4.0	–

A more detailed analysis of auditors' remuneration is provided below:

	2010 £m	2009 £m
Fees payable to the Company's auditors for the audit of the Company's annual report and accounts	0.1	0.1
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries and joint ventures pursuant to legislation	0.9	0.8
Total audit fees	1.0	0.9
Services to joint ventures relating to tax	0.1	0.1
Total non-audit fees	0.1	0.1
Total auditors' remuneration	1.1	1.0

3 Employees

The average monthly number of people employed by the Group during the year was:

	2010 No.	2009 No.
Construction & Infrastructure	4,807	5,989
Affordable Housing	2,204	1,324
Fit Out	549	569
Urban Regeneration	50	49
Investments	33	24
Group Activities	19	22
	7,662	7,977

4 Staff costs

	2010 £m	2009 £m
Wages and salaries	324.3	342.8
Social security costs	34.6	37.6
Other pension costs	9.5	9.4
	368.4	389.8

Notes to the consolidated financial statements
continued

5 Finance income and costs

	2010 £m	2009 £m
Interest income on bank deposits	0.2	1.8
Other interest income	0.2	0.2
Interest receivable from joint ventures	1.3	1.3
Finance income	1.7	3.3
Interest payable on bank overdrafts and borrowings	–	(1.7)
Interest payable on finance leases	(0.5)	(0.5)
Loan arrangement and commitment fees	(1.7)	–
Interest payable to joint ventures	–	–
Other interest payable	(0.6)	(0.1)
Finance costs	(2.8)	(2.3)
Net finance (costs)/income	(1.1)	1.0

6 Income tax expense

	2010 £m	2009 £m
Current tax expense:		
UK corporation tax	11.7	12.2
Adjustment in respect of prior years	(1.4)	(1.1)
	10.3	11.1
Deferred tax expense:		
Current year	0.1	0.8
Adjustment in respect of prior years	0.5	(0.1)
	0.6	0.7
Income tax expense for the year	10.9	11.8

Corporation tax is calculated at 28.0% (2009: 28.0%) of the estimated assessable profit for the year.

The total tax charge for the year of £10.9m is lower (2009: lower) than the standard rate of corporation tax in the UK of 28.0% (2009: 28.0%). The difference can be reconciled as follows:

	2010 £m	2009 £m
Current tax expense:		
Profit before tax	40.7	44.7
Income tax expense at UK corporation tax rate	11.4	12.5
Tax effect of:		
Share of net profit of equity accounted joint ventures	–	–
Expenses that are not deductible in determining taxable profits	0.8	0.8
Adjustments in respect of prior years	(0.9)	(1.2)
Effect of expected forthcoming change in tax rates upon closing deferred tax balance	0.1	–
Other	(0.5)	(0.3)
Income tax expense for the year	10.9	11.8
Effective tax rate for the year	26.8%	26.4%
Effective tax rate for the year ignoring prior year adjustments	29.0%	29.1%

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2010 £m	2009 £m
Second interim dividend for the year ended 31 December 2009 of 30.0p (2008: final dividend 30.0p) per share	12.7	12.7
Interim dividend for the year ended 31 December 2010 of 12.0p (2009: 12.0p) per share	5.1	5.0
	17.8	17.7
Proposed final dividend for the year ended 31 December 2010 of 30.0p (2009: second interim dividend of 30.0p) per share	12.8	12.7

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements. The proposed final dividend will be paid on 16 May 2011 to shareholders on the register at 26 April 2011. The ex-dividend date will be 20 April 2011.

8 Earnings per share

There are no discontinued operations in either the current or prior year.

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	2010 £m	2009 £m
Earnings before tax	40.7	44.7
Deduct tax expense per the income statement	(10.9)	(11.8)
Non-controlling interests	0.1	0.1
Earnings for the purposes of basic and dilutive earnings per share being net profit attributable to owners of the Company	29.9	33.0
Add back:		
amortisation expense (see notes 2 and 9)	5.5	6.8
non-recurring items (note 2)	4.0	–
Earnings for the purposes of adjusted basic and dilutive earnings per share being net profit attributable to owners of the Company adjusted for amortisation expense and non-recurring items	39.4	39.8

Number of shares	2010 No. '000s	2009 No. '000s
Weighted average number of ordinary shares for the purposes of basic earnings per share	42,391	42,281
Effect of dilutive potential ordinary shares:		
Share options	93	92
Conditional shares not vested	389	332
Weighted average number of ordinary shares for the purposes of diluted earnings per share	42,873	42,705

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 period that the options were outstanding. The weighted average share price for the period was £5.93 (2009: £6.11).

Notes to the consolidated financial statements
continued

8 Earnings per share continued

Earnings per share as calculated in accordance with IAS 33, 'Earnings per Share' are disclosed below:

	2010	2009
Basic earnings per share	70.5p	77.9p
Diluted earnings per share	69.7p	77.1p

Earnings per share adjusted for amortisation expense and non-recurring items:

	2010	2009
Basic earnings per share adjusted for amortisation expense and non-recurring items	92.9p	93.9p
Diluted earnings per share adjusted for amortisation expense and non-recurring items	91.9p	93.0p

A total of 2,246,025 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 2010 (2009: 2,820,160).

9 Goodwill and other intangible assets

	Other intangible assets					
	Secured customer contracts £m	Other contracts and related relationships £m	Software £m	Non-compete agreement £m	Total other intangible assets £m	Goodwill £m
Cost or valuation						
Balance at 1 January 2009	4.2	26.9	0.9	5.0	37.0	192.3
Additions in the year (note 25)	–	–	–	–	–	1.1
Balance at 31 December 2009	4.2	26.9	0.9	5.0	37.0	193.4
Balance at 1 January 2010	4.2	26.9	0.9	5.0	37.0	193.4
Additions in the year (note 25)	–	5.8	–	0.8	6.6	29.1
Disposals during the year (note 25)	–	(2.0)	–	–	(2.0)	(0.3)
Balance at 31 December 2010	4.2	30.7	0.9	5.8	41.6	222.2
Accumulated amortisation						
Balance at 1 January 2009	(2.9)	(7.6)	(0.7)	(2.4)	(13.6)	(9.0)
Amortisation charge for the year	(1.0)	(3.9)	(0.2)	(1.7)	(6.8)	–
Balance at 31 December 2009	(3.9)	(11.5)	(0.9)	(4.1)	(20.4)	(9.0)
Balance at 1 January 2010	(3.9)	(11.5)	(0.9)	(4.1)	(20.4)	(9.0)
Amortisation charge for the year	(0.3)	(4.1)	–	(1.1)	(5.5)	–
Disposals during the year	–	0.9	–	–	0.9	–
Balance at 31 December 2010	(4.2)	(14.7)	(0.9)	(5.2)	(25.0)	(9.0)
Carrying amount						
Carrying amount at 31 December 2010	–	16.0	–	0.6	16.6	213.2
Carrying amount at 31 December 2009	0.3	15.4	–	0.9	16.6	184.4

Other contracts and related relationships arise from valuing the relationship with a number of clients where there is a secured pipeline of work or historic experience of a relationship and the real prospective opportunity of repeat work. Following a review of estimated useful lives, other contracts and related relationships will be fully amortised by 2019.

Software was fully amortised by 31 December 2009 and secured customer contracts were fully amortised by 31 December 2010.

The non-compete agreement acquired in 2007 expired in July 2010. The Group acquired a non-compete agreement with a cost of £0.8m as a result of the acquisition of Powerminster Gleeson Services Limited on 30 June 2010 (note 25). This is of three years duration and is being amortised on a straight-line basis.

Goodwill represents the value of people, track record and expertise acquired within acquisitions that are not capable of being individually identified and separately recognised.

Segmentation of goodwill and other intangible assets is disclosed in note 1.

Note 25 provides further details in respect of the fair value of intangible assets identified on acquisition and for the determination of goodwill arising on acquisition. Amortisation charges in respect of intangible assets with a finite life are recorded within administration expenses in the income statement. The amortisation rates are given in the significant accounting policies.

9 Goodwill and other intangible assets continued

In testing goodwill and other intangible assets for impairment, the carrying value of goodwill and other intangible assets in each cash-generating unit has been compared against value in use. Value in use has been determined by using forecast pre-tax cash flows from Board approved budgets for the next three years and extrapolating future growth and applying risk-adjusted discount rates that are specific to the cash-generating unit in question.

Cash flows beyond three years have been extrapolated using an estimated growth rate of 2.50% (2009: 2.25%) which is equal to the HM Treasury's November 2010 forecast for the UK economy: a comparison of independent forecasts for GDP. The risk-adjusted nominal discount rates used are 12% (2009: 12%) for Construction & Infrastructure, 13% (2009: 13%) for Affordable Housing and 15% (2009: 15%) for Urban Regeneration. The directors have reviewed the rates used and believe they are still appropriate.

The key assumptions in forecasting pre-tax cash flows relate to future budgeted revenue, margin likely to be achieved and, likely rates of long-term growth by market sector. Budgeted revenue and margin are based on views 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. In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified.

10 Property, plant and equipment

	Owned plant, machinery and equipment £m	Leased plant, machinery and equipment £m	Freehold property and land £m	Leased property £m	Total £m
Cost or valuation					
Balance at 1 January 2009	38.7	13.5	2.8	7.8	62.8
Additions in the year	5.7	2.0	–	0.8	8.5
Transfers	1.2	(1.2)	–	–	–
Disposals during the year	(1.6)	(1.1)	(0.4)	–	(3.1)
Balance at 31 December 2009	44.0	13.2	2.4	8.6	68.2
Balance at 1 January 2010	44.0	13.2	2.4	8.6	68.2
Additions in the year	2.8	0.7	–	1.0	4.5
Additions through acquisitions	1.4	–	–	–	1.4
Transfers	0.8	(0.8)	–	–	–
Disposals during the year	(2.7)	(0.3)	–	(0.2)	(3.2)
Balance at 31 December 2010	46.3	12.8	2.4	9.4	70.9
Accumulated depreciation					
Balance at 1 January 2009	(22.8)	(3.9)	–	(3.4)	(30.1)
Depreciation charge for the year	(6.4)	(1.7)	–	(1.2)	(9.3)
Transfers	(1.1)	1.1	–	–	–
Disposals during the year	1.5	1.0	–	–	2.5
Balance at 31 December 2009	(28.8)	(3.5)	–	(4.6)	(36.9)
Balance at 1 January 2010	(28.8)	(3.5)	–	(4.6)	(36.9)
Depreciation charge for the year	(5.9)	(1.5)	–	(1.4)	(8.8)
Transfers	(0.6)	0.6	–	–	–
Disposals during the year	2.2	0.2	–	0.2	2.6
Balance at 31 December 2010	(33.1)	(4.2)	–	(5.8)	(43.1)
Net book value					
Net book value at 31 December 2010	13.2	8.6	2.4	3.6	27.8
Net book value at 31 December 2009	15.2	9.7	2.4	4.0	31.3

Within the carrying value of property, plant and equipment, there are no assets under construction (2009: £nil).

Contractual commitments for the acquisition of property, plant and equipment are £0.1m (2009: £0.8m).

Notes to the consolidated financial statements
continued

11 Investment property

Valuation	2010 £m	2009 £m
At 1 January	1.8	–
Additions in the year	2.5	1.8
Revaluation in the year	–	–
At 31 December	4.3	1.8

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 2010 is based on a valuation carried out at that date by the directors. The valuation, which conforms to International Valuation Standards, was determined by reference to market evidence of transaction proceeds for similar properties.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £0.1m (2009: £nil). Direct operating expenses arising on the investment property in the period amounted to £0.1m (2009: £nil).

Properties were transferred from inventories to investment properties late in 2009 and hence there was no material rental income or direct operating expense during the preceding year.

12 Investments in equity accounted joint ventures

The Group has the following interests in significant joint ventures:

Access for Wigan (Holdings) Limited 50% share
Access for Wigan (Holdings) Limited is developing the Wigan Life Centre.

