Morgan Sindall Group plc
Annual Report 2022

We are a *leading* UK construction and regeneration group.

In 2022, against a challenging economic backdrop, we delivered record results and maintained our strong balance sheet and cash position.

We remain committed to creating social and environmental value and have retained both our 'AAA' ESG rating from MSCI and our 'A' rating from CDP for our leadership on climate change.

Materiality

Our annual report aims to provide our investors with the information they need to make decisions, for example on whether to buy, hold or sell our shares, how to vote on their shares, and whether to engage with our Board on any issue. We have included information we believe is material to these decisions and presented it in a way that we believe is fair, balanced and understandable. We recognise that this report will be read by a variety of other stakeholders including employees, our supply chain, clients and partners, funders and performance bond issuers, analysts and regulators. Where we believe that a topic is material to many of them, based on our latest materiality assessment (see page 19), we either include it in this report or refer to other reports and information on our website. We believe this approach meets the requirements of company law, the UK Corporate Governance Code and IFRS, and that we go beyond these requirements where we feel it is useful for the reader.

THE QUICK READ

Harnessing the energy of our people to achieve the improbable

Our specialist divisions

Through five divisions, we deliver construction and regeneration for the public, commercial and regulated sectors.

Construction

- Construction & Infrastructure
- Fit Out
- Property Services

Regeneration

- Partnership Housing
- Urban Regeneration

See page 7

Our business model

We generate cash through our construction activities and invest in long-term regeneration schemes, which in turn create opportunities in construction.

Our capabilities match the UK's demand for affordable housing, urban regeneration and investment in public, commercial and social infrastructure.

See page 9

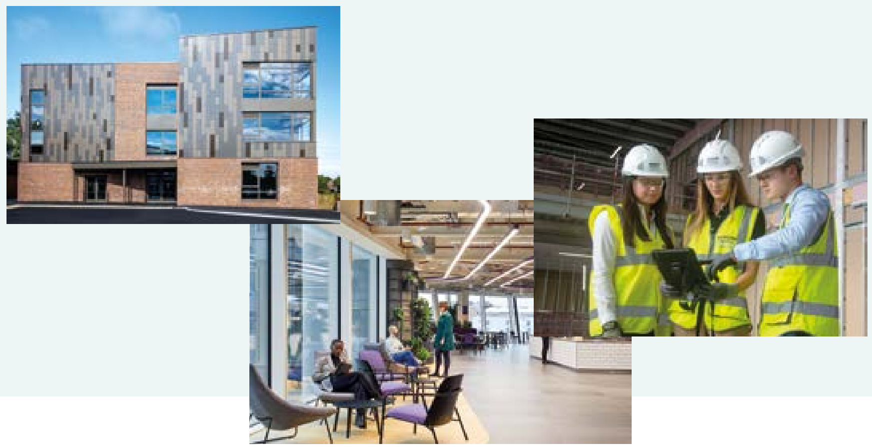
Our strategy

We pursue organic growth for the Group through the exceptional performance of our businesses.

Our priorities

- Achieve quality of earnings
- Excel in project delivery
- Secure long-term workstreams
- Keep innovating to deliver on our Total Commitments to our stakeholders and the environment
- Maintain financial strength

See page 10

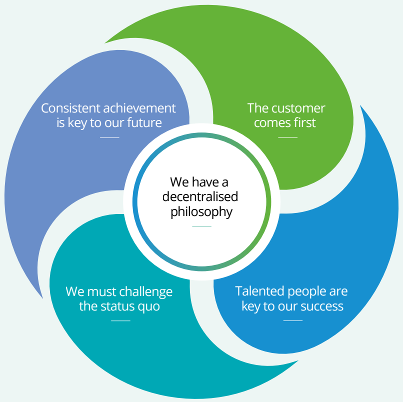


Visit morgansindall.com for more information

THE QUICK READ continued

Core Values

Our purpose, culture, strategy and performance are driven by our Core Values. We encourage our talented people to challenge the status quo and exceed our stakeholders' expectations.



See page 10

A decentralised approach

At the heart of our Core Values is our decentralised philosophy.