Ashton Moss Developments Limited 50% share
Ashton Moss Developments Limited has developed a mixed use site in Manchester.

Blue Light Holdings Limited 50% share
Blue Light Holdings Limited is a joint venture with Barclays Capital set up to hold the investment in a joint venture with Carden Croft for the Dorset Emergency Services PFI scheme.

Bromley Park Limited 50% share
Bromley Park Limited has developed a site for housing in Kent acquired from the Ministry of Defence.

Claymore Roads (Holdings) Limited 50% share
Claymore Roads (Holdings) Limited is responsible for the upgrade and operation of the A92 between Dundee and Arbroath in Scotland.

Community Solutions Investment Partners Limited (previously called Community Solutions for Primary Care (Holdings) Limited) 50% share
Community Solutions Investment Partners Limited carries out strategic development and regeneration projects in the health sector.

English Cities Fund 12.5% equity participation
ECf is a limited partnership with English Partnerships 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.

Hull Esteem Consortium PSP Limited 33⅓% share
Hull Esteem Consortium PSP Limited is the private sector investor in the Hull BSF scheme currently building two schools and with a pipeline of a further 15.

ISIS Waterside Regeneration 25% equity participation
ISIS Waterside Regeneration is a limited partnership between British Waterways and Warp 4 Limited Partnership (itself a joint venture between Morley Fund Management and Muse Developments) to undertake regeneration of waterside sites. Joint control is exercised through the board of the general partner at which each of British Waterways and Warp 4 Limited Partnership is represented by three directors and no decision can be taken without the agreement of a director representing each partner.

Lewisham Gateway Developments Limited 50% share
Lewisham Gateway Developments Limited is redeveloping a mixed use site comprising retail, office, hotel, residential, education, health and leisure space.

12 Investments in equity accounted joint ventures continued

Lingley Mere Business Park Development Company Limited 50% share
Lingley Mere Business Park Development Company Limited is developing new office space and ancillary facilities at Warrington in Cheshire.

Morgan-Vinci Limited 50% share
Morgan-Vinci Limited is responsible for the construction and operation of the Newport Southern Distributor Road.

North Shore Development Partnership Limited 50% share
North Shore Development Partnership Limited is creating a high quality extension to Stockton-on-Tees' town centre in partnership with Tees Valley Regeneration, Stockton Council and English Partnerships.

On 24 January 2011, this joint venture became a wholly owned subsidiary of the Group.

Renaissance Miles Platting Limited 33⅓% share
Renaissance Miles Platting Limited is a joint venture with IIC Miles Platting Equity Limited and Adactus Housing Association to refurbish existing homes and build new homes on a mixed tenure development under a PFI arrangement for Manchester City Council.

St Andrews Brae Developments Limited 50% share
St Andrews Brae Developments Limited is securing planning permission for residential development.

Taycare Health (Holdings) Limited 50% share
Taycare Health (Holdings) Limited is invested 50% in a Non Profit Distributing project to develop two mental health hospitals for Tayside Health Board.

The Compendium Group Limited 50% share
The Compendium Group Limited is a company formed to carry out strategic development and regeneration projects of a primarily residential nature.

In the course of the year, the Group acquired full control of three joint ventures in which it previously had a 50% interest (note 25).

Investments in equity accounted joint ventures are as follows:

	2010 £m	2009 £m
At 1 January	50.2	53.0
Equity accounted share of net profits for the year	0.1	0.1
Increase in investment	4.3	4.2
Disposals	(5.8)	–
Dividends received	(2.0)	(7.7)
Movement on cash flow hedges	(1.4)	0.6
At 31 December	45.4	50.2

The increase in investments in joint ventures during the year was mainly due to equity and loan investment in Hull Esteem Consortium PSP Limited and loan investment in Community Solutions Investment Partners Limited.

Of the dividends received in the year, £0.8m (2009: £2.2m) were paid in cash and £1.2m (2009: £5.5m) through settlement of amounts owing to joint ventures.

Financial information related to equity accounted joint ventures:

	2010 £m	2009 £m
Non-current assets (100%)	296.8	340.7
Current assets (100%)	376.9	306.3
Current liabilities (100%)	(92.3)	(100.6)
Non-current liabilities (100%)	(458.4)	(436.6)
Net assets reported by equity accounted joint ventures (100%)	123.0	109.8
Revenue (100%)	148.9	104.4
Expenses (100%)	(148.5)	(106.6)
Net profit/(loss) (100%)	0.4	(2.2)

Notes to the consolidated financial statements
continued

12 Investments in equity accounted joint ventures continued

Results of equity accounted joint ventures:

	2010 £m	2009 £m
Group share of profit before tax	0.6	0.2
Group share of income tax expense	(0.5)	(0.1)
Group share of profit after tax	0.1	0.1

Commitments in respect of interests in joint ventures:

	2010 £m	2009 £m
Commitment to provide further equity to Urban Regeneration joint ventures	0.8	1.6
Commitment to provide further equity and subordinated debt to PFI/PPP joint ventures	12.0	7.1
	12.8	8.7

13 Shared equity loan receivables

	2010 £m	2009 £m
Balance at 1 January	9.0	–
Additions arising from the sale of properties	4.0	8.9
Additions through acquisitions (note 25)	0.6	–
Movement in fair value	0.3	0.1
Repayment	–	–
Balance at 31 December	13.9	9.0

The Group has elected to recognise the shared equity loan receivables at fair value through profit or loss under IAS 39. This is an irrevocable election and results in all movements in the fair value of the loans being recognised in profit or loss.

All of the shared equity loan receivables are secured by way of a second charge over the property. During the year, there were no defaults on any of the shared equity loans (2009: £nil) and there were a very small number of voluntary repayments of shared equity loan receivables in the year (2009: £nil). All repayments were at values at or above the values held in the accounts. The Group's maximum credit exposure is limited to the carrying value of the shared equity loan receivables granted.

Basis of valuation and assumptions made

Because it is impracticable to obtain regular market valuations on a property-by-property basis and there is no directly observable fair value for individual loans arising from the sale of specific properties under the scheme, the Group has developed a model for determining the fair value of the portfolio of loans based on region specific 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:

	2010	2009
Assumption		
Period over which shared equity loan receivables are discounted	7 years	7 years
Weighted average annual property price increase assumed	3.8%	3.8%
Nominal discount rate applied to initial shared equity receivable	6.6%	6.6%
Rate of default assumed in valuation of shared equity loan portfolio	0.0%	0.0%

At 31 December 2010, a total of 462 (2009: 302) properties had been sold under the shared equity scheme for which a loan was outstanding at the year end.

At 31 December 2010, the weighted average shared equity loan contribution (being the Group's weighted average loan as a proportion of the selling price of a property) was 25% (2009: 25%). The maximum loan contribution by the Group under the shared equity scheme is 25% (2009: 25%).

The fair value measurement for shared equity loan receivables is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

14 Inventories

	2010 £m	2009 £m
Raw materials	2.2	3.5
Work in progress	138.9	137.7
	141.1	141.2

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

15 Trade and other receivables

	2010 £m	2009 £m
Trade receivables (note 29)	209.7	123.0
Provision for impairment losses (note 29)	(2.0)	(2.9)
	207.7	120.1
Amounts owed by joint ventures (note 28)	9.8	3.1
Deferred tax asset (note 20)	–	–
Prepayments and accrued income	5.5	8.2
Other receivables	6.2	10.9
	229.2	142.3

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The average credit period on revenue is 23 days (2009: 18 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts.

Included in the Group's trade receivable balance are debtors with a carrying amount of £50.4m (2009: £32.7m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group considers that the amounts are still recoverable. The average age of these receivables is 32 days (2009: 121 days).

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 29, Financial Instruments.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and spread across the Group's operating segments. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for impairment losses. No collateral is held by the Group as security.

Within the provision for impairment losses, there are no specific trade receivables (2009: £nil) from debtors which have been placed into liquidation or administration.

At the reporting date, there were no trade and other receivables which have had renegotiated terms that would otherwise have been past due.

Notes to the consolidated financial statements
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16 Construction contracts

	2010 £m	2009 £m
Amounts due from construction contract customers	178.4	192.5
Amounts due to construction contract customers	(70.7)	(49.0)
Carrying amount at the end of the year	107.7	143.5
Contract costs incurred plus recognised profits less recognised losses to date	7,497.7	9,607.7
Less: progress billings	(7,390.0)	(9,464.2)
	107.7	143.5

Contract costs incurred plus recognised profits less recognised losses to date and progress billings include contract activity which the Group has not recognised in the income statement as it occurred prior to acquisition.

Amounts recoverable on construction contracts are stated at cost plus the profit attributable to that contract, less any impairment losses. Progress payments for construction contracts are deducted from amounts recoverable. Amounts due to construction contract customers represent amounts received in excess of revenue recognised on construction contracts.

At 31 December 2010, retentions held by customers for contract work amounted to £57.2m (2009: £62.0m).

None of the Group's amounts due from construction contract customers' balances is past due at the reporting date (2009: £nil). The Group does not hold any collateral over these balances.

17 Trade and other payables

	2010 £m	2009 £m
Trade payables (note 29)	149.9	145.9
Amounts owed to joint ventures (note 28)	0.8	0.8
Other tax and social security	20.4	21.2
Accruals and deferred income	480.7	396.2
Other payables	15.4	12.2
	667.2	576.3

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

The directors consider that the carrying amount of trade payables approximates to their fair value. The average credit period taken for trade purchases is 25 days (2009: 23 days). No interest was incurred on outstanding balances. The Group has financial risk management policies in place to ensure that all payables are paid when due except in cases of genuine dispute.

Non-current liabilities include trade and other payables of £nil (2009: £0.1m) that fall due between two and five years.

18 Finance lease liabilities

	Minimum lease payments		Capital element of lease payments	
	2010 £m	2009 £m	2010 £m	2009 £m
Amounts payable under finance leases:				
Within one year	2.1	2.2	1.7	1.8
In the second to fifth years inclusive	5.0	5.5	4.2	4.6
After five years	1.9	2.8	1.8	2.5
	9.0	10.5	7.7	8.9
Less: future finance charges	(1.3)	(1.6)	n/a	n/a
Present value of lease obligations	7.7	8.9	7.7	8.9
Current lease liability			1.7	1.8
Non-current lease liability			6.0	7.1
			7.7	8.9

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The average lease term is six years (2009: five years). For the year ended 31 December 2010, the average effective borrowing rate was 5% (2009: 6%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximates to their carrying amount. The Group's obligations under finance leases are secured on the assets to which the leases relate.

19 Retirement benefit schemes

Defined contribution plans

(i) The Morgan Sindall Retirement Benefits Plan

The Morgan Sindall Retirement Benefits Plan ('the Plan') was established on 31 May 1995 and currently operates on defined contribution principles for employees of the Group. The assets of the Plan are held separately from those of the Group in funds under the control of the Trustees of the Plan. The total cost charged to the income statement of £9.2m (2009: £9.2m) represents contributions payable to the defined contribution section of the Plan by the Group.

As at 31 December 2010, contributions of £1.0m (2009: £0.7m) were due in respect of December's contribution not paid over to the Plan. The Company, with the consent of the Trustees, can decide how to use monies held in a defined contribution general account.

(ii) Local Government Pension Schemes

The Group makes contributions on defined contribution principles to a number of Local Government Pension Schemes for employees who transferred from Connaught Partnerships Limited. The assets of these plans are held separately from those of the Group under the control of the Trustees of the plans. The total cost charged to the income statement of £0.1m (2009: £nil) represents contributions payable to these plans by the Group.

Defined benefit plan

The 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 include accruals up to 1 August 1997). No further defined benefit membership rights can accrue after those dates.

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was prepared at 31 December 2010. The present value of the defined benefit liabilities, the related current service cost and past service cost were measured using the projected unit credit method.

Key assumptions used:	2010 %	2009 %
Discount rate	5.4	5.6
Expected return on the Plan assets	4.8	4.9
Expected rate of salary increases	4.6	4.8
Future pension increases(1)	3.5	3.5
Inflation increases	3.6	3.8

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

Life expectancy

For the disclosures as at 31 December 2010, the S1NXA series of tables (31 December 2009, the PXA92 series of tables) from the Continuous Mortality Investigation were adopted appropriate to members' actual years of birth and with a 95% scaling factor for males and 100% for females. Medium cohort projections with a minimum underpin of 1.5% were adopted for future improvements in life expectancy.

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2010	2009
Male	87.1	87.0
Female	89.6	89.9

The average life expectancy in years of a pensioner retiring at age 65, twenty years after the balance sheet date is as follows:

	2010	2009
Male	90.0	88.1
Female	92.5	90.9

An increase of one year to the average life expectancy at 65 would increase the present value of the Plan liabilities by around 3.0%. If such an assumption had been adopted as at 31 December 2010, the present value of the Plan liabilities would have increased to £8.8m (2009: increase of 3.0% with the present value of the Plan liabilities increasing from £8.9m to £9.2m).

The amount included in the balance sheet arising from the Group's liabilities in respect of the Plan is as follows:

	2010 £m	2009 £m
Present value of the Plan liabilities	(8.5)	(8.9)
Fair value of the Plan assets	6.6	5.7
Deficit in the Plan liability recognised in the balance sheet	(1.9)	(3.2)

Notes to the consolidated financial statements
continued

19 Retirement benefit schemes continued

Amounts recognised in the income statement in respect of the Plan are as follows:

	2010 £m	2009 £m
Interest cost	(0.5)	(0.5)
Expected return on the Plan assets	0.3	0.3
Net periodic cost	(0.2)	(0.2)

The charge for the year has been included in administrative expenses. Actuarial gains and losses have been reported in the consolidated statement of comprehensive income. The actual return on the Plan assets was a gain of £0.2m (2009: £0.4m).

Movements in the present value of the Plan liabilities were as follows:

	2010 £m	2009 £m
Liabilities at 1 January	(8.9)	(8.0)
Interest cost	(0.5)	(0.5)
Actuarial gain/(loss)	0.6	(0.8)
Benefits paid	0.3	0.4
Liabilities at 31 December	(8.5)	(8.9)

The liabilities in respect of pensions in payment account for around 35% of the total liabilities (2009: 16%). The average term to retirement is 7.5 years for active members (i.e. members who are still employed by the Group and whose past service benefits are linked to their final salary but are no longer accruing final salary benefits) (2009: six years) and 6.4 years (2009: three years) for deferred members.

Movements in the value of the Plan assets were as follows:

	2010 £m	2009 £m
Assets at 1 January	5.7	5.0
Expected return on the Plan assets	0.3	0.2
Actuarial gains	0.2	0.2
Contributions from sponsoring company	0.7	0.7
Benefits paid	(0.3)	(0.4)
Assets at 31 December	6.6	5.7

The effect of a 1% movement in the key financial assumptions is set out below:

	Increase of 1% £m	Decrease of 1% £m
Discount rate		
Effect on interest cost	–	–
Effect on the defined benefit obligation	(1.4)	1.7
Inflation rate		
Effect on interest cost	–	–
Effect on the defined benefit obligation	0.4	(0.4)
Expected rate of return on assets		
Effect on the expected return on the Plan assets	–	–

The sensitivities to the interest cost and expected return on assets shown above relate to the calendar year ending 31 December 2010. The sensitivities to the defined benefit obligation relate to the liability as at 31 December 2009.

	2010 £m	2009 £m
Actuarial (gain)/loss recognised in the consolidated statement of comprehensive income	(0.8)	0.6
Cumulative actuarial loss recognised in the statement of comprehensive income	3.0	3.8

19 Retirement benefit schemes continued

The Plan assets and the expected rate of return at the balance sheet date were as follows:

	Fair value of assets		Expected return	
	2010 £m	2009 £m	2010 %	2009 %
Fixed interest gilts	3.3	3.2	4.2	4.4
Corporate bonds	3.3	2.5	5.4	5.6
	6.6	5.7		

The expected return on the 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. Expected returns on equity reflect long-term real rates of return expected in the respective markets.

The history of experience adjustments is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of the Plan liabilities	(8.5)	(8.9)	(8.0)	(8.0)	(7.3)
Fair value of the Plan assets	6.6	5.7	5.0	4.7	4.8
Deficit in the Plan	(1.9)	(3.2)	(3.0)	(3.3)	(2.5)
Experience adjustments on the Plan liabilities:					
Amount	0.6	(0.8)	0.2	(0.4)	0.7
Percentage of the Plan liabilities	6.7%	8.9%	(1.9%)	4.4%	(9.2%)
Experience adjustments on the Plan assets:					
Amount	0.3	0.2	(0.3)	(0.5)	–
Percentage of the Plan assets	3.6%	2.6%	(6.6%)	(11.0%)	0.4%

The amount of contributions expected to be paid to the Plan during 2011 is £0.7m (2010: £0.7m).

Gloucestershire County Council Local Government Pension Scheme
The Group has a liability to this defined benefit scheme for former Gloucestershire County Council employees who transferred to the Group under TUPE arrangements. The amount of any liability to fund any deficit on the termination of the Contractor Admission Agreement is capped at £0.8m. This liability is not included in any of the disclosures above.

20 Deferred tax

	Non-current asset amortisation £m	Short-term timing differences £m	Retirement benefit obligation £m	Share-based payments £m	Total £m
At 1 January 2009	1.5	1.0	0.8	0.4	3.7
Credit/(charge) to income	0.2	(0.4)	0.1	(0.6)	(0.7)
Credit to equity	–	–	–	0.8	0.8
At 31 December 2009	1.7	0.6	0.9	0.6	3.8
At 1 January 2010	1.7	0.6	0.9	0.6	3.8
Credit/(charge) to income	0.2	(0.7)	(0.1)	0.1	(0.5)
(Charge)/credit to equity	–	–	(0.3)	0.6	0.3
Acquisition of subsidiary	(0.3)	–	–	–	(0.3)
Effect of change in tax rate:					
Income statement	(0.1)	–	–	–	(0.1)
At 31 December 2010	1.5	(0.1)	0.5	1.3	3.2

The UK Corporation tax rate is set to reduce to 27% in April 2011, affecting the closing deferred tax balance as shown above. Further reductions in the corporation tax rate to 24% are expected but not yet legislated.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2010 £m	2009 £m
Deferred tax within non-current assets	3.2	3.8

At 31 December 2010, the Group had unused tax losses of £0.6m (2009: £0.6m) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams against which these losses may be utilised. Losses may be carried forward indefinitely.

Notes to the consolidated financial statements
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21 Provisions

Current liabilities

	Contract provisions £m	Employee provisions £m	Total £m
At 1 January 2009	–	–	–
Utilised	–	–	–
Additions	–	–	–
Released	–	–	–
At 31 December 2009	–	–	–
At 1 January 2010	–	–	–
Utilised	(7.5)	(12.3)	(19.8)
Additions through acquisitions (note 25)	11.1	15.3	26.4
Released	–	–	–
At 31 December 2010	3.6	3.0	6.6

The contract provisions were established on acquisition to reflect the fair value of novated contracts. Employee provisions relate to redundancy and other costs associated with contracts that did not novate.

Non-current liabilities

	Employee provisions £m	Insurance provisions £m	Other £m	Total £m
At 1 January 2009	1.8	8.8	7.7	18.3
Utilised	(0.1)	(2.4)	(2.6)	(5.1)
Additions	–	3.6	–	3.6
Released	–	–	–	–
At 31 December 2009	1.7	10.0	5.1	16.8
At 1 January 2010	1.7	10.0	5.1	16.8
Utilised	(2.0)	(1.7)	(2.5)	(6.2)
Additions	1.8	3.0	1.8	6.6
Released	(0.8)	–	(1.0)	(1.8)
At 31 December 2010	0.7	11.3	3.4	15.4

Employee provisions comprise obligations to former employees other than retirement or post-retirement obligations. Insurance provisions include £1.9m (2009: £1.8m) held in the Group's captive insurance company, Newman Insurance Company Limited and comprise the Group's self insurance of certain risks. Other provisions include onerous lease commitments and legal claims.

The majority of the provisions are expected to be utilised within five years.

22 Operating lease commitments

	2010 £m	2009 £m
Minimum lease payments under operating leases recognised as an expense for the year	17.2	17.5

At 31 December 2010, the Group had outstanding commitments for minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010			2009		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	6.9	2.7	9.6	8.1	3.7	11.8
Within two to five years	17.5	2.8	20.3	18.3	4.9	23.2
After five years	5.2	–	5.2	4.6	–	4.6
At 31 December	29.6	5.5	35.1	31.0	8.6	39.6

Operating lease payments represent rentals payable by the Group for certain properties and other items. Leases are negotiated for an average term of three years (2009: five years) and rentals are fixed for an average of two years (2009: four years).

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2010 is £0.9m (2009:£1.2m).

23 Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business.

24 Share capital

	2010		Expected return	
	No. '000s	£'000s	No. '000s	£'000s
Issued and fully paid:				
At the beginning of the year	43,160	2,158	43,004	2,150
Exercise of share options	28	1	156	8
At the end of the year	43,188	2,159	43,160	2,158

The Company has one class of ordinary shares of 5p each ('shares') which carries no rights to fixed income. All ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

No member shall, however, be entitled to vote at any general meeting in respect of any share held by him if any call or other sum then payable by him 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 Companies Act 2006.

Shares

The shares of the Company issued during the year are shown below. Details of employee share option schemes referred to are given below and in note 27.

27,870 shares were issued in respect of options exercised under the Company's 1995 Scheme for a total consideration of £1,394 (2009: 156,561 shares for a total consideration of £74,078). All options exercised under the 1995 Scheme during the year were settled on a net basis.

No shares were issued in respect of the ESOP 2007, the Save As You Earn scheme or the 2005 Plan (2009: nil).

Share options

The Company has four share option schemes:

- The Morgan Sindall 1995 Executive Share Option Scheme ('the 1995 Scheme') which received shareholders' approval on 24 May 1995. The period for the granting of options under the 1995 Scheme expired in May 2005. Options under the 1995 Scheme are exercisable between five and seven years from the date of grant of the options.

- The Morgan Sindall Employee Share Option Plan 2007 ('the ESOP 2007') received approval from the Board on 7 June 2007. The ESOP 2007 did not require shareholder approval because all options granted and to be granted under it will be settled with market purchased shares. Options granted under the ESOP 2007 are exercisable between three and ten years from the date of grant. The period for granting options under the ESOP 2007 expires on 6 June 2017.

- The Morgan Sindall Executive Remuneration Plan 2005 ('the 2005 Plan'), details of which are disclosed in the directors' remuneration report on pages 61 and 62.

- The Morgan Sindall Savings Related Share Option scheme ('the SAYE scheme'). The SAYE scheme was approved by shareholders on 22 April 2008 and by HMRC on 9 May 2008. No options were granted during the year (2009: nil). The options are exercisable after three years (for six months) from the date of grant. The period for granting options under the SAYE scheme expires on 21 April 2018. Further details of the SAYE scheme are given in note 27.

Own shares

Own shares at cost represent 781,444 (2009: 797,034) shares in the Company held in the Morgan Sindall Employee Benefit Trust ('the Trust') in connection with the ESOP 2007 and certain share incentive schemes as detailed in the remuneration report on pages 59 to 67. The trustees of the Trust purchase the Company's shares in the open market with financing provided by the Company on the basis of regular reviews of the share liabilities of the relevant schemes. A total of 781,444 (2009: 797,034) shares were unallocated at the year end and dividends on these shares have been waived. The cost of shares expected to be awarded is charged over the three year period to which the award relates. Based on the Company's share price at 31 December 2010 of £7.05 (2009: £6.00), the market value of the shares was £5,509,180 (2009: £4,782,204).