Our divisions are complementary but different and our decentralised approach enables them to respond quickly to the specific needs of their markets.

Our people are empowered to make the right decisions for the business and our stakeholders.

See page 7

Being a responsible business

We have made five Total Commitments to our stakeholders and wider society.

See pages 18 to 43

Dedicated to our stakeholders

Long-term relationships, based on dialogue, transparency and collaboration, are key to our success.

Our key stakeholders:

- Our people
- Supply chain
- Clients and partners
- Local communities
- Shareholders
- Funders and performance bond issuers

See pages 15 to 17

Visit morgansindall.com for more information

Our Total Commitments are aligned with the UN Sustainable Development Goals, the following six being those where we believe we can have the biggest impact:

2022 IN NUMBERS

Delivering economic, social and environmental *value*

Strong operating performance

£3,612m
Revenue
(2021: £3,213m)

£139.2m
Operating profit (adjusted*)
(2021: £131.3m)

£88.3m
Operating profit
(2021: £129.8m)

£8,459m
Secured workload
(2021: £8,614m)

Financial strength and shareholder returns

£136.2m
Profit before tax (adjusted*)
(2021: £127.7m)

£85.3m
Profit before tax
(2021: £126.2m)

£256m
Average daily net cash
(2021: £291m)

101.0p
Total dividend per share
(2021: 92.0p)

Social and environmental value

882
Apprentices and sponsorships for graduates and national vocational and professional qualifications
(2021: 807)

45%
Reduction in Scope 1 and 2 carbon emissions from 2019 baseline[1]
(2021: 35%)

67p
Monetary value of social activities per £1 of project spend on 110 projects measured
(2021: 71p on 112 projects measured)

AAA
MSCI[2] environmental, social and governance rating
(2021: AAA)

* See note 28 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

1 Scope 1 emissions are direct from owned or controlled sources and Scope 2 are generated from purchased energy. Scope 1 and 2 emissions in 2019 totalled 20,903 tonnes CO_2e.

2 MSCI provides decision support tools and services for the global investment community.

CHIEF EXECUTIVE'S STATEMENT

A strong performance

John Morgan, Chief Executive

The Group achieved another record performance in 2022 despite market headwinds. This is down to the resilience, hard work and creativity of our teams, and the huge support of our clients, supply chain and partners.

Revenue increased by 12% to £3,612m (2021: £3,213m) and adjusted* profit before tax by 7% to £136.2m (2021: £127.7m).

We maintained a strong balance sheet and an average daily net cash of £256m (2021: £291m). Our strong balance sheet allows us to make the right long-term decisions for the business, and significant levels of cash at all times give us a real competitive advantage. Our highly decentralised organisation has continued to empower our teams to innovate and work at pace, enabling us to win and execute long-term workstreams. At the same time, we've stayed focused on operational rigour, contract discipline and careful risk management.

Our total dividend for the year has increased by 10% to 101.0p (2021: 92.0p). This equates to a dividend cover of 2.36 times and reflects our results, balance sheet and the Board's confidence in the Group's long-term prospects.

Nurturing our long-term relationships

We founded our Supply Chain Family network around 20 years ago, and our strong relationships with our suppliers have been invaluable in helping us overcome recent constraints on the supply of some materials. We work closely with our supply chain to ensure consistent, long-term work, and pay them promptly. Our relationships with our clients and partners, a large proportion of whom are from the public sector, give us forward visibility and resilience.

Innovating to help communities and the environment

We have continued to invest in our responsible business activities, and I'm very proud of the enormous amount of work and innovation by our teams in enabling us to address climate change and deliver social value to the communities where we work.

We have some great initiatives underway to reduce our carbon emissions and help our clients and supply chain reduce theirs. Our people have developed unique tools, such as Carbon*i*Ca (see page 30), that are easy to use and provide robust, detailed data that helps us increase the energy efficiency of commercial buildings and homes and gives us a solid, fact-based route to net zero.

We are also continuing to invest in responsible, UK-based carbon offsetting projects which not only sequester carbon but also promote biodiversity. During the year, we partnered with the Royal Society for the Protection of Birds to restore existing farmland in Lakenheath Fen into peat-rich, biodiverse wetland (see page 31).