Notes to the consolidated financial statements
continued

25 Acquisitions of subsidiaries

Acquisition of Powerminster Gleeson Services Limited
On 30 June 2010, the Group acquired 100% of the issued ordinary share capital of Powerminster Gleeson Services Limited. The company subsequently changed its name to Lovell Powerminster Limited. Details of the net assets acquired and goodwill arising are as follows:

	£m
Total purchase consideration: cash	6.6
Net liabilities acquired	(0.1)
Goodwill (note 9)	6.7

Goodwill arising on this acquisition represents the value of people, track record and expertise acquired within acquisitions that are not capable of being individually identified and separately recognised.

	Acquiree's carrying amount £m	Fair value adjustments £m	Fair value £m
Intangible fixed asset	–	0.8	0.8
Tangible fixed asset	1.4	–	1.4
Trade receivables	3.4	–	3.4
Trade creditors and accruals	(2.7)	(4.5)	(7.2)
Cash	1.8	–	1.8
Deferred tax	(0.3)	–	(0.3)
Net liabilities acquired	3.6	(3.7)	(0.1)

Purchase consideration settled in cash	6.6
Cash and cash equivalents acquired	(1.8)
Cash outflow on acquisition	4.8

The acquired business contributed £7.1m of revenue in the period from 30 June 2010 to 31 December 2010. Due to the fact that the business has been integrated into the existing Affordable Housing division, it is impracticable to disclose the amount of operating profit that is included in the Group's results or for the full year.

Acquisition of the business, obligations and certain assets from the administrators of Connaught Partnerships Limited
On 9 September 2010, the Group acquired the business, obligations and certain assets from the administrators of Connaught Partnerships Limited ('Connaught'). Details of the assets acquired and provisional goodwill arising are as follows:

	£m
Total purchase consideration: cash	28.0
Net assets acquired	5.6
Goodwill (note 9)	22.4

Goodwill arising on this acquisition represents the value of people, track record, expertise and opportunity to access new markets acquired within acquisitions that are not capable of being individually identified and separately recognised.

	Acquiree's carrying amount £m	Provisional fair value adjustments £m	Provisional fair value £m
Intangible fixed asset	–	4.0	4.0
Trade receivables and amounts on construction contracts recorded by Connaught	72.4	(44.4)	28.0
Provisions (note 21)	–	(26.4)	(26.4)
Net assets acquired	72.4	(66.8)	5.6

Purchase consideration settled in cash	28.0
Cash and cash equivalents acquired	–
Cash outflow on acquisition	28.0

Provisional fair value adjustments on trade receivables and amounts due from construction contract customers recorded by Connaught include correction of errors and adjustments to reflect the anticipated amount likely to be recovered.

25 Acquisitions of subsidiaries continued

The acquired business contributed £20.9m of revenue in the period from 9 September 2010 to 31 December 2010. Due to the fact that the business has been integrated into the existing Affordable Housing division, it is impracticable to disclose the amount of operating profit that is included in the Group's results or for the full year.

The above acquisitions were made in order to create a full service social housing business covering new build, open market and social housing and planned and response maintenance.

The fair value of the acquired assets and liabilities are provisional due to the inherent uncertainty relating to asset realisations and quantification of provisions.

Acquisition of partner interests in Urban Regeneration joint ventures
In the course of the year, the Group acquired full control of three legal entities in which it previously had 50% shareholdings. Two of the acquisitions were acquired at fair value and one was negotiated at a price which was less than fair value.

Details of the assets acquired and the gain arising are as follows:

	£m
Purchase consideration:	
Cash paid	0.1
Fair value non-cash consideration	2.8
Total purchase consideration	2.9
Net assets acquired	5.2
	(2.3)
Goodwill on original shareholdings	0.3
One off gain from a bargain purchase	(2.0)

The gain has arisen because the assets were acquired at their respective equity cost rather than their value after applying equity accounting principles.

	Acquiree's carrying amount £m	Fair value adjustments £m	Fair value £m
Intangible fixed assets	1.1	0.7	1.8
Shared equity loan receivables	0.6	–	0.6
Inventories	12.7	–	12.7
Trade receivables	1.5	–	1.5
Trade creditors and accruals	(13.0)	–	(13.0)
Cash and cash equivalents	2.2	–	2.2
Corporation tax	(0.6)	–	(0.6)
Net assets acquired	4.5	0.7	5.2

Purchase consideration settled in cash	0.1
Repayment of loans in cash	4.5
	4.6
Cash and cash equivalents acquired	(2.2)
Cash outflow on acquisition	2.4

The acquired businesses contributed £24.6m of revenue and an operating profit of £5.2m before tax in the periods from acquisition to 31 December 2010. If the acquisitions had been completed on 1 January 2010, the total revenue from the acquired businesses would have been £24.6m.

Notes to the consolidated financial statements
continued

26 Cash flows from operating activities

	Notes	2010 £m	2009 £m
Profit from operations for the year		41.8	43.7
Adjusted for:			
Amortisation of fixed life intangible assets	2	5.5	6.8
Share of net profit of equity accounted joint ventures	12	(0.1)	(0.1)
Depreciation of property, plant and equipment	2	8.8	9.3
Expense in respect of share options		0.7	1.0
Defined benefit obligation payment	19	(0.7)	(0.7)
Defined benefit obligation charge	19	0.2	0.3
Net gain from bargain purchase of subsidiary previously held as equity interest	25	(2.0)	–
Gain on disposal of property, plant and equipment		(0.5)	(0.4)
Increase in shared equity loan receivables	13	(4.3)	(9.0)
Write downs in work in progress recognised as an expense		–	1.0
Decrease in provisions	21	(1.4)	(1.5)
Operating cash flows before movements in working capital		48.0	50.4
Decrease in inventories		12.8	29.1
(Increase)/decrease in receivables		(66.8)	62.3
Increase/(decrease) in payables and short-term provisions		107.7	(122.7)
Movements in working capital		53.7	(31.3)
Cash generated from operations		101.7	19.1
Income taxes (paid)/received		(6.4)	7.7
Interest paid		(2.2)	(1.8)
Net cash inflow from operating activities		93.1	25.0

Additions to leased property, plant and equipment during the year amounting to £0.7m (2009: £2.0m) and additions to leasehold property amounting to £nil (2009: £0.2m) were financed by new finance leases. Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term, highly liquid investments with a maturity of three months or less.

27 Share-based payments

The Company's 2005 Plan and the ESOP 2007 provide for a grant price equal to the average of the middle market price of the Company's shares at close of business on the five dealing days preceding the date of grant. The Company's 1995 Scheme provides for the average quoted middle market price of the Company's shares on the three dealing days preceding the date of grant. Details of the 1995 Scheme and the ESOP 2007 option vesting periods are given in note 24 and the vesting periods for options and share awards granted under the 2005 Plan are given in the remuneration report on pages 65 and 66.

Under the SAYE scheme, employees are granted an option to purchase shares at up to 20% less than the market price at grant in three years' time, depending on their entering into a contract to make monthly contributions into a savings account over the relevant period. These funds are used to fund the option exercise price. The scheme is open to all employees with six months' continuous service at the invitation date. No performance criteria are applied to the exercise of SAYE options.

The weighted average share price at the date of exercise for share options exercised during the year was £6.47 (2009: £5.82). The options outstanding at 31 December 2010 had a weighted average exercise price of £7.12 (2009: £7.76) and, a weighted average remaining contractual life of 1.2 years (2009: 1.6 years). In 2010, options under the ESOP 2007 were granted on 17 March and 24 May and the estimated fair value of the options granted on those dates was £0.1m (2009: £0.2m). Options and share awards under the 2005 Plan were granted on 17 March 2010. The estimated fair value of the options granted on those dates was £0.6m (2009: £0.5m) and the estimated fair value of the share awards granted on those dates was £1.0m (2009: £1.1m). There were no options granted under the SAYE scheme in 2010 (2009: nil).

27 Share-based payments continued

A modified Black-Scholes model has been used to value the options and awards set out below. None of the options or awards granted was subject to a share price related performance condition.

	Mar 10	May 10
2007 ESOP options		
Number of options granted	63,000	50,000
Weighted average fair value at date of grant per option	£1.00	£0.88
Weighted average share price at date of grant	£5.52	£5.26
Weighted average exercise price	£5.55	£5.29
Expected term (from date of grant)(2)	6 years	6 years
Expected volatility(3)	40.00%	40.00%
Expected dividend yield(4)	7.60%	8.00%
Risk-free rate	3.00%	2.40%

	Options Mar 10	Share awards Mar 10(5)
2005 Plan shares and options		
Number of options/shares granted(1)	630,776	181,062
Weighted average fair value at date of grant (per option/share)	£1.00	£5.52
Weighted average share price at date of grant	£5.52	£5.52
Weighted average exercise price	£5.55	n/a
Expected term (from date of grant)(2)	6 years	3 years
Expected volatility(3)	40.00%	51.00%
Expected dividend yield(4)	7.60%	0.00%
Risk-free rate	3.00%	2.60%

(1) In March 2010, 630,776 options and 181,062 share awards were granted to executives of the Group under the 2005 Plan.

(2) Adjusted from maximum term, based on management's best estimate, for the effects of non-transferability, exercise restrictions, vesting conditions and behavioural considerations.

(3) Assumed to be equal to historic volatility of the Company's share price over the period prior to grant equal in length to the expected term.

(4) Set as equal to dividend yield prevailing at date of grant with the exception of share awards granted to executives of the Group, which are subject to performance conditions.

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

The Group recognised total remuneration expenses of £0.7m and £1.0m related to equity-settled share-based payment transactions in 2010 and 2009 respectively.

Notes to the consolidated financial statements *continued*

27 Share-based payments continued

The following tables provide a summary of the options granted under the Group's employee share option schemes during the current and comparative year.

2010

	Grant date	Exercise date on or after	Expiry date	Exercise price £	Balance at the beginning of year No.	Options granted No.	Options lapsed No.	Options forfeited No.	Options exercised No.	Balance at end of year: In issue No.	Balance at end of year: Exercisable No.	Proceeds received £ (net of settlements)
1995 Scheme												
	25 Feb 04	25 Feb 09	24 Feb 11	4.20	90,000	–	52,130	–	27,870	10,000	10,000	1,394
	14 Sep 04	14 Sep 09	13 Sep 11	4.38	60,000	–	–	–	–	60,000	60,000	–
2007 Scheme												
	13 Aug 07	13 Aug 10	12 Aug 17	16.76	23,000	–	–	–	–	23,000	23,000	–
	24 Sep 07	24 Sep 10	23 Sep 17	15.81	37,000	–	–	–	–	37,000	37,000	–
	20 Dec 07	20 Dec 10	19 Dec 17	10.51	100,000	–	6,000	–	–	94,000	94,000	–
	15 Apr 08	15 Apr 11	14 Apr 18	10.03	50,000	–	–	–	–	50,000	–	–
	27 May 08	27 May 11	26 May 18	9.92	50,000	–	–	–	–	50,000	–	–
	28 Oct 08	28 Oct 11	27 Oct 18	4.36	42,500	–	–	–	–	42,500	–	–
	26 Nov 08	26 Nov 11	25 Nov 18	4.75	25,000	–	–	–	–	25,000	–	–
	3 Mar 09	3 Mar 12	2 Mar 19	5.35	94,000	–	–	–	–	94,000	–	–
	28 May 09	28 May 12	27 May 19	6.36	90,000	–	–	–	–	90,000	–	–
	17 Mar 10	17 Mar 13	16 Mar 20	5.55	–	63,000	–	–	–	63,000	–	–
	24 May 10	24 May 13	23 May 20	5.29	–	50,000	–	–	–	50,000	–	–
2005 Plan												
	20 May 05	20 May 08	19 May 15	7.24	318,024	–	–	–	–	318,024	318,024	–
	5 Apr 06	5 Apr 09	4 Apr 16	12.59	246,624	–	17,872	–	–	228,752	228,752	–
	6 Mar 07	6 Mar 10	5 Mar 17	12.15	258,024	–	258,024	–	–	–	–	–
	9 Apr 08	9 Apr 11	8 Apr 18	10.39	342,066	–	32,484	–	–	309,582	–	–
	16 Jun 08	16 Jun 11	15 Jun 18	7.42	25,048	–	–	–	–	25,048	–	–
	30 Mar 09	30 Mar 12	29 Mar 19	5.80	503,018	–	–	–	–	503,018	–	–
	17 Mar 10	17 Mar 13	16 Mar 20	5.55	–	630,776	–	–	–	630,776	–	–
2008 SAYE Scheme												
	1 Jul 08	1 Sep 11	28 Feb 12	7.02	1,280,380	–	–	259,761	–	1,020,619	19,819	–
Total					3,634,684	743,776	366,510	259,761	27,870	3,724,319	790,595	1,394

27 Share-based payments continued

2009

	Grant date	Exercise date on or after	Expiry date	Exercise price £	Balance at the beginning of year No.	Options granted No.	Options lapsed No.	Options forfeited No.	Options exercised No.	Balance at end of year: In issue No.	Balance at end of year: Exercisable No.	Proceeds received £ (net of settlements)
1995 Scheme												
	29 Oct 02	29 Oct 07	28 Oct 09	2.70	246,000	–	93,354	–	152,646	–	–	73,882
	25 Feb 04	25 Feb 09	24 Feb 11	4.20	100,000	–	6,085	–	3,915	90,000	90,000	196
	14 Sep 04	14 Sep 09	13 Sep 11	4.38	60,000	–	–	–	–	60,000	60,000	–
2007 Scheme												
	13 Aug 07	13 Aug 10	12 Aug 17	16.76	23,000	–	–	–	–	23,000	–	–
	24 Sep 07	24 Sep 10	23 Sep 17	15.81	41,000	–	–	4,000	–	37,000	–	–
	20 Dec 07	20 Dec 10	19 Dec 17	10.51	100,000	–	–	–	–	100,000	–	–
	15 Apr 08	15 Apr 11	14 Apr 18	10.03	55,000	–	–	5,000	–	50,000	–	–
	27 May 08	27 May 11	26 May 18	9.92	55,000	–	–	5,000	–	50,000	–	–
	28 Oct 08	28 Oct 11	27 Oct 18	4.36	42,500	–	–	–	–	42,500	–	–
	26 Nov 08	26 Nov 11	25 Nov 18	4.75	25,000	–	–	–	–	25,000	–	–
	3 Mar 09	3 Mar 12	2 Mar 19	5.35	–	94,000	–	–	–	94,000	–	–
	28 May 09	28 May 12	27 May 19	6.36	–	90,000	–	–	–	90,000	–	–
2005 Plan												
	20 May 05	20 May 08	19 May 15	7.24	318,024	–	–	–	–	318,024	318,024	–
	5 Apr 06	5 Apr 09	4 Apr 16	12.59	258,532	–	–	11,914	–	246,618	246,624	–
	6 Mar 07	6 Mar 10	5 Mar 17	12.15	271,357	–	–	13,333	–	258,024	–	–
	9 Apr 08	9 Apr 11	8 Apr 18	10.39	342,066	–	–	–	–	342,066	–	–
	16 Jun 08	16 Jun 11	15 Jun 18	7.42	25,048	–	–	–	–	25,048	–	–
	30 Mar 09	30 Mar 12	29 Mar 19	5.80	–	503,018	–	–	–	503,018	–	–
2008 SAYE Scheme												
	1 Jul 08	1 Sep 11	28 Feb 12	7.02	1,549,831	–	–	269,451	–	1,280,380	20,726	–
Total					3,512,358	687,018	99,439	308,698	156,561	3,634,678	735,374	74,078

Cash-settled share-based payments

The Group grants to certain employees share appreciation rights ('phantoms') that require the Group to pay the intrinsic value of the phantoms to the employee at the date of exercise. As cash-settled share-based payment awards, the phantoms are revalued at the end of each reporting year. There were no phantoms granted during the year (2009: nil). Phantoms are exercisable between three and eight years from the date of grant of the phantom. The total intrinsic value at 31 December 2010 was £nil (2009: £nil). The Group had recorded liabilities of £0.1m at 31 December 2010 in respect of phantoms (2009: £0.1m).

At the reporting date, the fair value and number of phantom awards outstanding was:

Date of grant	Exercise price £	Balance at beginning of the year No.	Phantom options lapsed No.	Phantom options exercised No.	Balance at end of the year No.	Fair value per award £
17 Aug 2005	6.65	68,000	–	–	68,000	0.78
11 Oct 2005	8.49	51,000	–	–	51,000	0.25
5 Dec 2005	8.31	60,000	–	–	60,000	0.28
5 Apr 2006	12.59	50,000	–	–	50,000	0.01
5 Apr 2006(1)	12.59	50,000	–	–	50,000	0.01
18 May 2006	11.09	30,000	–	–	30,000	0.04
10 Aug 2006	10.86	10,000	–	–	10,000	0.05
	9.67(2)	319,000	–	–	319,000	0.27(2)

(1) This grant is subject to a performance condition. To the extent that this condition is not expected to be satisfied and the options are expected to lapse, the income statement charge is adjusted. Similar adjustment is made in the event of a bad leaver.

(2) Weighted average.

The market price of a share on 31 December 2010 was £7.05 (2009: £6.00).

Notes to the consolidated financial statements
continued

27 Share-based payments continued

The fair value of the phantoms was determined by the use of a modified Black-Scholes model using the assumptions noted in the table below:

	31 Dec 2010	31 Dec 2009
Expected term (from date of grant)(1)	4.6 – 5.6 years	4.6 – 5.6 years
Expected remaining term	1 year	1 – 1.6 years
Share price at valuation date	£7.05	£6.00
Expected volatility of return(2)	29%	43% – 60%
Expected dividend yield(3)	6.0%	7.0%
Risk-free rate	0.7%	2.2%

(1) Adjusted from maximum term, based on management's best estimate, for the effects of non-transferability, exercise restrictions, vesting conditions and behavioural considerations.

(2) Assumed to be equal to historic volatility of the Company's share price over the year prior to grant equal in length to the expected term.

(3) Set as equal to dividend yield prevailing at date of grant.

The Group recorded a credit to profit of £nil during the year in respect of phantoms (2009: £nil credit).

28 Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures are disclosed below.

Trading transactions
During the year, Group companies entered into transactions to provide construction and property development services with related parties, all of which were joint ventures, not members of the Group. Transactions and amounts owed at the year end are as follows:

	Provision of goods and services		Amounts owed by/(to) related parties	
	2010 £m	2009 £m	2010 £m	2009 £m
Morgan-Vinci Limited	–	0.1	–	–
Community Solutions Investment Partners Limited	19.5	12.9	0.5	1.4
Renaissance Miles Platting Limited	0.1	0.1	–	–
Blue Light Holdings Limited	0.3	15.0	0.1	0.2
Ashton Moss Developments Limited	–	–	(0.2)	(0.2)
Bromley Park Limited	–	–	(0.6)	(0.6)
Chatham Place (Building 1) Limited	0.1	0.4	n/a	–
ECf (General Partner) Limited	1.7	1.4	–	0.6
Eurocentral Partnership Limited	1.9	–	n/a	0.2
Lewisham Gateway Developments Limited	–	–	0.2	0.2
Lingley Mere Business Park Development Company Limited	–	0.3	–	–
North Shore Development Partnership Limited	–	–	0.1	0.1
Ician Developments Limited	–	–	n/a	0.4
The Compendium Group Limited	0.5	1.4	0.1	–
Access for Wigan (Holdings) Limited	0.1	–	–	–
Hull Esteem Consortium PSP Limited	50.2	–	4.8	–
St Andrews Brae Developments Limited	4.0	–	4.0	–
Taycare Health (Holdings) Limited	1.8	–	–	–
	80.2	31.6	9.0	2.3

	Amounts owed by/(to) related parties	
	2010 £m	2009 £m
Amounts owed by related parties	9.8	3.1
Amounts owed to related parties	(0.8)	(0.8)
	9.0	2.3

All transactions with related parties were made on an arm's length basis.

28 Related parties continued

The amounts outstanding are unsecured and will be settled in cash. Other than construction related performance guarantees given in the ordinary course of business, no guarantees have been given to or received from related parties. No provisions have been made for doubtful debts in respect of amounts owed by related parties. All amounts owed to or owing by related parties are non-interest bearing.

Remuneration of key management personnel
The remuneration of the directors, who are key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual directors is provided in the audited part of the remuneration report on pages 64 to 67.

	2010 £m	2009 £m
Emoluments	3.3	2.2
Social security contributions	0.3	0.3
Other long-term benefits	0.1	0.2
Share option exercises	–	–
Post-employment benefits	0.2	0.4
	3.9	3.1

Directors' transactions
In the course of the year, Eurocentral Partnership Limited (a wholly owned subsidiary of the Group) sold some land and buildings to a syndicate of investors on arm's length terms. The Group retained a small minority investment in this syndicate. Senior employees and directors of Muse Developments Limited, together with John Morgan (£269k) and Paul Smith (£163k), purchased part of the investment in the syndicate in cash. The transaction was carried out on an arm's length basis and on the same commercial terms as those offered to the other investors in the syndicate. There are no amounts outstanding.

There have been no other related party transactions with any director either during the year or in the subsequent period to 4 March 2011.

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 4 March 2011.

29 Financial instruments

Cash and cash equivalents
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.

Included within cash and cash equivalents is £26.7m (2009: £23.8m) which is the Group's share of cash held within jointly controlled operations.

General risk management principles
The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. A formal risk assessment and management framework for assessing, monitoring and managing the strategic operational and financial risks of the Group is in place to ensure appropriate risk management of its operations. Internal control and risk management systems are embedded in the operations of the divisions.

The key business risks identified are discussed in detail in the business review on pages 36 to 39 and the corporate governance statement on pages 57 and 58.

Notes to the consolidated financial statements
continued

29 Financial instruments continued

Financial risks and management

The Group has exposure to a variety of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, which are subject to periodic review by the Group's internal audit team and twice yearly review by management. The policies include written principles for the Group's risk management as well as specific policies, guidelines and authorisation procedures in respect of specific risk mitigation techniques such as the use of derivative financial instruments. The Group does not enter into derivative financial instruments for speculative purposes.

The following represent the key financial risks resulting from the Group's use of financial instruments:

- credit risk
- liquidity risk
- market risk

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and results primarily from the Group's trade receivables and amounts due from construction contract customers.

Amounts due from construction contract customers and trade receivables

The Group's primary exposure to credit risk arises from the potential for non-payment or default from construction contract debtors and trade receivables. 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 primarily operates in one geographical segment, being the UK. The Group does not have any significant concentration risk in respect of amounts due from construction contract customers or trade receivable balances at the reporting date with receivables spread across a wide range of customers. Due to the nature of the Group's operations, it is normal practice for customers to hold retentions in respect of contracts completed. Retentions held by customers at 31 December 2010 were £57.2m (2009: £62.0m).

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

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

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

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

	2010		2009	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	157.7	0.4	88.9	1.5
Past due 1 to 30 days	15.3	0.1	13.1	–
Past due 31 to 120 days	16.8	0.1	10.4	–
Past due 121 to 365 days	10.2	0.5	4.4	0.2
Greater than one year	9.7	0.9	6.2	1.2
	209.7	2.0	123.0	2.9

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

	2010 £m	2009 £m
Balance at beginning of the year	2.9	2.7
Amounts written off during the year	(0.2)	(0.2)
Amounts recovered during the year	(0.1)	(0.2)
(Decrease)/increase in provision recognised in the income statement	(0.6)	0.6
Balance at 31 December	2.0	2.9

29 Financial instruments continued

(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.