Our divisions have continued to build partnerships with schools, charities and social organisations to provide work and training opportunities for local communities and introduce young people to careers in construction. This will help promote diversity while building a pipeline of talent for the industry. We have been decarbonising social homes, making them more energy efficient and helping tenants save energy and reduce their bills – an important area of focus for us.

The divisions took steps during the year to help our employees and supply chain manage the rise in the cost of living. These included bringing forward pay reviews and bonus payments for employees, and continuing to develop new ways of speeding up payments to our suppliers and subcontractors.

I am pleased to report that in 2022, we retained our MSCI 'AAA' rating for our environmental, social and governance performance. In addition, we achieved an 'A' score from CDP for the third year running for our transparency and performance on climate change and were one of just 283 companies to make CDP's A list for climate change, out of almost 15,000 scored.

Our outlook for 2023

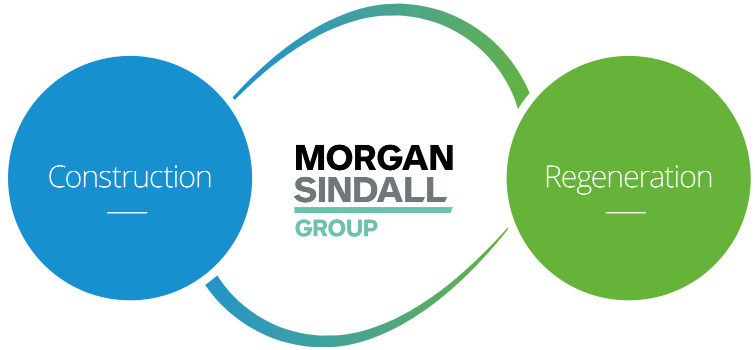
The Group has a substantial, high-quality order book, with a secured workload of £8.5bn and strong pipeline of opportunities. This gives us good visibility going forward.

While significant macroeconomic uncertainty remains, ours is a strong and agile business, well placed to overcome the challenges of the coming year and to take advantage of the opportunities that arise in this environment. There are early signs that inflation, particularly labour inflation, has plateaued and is starting to fall in some areas. Although it is still early in the year, we're well positioned to deliver a result for 2023 in line with our current expectations. We remain focused on making our business better and better for all our stakeholders, and look forward with optimism.

John Morgan
Chief Executive

OUR DIVISIONS

Offering *expertise* that meets the *specific needs* of our markets



Construction & Infrastructure

Revenue
£1,569m

MORGAN SINDALL CONSTRUCTION

Education, healthcare, commercial, industrial, leisure and retail markets.

morgansindallconstruction.com

MORGAN SINDALL INFRASTRUCTURE

Highways, rail, energy, water and nuclear markets.

morgansindallinfrastructure.com

BakerHicks.

Infrastructure includes BakerHicks design activities based out of the UK and Switzerland.

bakerhicks.com

Fit Out

Revenue
£968m

overbury

Fit out and refurbishment in commercial, central and local government offices, as well as further education.

overbury.com

Morgan Lovell

Office interior design and build services direct to occupiers.

morganlovell.co.uk

Property Services

Revenue
£163m

MORGAN SINDALL PROPERTY SERVICES

Response and planned maintenance services for social housing and the wider public sector.

morgansindallpropertyservices.com

Partnership Housing

Revenue
£696m

LOVELL

Partnerships with local authorities and housing associations. Mixed-tenure developments, building/developing homes for open market sale and for social/affordable rent, design and build house contracting and planned maintenance and refurbishment.

corporate.lovell.co.uk

Urban Regeneration

Revenue
£244m

muse

Transforming the urban landscape through partnership working and the development of multi-phase sites and mixed-use regeneration.

museplaces.com

BUSINESS ENVIRONMENT

We're in the *long-term growth* areas we want to be in

Managing a challenging economic backdrop

Across the Group, inflationary pressures and supply issues have been a significant headwind throughout the year. Rising energy prices, supply constraints on certain materials and increased trade and labour costs have continued to place upward pressure on total build costs, which in turn has put more strain on the stability of the supply chain. Towards the end of the year and going into 2023, there were early signs that inflation, particularly labour inflation, had plateaued and was starting to fall.