The Group actively manages its liquidity profile whilst ensuring that the return achieved on cash and investments is maximised. The Group had no drawn down debt facilities as at 31 December 2010 (2009: £nil).

As discussed below under capital management, the Group does not have any derivative or non-derivative financial liabilities with the exception of finance lease liabilities, trade and other payables, current tax liabilities and retirement benefit obligations. Current tax liabilities and trade and other payables are generally non-interest bearing and, therefore, have no weighted average effective interest rates. Retirement benefit obligations are measured at the net of the present value of retirement benefit obligations and the fair value of the Plan assets. Finance lease liabilities are carried at the present value of the minimum lease payments. An analysis of the maturity profile for finance lease liabilities is contained in note 18.

The Group reports cash balances daily and invests surplus cash to maximise income whilst preserving credit quality. The Group prepares weekly short-term and monthly long-term cash forecasts, which are used to assess the Group's expected cash performance and compare with the facilities available to the Group and the Group's covenants.

In addition to its cash balances, the Group has £100m of committed loan facilities available until mid-2012.

Key risks to liquidity and cash balances are a downturn in contracting volumes, a decrease in the value of open market sales, deterioration in credit terms obtainable in the market from suppliers and subcontractors, a downturn 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 KPIs are continually monitored throughout the Group and used to quickly identify issues as they arise, enabling the Group to address them promptly.

Key amongst these are continual monitoring of the forward order book, 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, weekly monitoring of open market house sales volumes and prices; 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 ageing of trade payables at the reporting date was as follows:

	2010 £m	2009 £m
Not past due	123.9	128.4
Past due 1 to 30 days	12.0	6.6
Past due 31 to 120 days	7.4	7.5
Past due 121 to 365 days	6.6	3.4
Greater than one year	–	0.1
	149.9	146.0

(c) Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or equity prices, will affect the Group's income or the carrying amount of its holdings of financial instruments. The objective of market risk management is to achieve a level of market risk that is within acceptable parameters as set out in the Group risk management framework.

Interest rate risk
The Group is not exposed to significant interest rate risk as it does not have significant interest bearing liabilities and its only interest bearing asset is cash invested on a short-term basis.

Certain of the Group's equity accounted joint ventures enter into interest rate swaps to manage their exposure to interest rate risk arising on floating rate bank borrowings.

The Group's share of joint ventures' interest rate and Retail Prices Index swap contracts with nominal values of £129.0m (2009: £80.8m) have fixed interest payments at an average rate of 4.83% (2009: 5.01%) for periods up until 2041.

Notes to the consolidated financial statements
continued

29 Financial instruments continued

The Group's share of the fair value of swaps entered into at 31 December 2010 by joint ventures is estimated at a £3.1m liability (2009: £1.7m liability). These amounts are based on market values of equivalent instruments at the balance sheet date. All interest rate swaps are designated as hedging instruments and are effective as cash flow hedges. The fair value thereof has been taken to the hedging reserve.

Currency risk
The majority of the Group's operations are carried out in the UK and the Group has an insignificant level of exposure to currency risk on sales and purchases. Given the insignificant exposure to foreign currency movements, the Group's policy is not to hedge foreign currency transactions unless they are material, at which point derivative financial instruments are entered into so as to hedge forecast or actual foreign currency exposures.

Capital management
The Board aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

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 note 24 and the consolidated statement of changes in equity. The cash and cash equivalents are supplemented by the £100m of bank facilities which are committed until mid-2012.

The Group dividend policy is stated in the business review on page 34.

The Board aims to achieve a suitable balance between higher returns that may be possible through borrowing and the stability afforded by a sound capital position.

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.

30 Subsequent events

There were no significant subsequent events that affected the financial statements of the Group.

Company financial statements

Independent auditors' report

We have audited the parent company financial statements of Morgan Sindall Group plc for the year ended 31 December 2010 which comprise the Company balance sheet, the combined Company statement of movements in reserves and shareholders' funds, the statement of significant accounting policies and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion, the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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;
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the group financial statements of Morgan Sindall Group plc for the year ended 31 December 2010.

Ian Krieger
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
4 March 2011

Company balance sheet
at 31 December 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	4	0.8	1.2
Investments	5	372.1	322.2
		372.9	323.4
Current assets			
Trade debtors		0.1	0.1
Amounts owed by subsidiary undertakings		66.2	88.6
Other debtors		0.3	0.1
Prepayments and accrued income		0.9	1.6
Deferred tax asset	6	1.7	1.0
Cash at bank and in hand		109.7	85.2
		178.9	176.6
Creditors: amounts falling due within one year			
Bank overdraft		(158.2)	(122.3)
Trade creditors		(0.6)	(2.6)
Amounts owed to subsidiary undertakings		(201.3)	(170.4)
Corporation tax payable		(22.5)	(19.1)
Other tax and social security		(0.3)	(0.2)
Other creditors		(1.1)	(0.8)
Accruals and deferred income		(7.8)	(3.5)
		(391.8)	(318.9)
Net current liabilities		(212.9)	(142.3)
Total assets less current liabilities		160.0	181.1
Provision for liabilities	10	(10.1)	(10.0)
Net assets excluding retirement benefit obligation		149.9	171.1
Retirement benefit obligation	7	(1.4)	(2.3)
Net assets including retirement benefit obligation		148.5	168.8
Shareholders' funds			
Share capital	8	2.2	2.2
Share premium account		26.7	26.7
Capital redemption reserve		0.6	0.6
Own shares		(5.9)	(6.0)
Special reserve		13.7	13.7
Profit and loss account		111.2	131.6
Shareholders' funds		148.5	168.8

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 4 March 2011 and signed on its behalf by:

Paul Smith
Chief Executive

David Mulligan
Finance Director

Company combined statement of movements in reserves and shareholders' funds

for the year ended 31 December 2010

	Called up share capital £m	Share premium account £m	Own shares £m	Capital redemption reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2010	2.2	26.7	(6.0)	0.6	13.7	131.6	168.8
Loss for the year	–	–	–	–	–	(4.2)	(4.2)
Recognition of share-based payments	–	–	–	–	–	0.7	0.7
Interim dividend for 2010	–	–	–	–	–	(5.1)	(5.1)
Second interim dividend for 2009	–	–	–	–	–	(12.7)	(12.7)
Exercise of share options	–	–	0.1	–	–	(0.1)	–
Deferred tax credit arising on recognition of share-based payments	–	–	–	–	–	0.5	0.5
Deferred tax charge arising on actuarial gain on retirement benefit obligation	–	–	–	–	–	(0.3)	(0.3)
Actuarial gain on retirement benefit obligation	–	–	–	–	–	0.8	0.8
Balance at 31 December 2010	2.2	26.7	(5.9)	0.6	13.7	111.2	148.5

Significant accounting policies
for the year ended 31 December 2010

Basis of accounting
The separate financial statements of the Company are presented as required by the Companies Act 2006. These financial statements have been prepared on a going concern basis as discussed in the business review on page 35, under the historic cost convention in accordance with the applicable United Kingdom Accounting Standards. 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.

Under Financial Reporting Standard ('FRS') 1 (revised 1996) 'Cash Flow Statements', the Company is exempt from the requirement to prepare a cash flow statement on the basis that its consolidated financial statements, which include the Company and present a consolidated statement of cash flows, are publicly available.

Under FRS 8 'Related Party Disclosures', the Company is exempt from the requirement to disclose related party transactions with entities within the Group where the Company's interest is 100%.

The Company's accounting policies have been applied on a consistent basis throughout the year.

Significant estimates and judgments
The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis and any revision to estimates or assumptions are recognised in the period in which revised and in any future periods affected.

The estimates and judgments concerning the future at 31 December 2010 and that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

(a) Taxation
Judgments are required in establishing the Company's liability to pay taxes where tax positions are uncertain. Details of deferred tax assets and liabilities are set out in note 6.

(b) Accounting for the Company's defined benefit plan
The directors engage an independent and qualified actuary to calculate the Company's liability in respect of the defined benefit plan. In order to arrive at this valuation, certain assumptions in respect of discount rates, salary escalations, expected return on the plan's assets and future pension increases have been made. Assumptions regarding future mortality are based on published statistics and mortality tables. As the actual rates of increase and mortality may differ from those assumed, the actual pension liability may differ from that recognised in these financial statements. Assumptions used and full details of the Company's liability are set out in full in note 7.

(c) Share-based payments
Recognition and measurement of share-based payments require estimation of the fair value of awards at the date of grant and for cash-settled awards, remeasurement at each reporting date. Judgment is also exercised when estimating the number of awards that will ultimately vest. Both of these judgments have a significant impact on the amounts recognised in the profit or loss and in the balance sheet. To assist in determining each award's fair value, the directors engage a qualified and independent valuation expert. Estimation of the number of awards that will ultimately vest is based on historic vesting trends for similar awards, taking into consideration specific features of the awards and the current intrinsic value of those awards.

Accounting policies
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.

Tangible fixed assets and depreciation
No depreciation is provided on freehold land. On other assets, depreciation is provided at rates calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

Freehold property	2% per annum
Plant, machinery and equipment	Between 10% and 33% per annum

Taxation
The tax expense represents the current tax and deferred tax charges. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity.

(a) Current tax
Current tax is the Company'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 profit and loss account 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.

(b) Deferred tax
Deferred tax is provided in full on timing 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 rates expected to apply when they crystallise based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be future taxable profits against which to recover carried forward future tax losses and from which the reversal of underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

Retirement benefit schemes
The Company has two retirement benefit plans:

(a) Defined contribution plan
A defined contribution plan is a post-retirement benefit plan under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The Company recognises payments to defined contribution pension plans as an employee expense in the profit and loss account as and when they are due.

Significant accounting policies for the year ended 31 December 2010
continued

(b) Defined benefit plan
A defined benefit plan is a post-retirement plan other than a defined contribution plan. The Company's net liability is recognised in the balance sheet and is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting this to its present value. Any unrecognised past service costs and the fair value of the plan's assets are deducted.

The calculation is performed by a qualified actuary on an annual basis using the projected unit credit method. The cost of the plan is charged to the profit and loss account based on actuarial assumptions at the beginning of the financial year. Where the calculation results in a benefit to the Company, the asset recognised is limited to the net of the total unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of the plan are improved, the portion of increased benefit relating to past service by employees is recognised in the profit and loss account on a straight-line basis over the average period until the benefits are vested. Where the benefits vest immediately, the expense is recognised in the profit and loss account immediately.

Actuarial gains and losses are recognised in full in the combined statement of movements in reserves and shareholders' funds in the period in which they occur. Net pension obligations are included in the balance sheet at the present value of the plan liabilities, less the fair value of the plan assets and any related deferred tax asset.

Provisions
Provisions are recognised when the Company 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.

Share-based payments
The Company has applied the requirements of FRS 20 'Share-Based Payment'. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Company grants equity-settled and cash-settled share-based payments (share awards or share options) to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant and are recognised as an employee expense, with a corresponding increase in equity, over the period from date of grant to the date on which the employees become unconditionally entitled to the awards or options.

Cash-settled share-based payments are measured at fair value at each balance sheet date and recognised as an expense, with a corresponding increase in liabilities, over the period from date of grant to the date on which the employees become unconditionally entitled to the payment. Any changes in the fair value of the liability are recognised as an employee expense or income in the profit and loss account. Fair value is measured by use of a modified Black-Scholes model.

None of these awards when granted was subject to a share price related performance condition.

Related National Insurance Contributions are accrued on the basis of the intrinsic value of outstanding share-based payments and are remeasured at each reporting date.

Leased assets
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Finance income and expense
Finance income comprises bank and other interest. Interest income is recognised in the profit and loss account using the effective interest rate method. Finance expense comprises interest on bank overdrafts, amortisation of prepaid bank facility arrangement fees and commitment fees charged by lenders on the undrawn portion of available bank facilities.

Borrowing costs are recognised in the profit and loss account on an effective interest method in the period in which they are incurred.

Financial guarantees
The Company provides certain guarantees in respect of the indebtedness of its subsidiary undertakings and in respect of bonds and claims under contracting and other arrangements which include joint arrangements and joint ventures entered into in the ordinary course of business.

The Company considers such agreements to be indemnity arrangements and, as such, accounts for them as contingent liabilities unless it becomes probable that the Company will be required to make a payment under the guarantee.

Dividends
The Company has adopted FRS 21 'Events after the Balance Sheet Date' and accordingly only recognises a liability once there is an obligation to pay. As a result, a dividend will only be recognised once the shareholders approve it.

Notes to the Company financial statements

1 Employees

The average monthly number of people employed by the Company, including directors, during the year was 19 (2009: 22).

2 Staff costs

	2010 £m	2009 £m
Wages and salaries	4.9	3.8
Social security costs	1.1	0.6
Other pension costs	0.6	0.6
	6.6	5.0

3 Profit/(loss) of the parent company

The Company has taken advantage of section 408 of the Companies Act 2006 and consequently the profit and loss account of the parent company is not presented as part of these accounts. The loss of the parent company for the financial year amounted to (£4.2m) (2009: profit of £21.0m).

4 Tangible assets

	Owned plant, machinery and equipment £m	Freehold property £m	Total £m
Cost or valuation			
Balance at 1 January 2010	3.2	0.1	3.3
Additions in the year	0.1	–	0.1
Balance at 31 December 2010	3.3	0.1	3.4
Accumulated depreciation			
Balance at 1 January 2010	(2.1)	–	(2.1)
Depreciation charge for the year	(0.5)	–	(0.5)
Balance at 31 December 2010	(2.6)	–	(2.6)
Net book value			
Net book value at 31 December 2010	0.7	0.1	0.8
Net book value at 31 December 2009	1.1	0.1	1.2

5 Investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
Cost			
Balance at 1 January 2010	325.7	–	325.7
Additions during the year:			
Transfers from subsidiary undertakings during the year[(1)]	21.9	–	21.9
Issue of additional share capital – Morgan Sindall Holdings Limited[(2)]	120.9	–	120.9
Transfers to subsidiary undertakings during the year[(2,3)]	(120.9)	–	(120.9)
Issue of additional share capital – Lovell Partnerships Limited[(4)]	28.0	–	28.0
At 31 December 2010	375.6	–	375.6
Provisions			
Balance at 1 January 2010	(3.5)	–	(3.5)
Balance at 31 December 2010	(3.5)	–	(3.5)
Net book value			
Net book value at 31 December 2010	372.1	–	372.1
Net book value at 31 December 2009	322.2	–	322.2

Notes to the Company financial statements
continued

5 Investments continued

During the year, the Company changed its name from Morgan Sindall plc to Morgan Sindall Group plc.

Also during the year, the following subsidiaries or former subsidiaries of Morgan Sindall Group plc (direct or indirect) changed their names:

- Morgan Ashurst plc changed its name to Morgan Sindall (Construction) plc on 4 June 2010
- Morgan Sindall (Construction) plc changed its name to Morgan Sindall plc on 31 December 2010
- Morgan Est plc changed its name to Morgan Sindall (Infrastructure) plc on 4 June 2010
- Morgan Est Holdings Limited changed its name to Morgan Sindall Holdings Limited on 4 June 2010
- Morgan Professional Services Limited changed its name to Morgan Sindall Professional Services Ltd on 4 June 2010
- Underground Professional Services Limited changed its name to Morgan Sindall Underground Professional Services Ltd on 4 June 2010

The following transactions occurred during the year and refer to the registered company names at 31 December 2010:

(1) On 22 February 2010, the ownership of Hinkins & Frewin Limited, Barnes & Elliott Limited, Sindall Limited, Stansell Limited, The Snape Group Limited, Roberts Construction Limited and Wheatley Construction Limited was transferred from the Company's former wholly owned subsidiary, Morgan Sindall plc, to the Company through the purchase of all of the £1.00 fully paid ordinary shares of each of those companies (a total of £21.9m). All of the transferred companies were dormant companies and the consideration for each transfer was settled through intercompany loans.

(2) On 31 December 2010, as part of an intra-group reorganisation, the Company transferred its investment in its wholly owned subsidiary, Morgan Sindall plc, to Morgan Sindall Holdings Limited in a share-for-share transaction. As a result, the Company increased its investment in its wholly owned subsidiary, Morgan Sindall Holdings Limited, by £120.9m through its issue of 120.9m fully paid ordinary shares of £1.00 each.

(3) On 31 December 2010, as part of an intra-group reorganisation, the Company transferred its investment in its wholly owned subsidiary, Morgan Sindall Underground Professional Services Ltd, to Morgan Sindall Professional Services Ltd in a share-for-share transaction. As a result, the Company increased its investment in its wholly owned subsidiary, Morgan Sindall Professional Services Ltd by £1 through its issue of one fully paid ordinary share of £1.00.

(4) On 16 December 2010, the Company increased its investment in its wholly owned subsidiary, Lovell Partnerships Limited, by £28.0m through the purchase of 28.0m fully paid ordinary shares of £1.00. Consideration for the investment was settled through intercompany loan.

6 Deferred tax

	Accelerated allowances and other short-term timing differences £m	Retirement benefit obligation £m	Share-based payments £m	Total £m
At 1 January 2010	0.4	0.9	0.6	1.9
Credit/(charge) to income	–	(0.1)	0.2	0.1
(Charge)/credit to equity	–	(0.3)	0.5	0.2
At 31 December 2010	0.4	0.5	1.3	2.2

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2010 £m	2009 £m
Deferred tax within current assets	1.7	1.0
Retirement benefit obligations	0.5	0.9
	2.2	1.9

At 31 December 2010, the Company had unused tax losses of £0.6m (2009: £0.6m) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams against which these losses may be utilised. Losses may be carried forward indefinitely.

The UK Corporation tax rate is set to reduce to 27% in April 2011, affecting the closing deferred tax balance as shown above. Further reductions in the corporation tax rate to 24% are expected but not yet legislated. The closing deferred tax asset would reduce by a further £0.2m to £2.0m if these changes were taken into account.

7 Retirement benefit schemes

Defined contribution plan

The Morgan Sindall Retirement Benefits Plan ('the Plan') was established on 31 May 1995 and operates on defined contribution ('DC') principles for employees of the Group. The assets of the Plan are held separately from those of the Group in funds under the control of the Trustee directors of the Plan. The total cost charged to the profit and loss account of £0.4m (2009: £0.4m) represents contributions payable to the DC section of the Plan by the Company at rates specified in the Plan rules.

As at 31 December 2010, contributions of £0.1m (2009: £0.1m) were due in respect of December's contribution not paid over to the Plan. The Company, with the consent of the Trustee directors, can decide how to use monies held in a 'DC General Account'. During the year, the Company made contributions of £0.7m (2009: £0.7m) in respect of the Plan.

Defined benefit plan

The Plan includes some defined benefit liabilities and transfers of funds representing the accrued benefit rights of former 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 include accruals up to 1 August 1997). No further defined benefit membership rights can accrue after that date.

Under the Plan, employees are entitled to retirement benefits at a retirement age of 65. No other retirement benefits are provided. The Plan is currently being funded by the Company.

The last triennial valuation of the Plan was undertaken on 5 April 2007. The results of the latest valuation as at 5 April 2010 are in draft form but have been allowed for in these pension disclosures. The 2010 valuation was prepared using ongoing assumptions of a rate of investment return of 4.8% per annum in the period before retirement and 4.9% in the period after retirement, a rate of earnings escalation of 5.3% per annum and a rate of inflation of 3.8% per annum. The ongoing liabilities of the Plan were assessed using the projected unit credit method and the assets were taken as realisable market value. The 2010 actuarial valuation referred to showed that the defined benefit liabilities were partly funded and the value of the assets of £5.9m represented 64% of the value of these liabilities on an ongoing funding basis. The next triennial valuation will be carried out as at 5 April 2013 when the funding position will be reappraised.

The most recent valuation of the Plan assets and the present value of the defined benefit liabilities was prepared as at 31 December 2010. The present value of the defined benefit liabilities, the related current service cost and past service cost were measured using the projected unit credit method.

	2010 %	2009 %	2008 %
Key assumptions used:			
Discount rate	5.4	5.6	6.1
Expected rate of salary increases	4.6	4.8	4.0
Expected return on Plan assets	4.8	4.9	4.8
Rate of inflation	3.6	3.8	3.0
Future pension increases – members who left before 1 June 1995(1)	3.5	3.5	3.5
Future pension increases – members who left after 31 May 1995	3.0	3.0	3.0
Future pension increases – non-guaranteed deferred pensions	3.5	3.5	3.5

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

Life expectancy

For the disclosures as at 31 December 2010, the S1NXA (2009: PXA92) series of tables from the Continuous Mortality Investigation were adopted appropriate to members' actual years of birth and with a 95% scaling factor for males and 100% for females. Medium cohort projections with a minimum underpin of 1.5% were adopted for future improvements in life expectancy.

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2010	2009
Male	87.1	87.0
Female	89.6	89.9

The average life expectancy in years of a pensioner retiring at age 65, twenty years after the balance sheet date is as follows:

	2010	2009
Male	90.0	88.1
Female	92.5	90.9

An increase of one year to the average life expectancy at 65 would increase the present value of the Plan liabilities by around 3.0% (2009: 3.0%).

Notes to the Company financial statements
continued

7 Retirement benefit schemes continued

The amount included in the balance sheet arising from the Company's liabilities in respect of the Plan is as follows:

	2010 £m	2009 £m	2008 £m
Present value of the Plan liabilities(1)	(8.5)	(8.9)	(8.0)
Fair value of the Plan assets(2)	6.6	5.7	5.0
Deficit in the Plan	(1.9)	(3.2)	(3.0)
Related deferred taxation at 27% (2009: 28%)	0.5	0.9	0.8
Liability recognised in the balance sheet	(1.4)	(2.3)	(2.2)

The total pension costs of the Company in respect of:

	2010 £m	2009 £m	2008 £m
Defined benefit section of the Plan(3)	0.4	0.4	0.2
Defined contribution section of the Plan(3)	0.4	0.4	0.3

There are no amounts to be included within the operating profit for current or past service costs in 2010, 2009 or 2008.

Notes

(1) Any pension which accrues in respect of service after 6 April 1997 will increase in line with inflation, subject to a maximum of 5% per annum.

(2) Represents the ongoing value of assets invested in managed funds operated by AEGON (69%) (formerly Scottish Equitable) and Legal & General (31%) at the valuation date. The assets and liabilities relating to defined contribution members are in addition to these figures.

(3) The minimum amount of contributions the Company expects to be paid to the defined benefit section of the Plan in the year to 31 December 2011 is £0.7m. The Trustee directors of the Plan have yet to finalise a revised Schedule of Contributions as part of the 5 April 2010 formal actuarial valuation.

Amounts recognised in the profit and loss account of the Company in respect of the Plan:

	2010 £m	2009 £m	2008 £m
Interest cost	(0.5)	(0.5)	(0.5)
Expected return on the Plan assets	0.3	0.2	0.3
Net return	(0.2)	(0.3)	(0.2)
Total amount charged to profit and loss (total operating charge less net return)	0.2	0.3	0.2

Analysis of the movement in the Plan deficit during the year:

	2010 £m	2009 £m	2008 £m
Deficit at 1 January	(3.2)	(3.0)	(3.3)
Interest cost	(0.5)	(0.5)	(0.5)
Actuarial gain/(losses)	0.8	(0.6)	(0.2)
Expected return on the Plan assets	0.3	0.2	0.3
Contributions from sponsoring Company	0.7	0.7	0.7
Deficit at 31 December	(1.9)	(3.2)	(3.0)

Liabilities in respect of pensions in payment account for 35% of the total (2009: 32%). The average term to retirement is 7.5 years (2009: 5 years) for active members (i.e. members who are still employed by the Company and whose past service benefits are linked to their final salary but are no longer accruing final salary benefits) and 6.4 years (2009: 3 years) for deferred members.

The Plan assets and the expected rate of return at the balance sheet date were as follows:

	Fair value of assets			Expected return		
	2010 £m	2009 £m	2008 £m	2010 %	2009 %	2008 %
Equity instruments	–	–	–	n/a	n/a	n/a
Fixed interest gilts	3.3	3.2	2.8	4.2	4.4	3.8
Corporate bonds	3.3	2.5	2.2	5.4	5.6	6.1
Cash	–	–	–	2.0	2.0	2.0
	6.6	5.7	5.0			

7 Retirement benefit schemes continued

The expected return on 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 Plan does not hold any financial instruments issued by the Company and does not hold any property or other assets used by the Group.

History of experience adjustments is as follows:

	2010		2009		2008		2007		2006	
	£m	% asset or liability value	£m	% asset or liability value	£m	% asset or liability value	£m	% asset or liability value	£m	% asset or liability value
Difference between the expected and actual return on the Plan assets	0.2	3.0	0.2	3.5	(0.4)	(6.6)	(0.5)	(11.0)	–	0.4
Experience gain/(loss) arising on the Plan liabilities	0.6	7.1	(0.8)	(9.0)	0.2	1.9	(0.4)	(4.4)	0.7	9.2
Total actuarial gain/(loss)	0.8		(0.6)		(0.2)		(0.9)		0.7	

Actuarial gains/(losses) recognised in the combined statement of movements in reserves and shareholders' funds

	2010 £m	2009 £m	2008 £m
Actuarial gains/(losses) recognised during the year	0.8	(0.6)	(0.2)
Cumulative actuarial losses recognised during the year	(3.0)	(3.8)	(3.2)

8 Share capital

	2010 No. '000s	2010 £'000s	2009 No. '000s	2009 £'000s
Issued and fully paid:				
At the beginning of the year	43,160	2,158	43,004	2,150
Exercise of share options	28	1	156	8
At the end of the year	43,188	2,159	43,160	2,158

The Company has one class of ordinary shares of 5p each ('shares') which carry no rights to fixed income. All ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

No member shall however be entitled to vote at any general meeting in respect of any share held by him if any call or other sum then payable by him 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 Companies Act 2006.

Shares

The shares of the Company issued during the year are shown below. Details of employee share option schemes referred to are given below and in note 27 in the consolidated financial statements.

27,870 shares were issued in respect of options exercised under the Company's 1995 Scheme for a total consideration of £1,394 (2009: 156,561 shares for a total consideration of £74,078). All options exercised under the 1995 Scheme during the year were settled on a net basis.

No shares were issued in respect of the ESOP 2007, the Save As You Earn scheme or the 2005 Plan (2009: nil).

Share options

The weighted average share price at the date of exercise for share options exercised during the year was £6.47 (2009: £5.82). The options outstanding at 31 December 2010 had a weighted average exercise price of £7.12 (2009: £7.76) and a weighted average remaining contractual life of 1.2 years (2009: 1.6 years). In 2010, options under the ESOP 2007 were granted on 17 March and 24 May and the estimated fair value of the options granted on those dates was £0.1m (2009: £0.2m). Options and share awards under the 2005 Plan were granted on 17 March 2010. The estimated fair value of the options granted on those dates was £0.6m (2009: £0.5m) and the estimated fair value of the share awards granted on those dates was £1.0m (2009: £1.1m). There were no options granted under the SAYE scheme in 2010 (2009: nil).

Notes to the Company financial statements
continued

8 Share capital continued

Own shares

Own shares at cost represent 781,444 (2009: 797,034) shares in the Company held in the Morgan Sindall Employee Benefit Trust ('the Trust') in connection with the ESOP 2007 and certain share incentive schemes as detailed in the remuneration report on pages 59 to 67. The trustees of the Trust purchase the Company's shares in the open market with financing provided by the Company on the basis of regular reviews of the share liabilities of the relevant schemes. A total of 781,444 (2009: 797,034) shares were unallocated at the year end and dividends on these shares have been waived. The cost of shares expected to be awarded is charged over the three year period to which the award relates. Based on the Company's share price at 31 December 2010 of £7.05 (2009: £6.00), the market value of the shares was £5,509,180 (2009: £4,782,204).

9 Dividends

For details of dividends paid during the year and proposed but not approved by shareholders at the balance sheet date, refer to note 7 of the consolidated financial statements.

10 Provisions

	Employee provisions £m	Insurance provisions £m	Total £m
At 1 January 2010	1.6	8.4	10.0
Utilised	(0.1)	(2.0)	(2.1)
Additions	–	3.0	3.0
Released	(0.8)	–	(0.8)
At 31 December 2010	0.7	9.4	10.1

The Company has provisions for self-insurance in respect of claims incurred but not yet received and employee provisions which comprise obligations to former employees that are not related to retirement or post-retirement obligations. The majority of the provisions are expected to be utilised within five years.

11 Operating lease commitments

The Company has an operating lease commitment in respect of land and buildings for between one and two years for £0.2m (2009: £0.2m). Lease payments recognised as an expense in the year amounted to £0.2m (2009: £0.2m).

12 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. We have not disclosed an estimate of the financial effect of uncertainties relating to the amount of timing of any outflow and possibility of reimbursement in respect of the above as it is impracticable to do so.

13 Subsequent events

There were no subsequent events that affected the financial statements of the Company.

14 Additional information on subsidiary undertakings and joint ventures

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings and significant interests in joint ventures which affected the Group's results or net assets:

Subsidiary undertakings	Activity
Lovell Partnerships Limited	Affordable housing
Magnor Plant Hire Limited	Construction plant hire
Morgan Sindall plc	Construction and infrastructure
Morgan Lovell plc	Specialist in office design and build
Morgan Sindall Professional Services Ltd	Design services
Morgan Sindall Investments Limited	Project investments
Muse Developments Limited	Urban regeneration
Newman Insurance Company Limited	Insurance
Overbury plc	Fitting out and refurbishment specialists
Morgan Sindall Underground Professional Services Ltd	Infrastructure design services
Joint Ventures	
Access for Wigan (Holdings) Limited (50%)*	Investment in public services centre
Ashton Moss Developments Limited (50%)*	Inner city regeneration
Blue Light Holdings Limited (50%)*	Investment in the development of emergency services facilities
Bromley Park Limited (50%)*	Residential development
Claymore Roads (Holdings) Limited (50%)*	Infrastructure services
Community Solutions Investment Partners Limited (previously called Community Solutions for Primary Care (Holdings) Limited) (50%)*	Strategic development and regeneration projects in the health sector
English Cities Fund (12.5%)*	Inner city regeneration
Hull Esteem Consortium PSP Limited (33⅓%)*	Investment in the development of education facilities
ISIS Waterside Regeneration (25%)*	Waterside regeneration
Lewisham Gateway Developments Limited (50%)*	Mixed use regeneration
Lingley Mere Business Park Development Company Limited (50%)*	New commercial office space development
Morgan-Vinci Limited (50%)*	Infrastructure services
North Shore Development Partnership Limited† (50%)*	Mixed use regeneration
Renaissance Miles Platting Limited (33⅓%)*	Mixed tenure development
St Andrews Brae Developments Limited 50% share*	Residential development
Taycare Health Management LLP (50%)*	Healthcare management
Taycare Health (Holdings) Limited (50%)*	Investment in primary healthcare
The Compendium Group Limited (50%)*	Investment in affordable housing

All subsidiary undertakings are wholly owned unless shown otherwise and, with the exception of companies marked *, all shareholdings are in the name of Morgan Sindall Group plc. The proportion of ownership interest is the same as the proportion of voting power held except for English Cities Fund and ISIS Waterside Regeneration, details of which are shown in the consolidated financial statements note 12. With the exception of Newman Insurance Company Limited, registered and operating in Guernsey, all undertakings are registered in England and Wales and the principal place of business is the UK. Newman Insurance Company Limited has a year end of 30 November coterminous with the renewal date for the insurance arrangements in which it participates.

†On 24 January 2011, this joint venture became a wholly owned subsidiary.

Shareholder information

Financial calendar 2011

Financial year end	31 December 2010
Preliminary results announcement	22 February 2011
Annual general meeting	5 May 2011
Interim management statement	5 May 2011
Final dividend:	
Ex-dividend date	20 April 2011
Record date	26 April 2011
Payment date	16 May 2011
Half year results announcement	August 2011
Interim dividend payable	September 2011
Interim management statement	November 2011

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 ('Registrar') and clearly state the shareholder's registered address and, if available, the full shareholder reference number:

By post:
Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

By telephone:
0871 664 0300 (calls cost 10p per minute plus network extras). Lines are open Monday to Friday 8.30am to 5.30pm. If calling from overseas, please call +44 20 8639 3399.

By email:
ssd@capitaregistrars.com

Registering on the Registrar's website enables you to view your shareholding in Morgan Sindall Group plc including an indicative share price and valuation, a transaction audit trail and dividend payment history. If you wish to view your shareholding, please log on to www.capitashareportal.com and click on the link 'shareholder services', then follow the instructions.

Dividend mandates

Shareholders who do not currently have their dividends paid directly to a bank or building society account and wish to do so should complete a mandate instruction available from the Registrar on request or at www.capitashareportal.com.

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.

Telephone share dealing service

A telephone dealing service has been arranged with Stocktrade which provides a simple way for buying or selling Morgan Sindall Group plc shares. Basic commission is 0.5% up to £10,000, reducing to 0.2% thereafter (subject to a minimum commission of £15). Sales are carried out on a ten day settlement basis with purchases on a five day basis. When purchasing shares, payment must be made by debit card at the time of dealing. For further information, please call 0845 601 0995 and quote reference Low Co140.

Website and electronic communications

The 2010 annual report and other information about the Company are available on its website, www.morgansindall.com. The Company operates a service whereby you can register to receive notice by email of all announcements released by the Company.

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

Shareholder documents are now, following changes in Company law and shareholder approval, primarily made available via the Company's website at www.morgansindall.com/investors 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 on the register notifying them that the documents are available on the website. Shareholders can continue to receive hard copies of shareholder documents by contacting the Registrar.

If you have not already registered your current email address, you can do so at www.capitashareportal.com.

Investors who hold their shares via an intermediary should contact the intermediary regarding the receipt of shareholder documents from the Company.

Unsolicited mail

The Company is obliged by law to make its share register publicly available and, as a consequence, some shareholders may receive unsolicited mail, including from unauthorised investment firms. For more information on unauthorised investment firms targeting UK investors, visit the website of the Financial Services Authority at www.moneymadeclear.fsa.gov.uk. If you wish to limit the amount of unsolicited mail you receive, contact The Mailing Preference Service, FREEPOST 29 (LON20771), London W1E 0ZT or visit the website at www.mpsonline.org.uk.

Analysis of shareholdings at 31 December 2010

	No. of accounts	% of total accounts	No. of shares	% of total shares
Holding of shares				
Up to 1,000	851	52.6	423,532	1.0
1,001 to 5,000	441	27.3	1,012,825	2.4
5,001 to 100,000	256	15.8	6,664,608	15.4
100,001 to 1,000,000	61	3.8	18,701,767	43.3
Over 1,000,000	8	0.5	16,385,554	37.9
	1,617	100.0	43,188,286	100.0

Shareholder communication

Email: enquiries@morgansindall.com
Telephone: 020 7307 9200

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Solicitors	Slaughter and May Wragge & Co LLP
Bankers	Lloyds TSB Bank plc The Royal Bank of Scotland plc Yorkshire Bank
Independent auditors	Deloitte LLP

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