Where projects are active and underway, the additional costs arising have generally been offset by a combination of contractual protection, operational efficiencies, flexible sourcing and (in the case of Partnership Housing) house sales price inflation. On projects where it has not been possible to mitigate all such additional costs in full, the resulting impact on margins has been unavoidable.

Where projects are being priced for future delivery, the inflationary environment has continued to place some project budgets under pressure, particularly in Construction & Infrastructure, which in turn has led to some delays in decision-making and project starts. However, these have been minimal in number, with most of our public and regulated sector clients generally indicating that committed spending on capital projects remains in place.

The market for Fit Out's services has remained very strong, driven by factors such as lease renewals, the move towards hybrid working practices, the requirement for greater energy efficiency in offices and the use of office space as a tool for enhancing staff retention and brand image.

In Partnership Housing, demand for the partnership model that focuses on long-term partnerships with the public sector remained positive. However, in line with the rest of the UK housing industry, the division experienced a significant slowdown in its sales rates of private homes on its mixed-tenure sites in the fourth quarter. This was driven by a combination of economic uncertainty and changes to mortgage rates and availability.

In Urban Regeneration, construction cost inflation has provided some challenges to the returns on some of its active developments and led to some delays in decision-making and project commencement on other schemes; however, the overall impact has not been material.

Our building safety commitments

During the year, Partnership Housing signed the Developers' Pledge ('the Pledge') with the Department for Levelling Up, Housing and Communities (DLUHC) setting out the principles under which life-critical fire safety issues on buildings that they have developed of 11 metres and above are to be remediated. A letter was also received from DLUHC requesting information to assess whether it may also be appropriate for Urban Regeneration to commit to the principles of the Pledge as part of its commitment to support the remediation of historic cladding and fire safety defects over and above its obligations under the new Building Safety Act. A number of constructive meetings were subsequently held with DLUHC in the second half of the year to clarify matters, with a view to codifying the agreed obligations into a legally binding contract.

The final-form legal contract was issued in January 2023 and both Partnership Housing and Urban Regeneration have confirmed in writing to DLUHC their intention to sign and execute the contract on or before the stipulated date of 13 March 2023.

A comprehensive review was completed during the year to identify legal and constructive obligations related to the Pledge, including the reimbursement of grants provided by the Building Safety Fund. As a result of this review, provisions have been recognised in the year totalling £48.9m and these have been presented as exceptional charges due to their materiality and irregular nature. The charge does not include the benefit of any potential income subsequently received for recoveries from third parties and any such amounts would similarly be presented separately.

Of the total exceptional charge, £5.5m related to Partnership Housing and £43.4m related to Urban Regeneration.

Continuing to focus on our core strengths and target markets

Our organic growth strategy remains unchanged and we are in the long-term growth areas we want to be in.

Our recognised expertise and market positions in affordable housing (Partnership Housing) and in mixed-use regeneration development (Urban Regeneration) reflect our deep understanding of the built environment developed over many years and our ability to provide solutions for complex regeneration projects. As a result, our capabilities are aligned with sectors that support the UK's current and future regeneration and affordable housing needs.

Through Construction & Infrastructure, we are well positioned to meet the demand for ongoing investment in the UK's physical infrastructure, while our geographically diverse construction activities are focused on key sectors of education, healthcare and commercial.

Fit Out is the market leader in its field and delivers a consistently strong operational performance. Our Property Services operation remains focused on response and planned maintenance activities provided to social housing and the wider public sector.

Sectors contributing over 5% of Group revenue

18% Community/other public services	*10%* Mixed-tenure housing
25% Commercial	*14%* Social housing
15% Education	*7%* Transport

BUSINESS MODEL

A *balanced* business creating long-term value

Our capabilities are aligned with sectors of the UK economy which support the current and future demand for affordable housing, urban regeneration and investment in public, commercial and social infrastructure. Our decentralised approach allows our specialist divisions to respond quickly to the needs of their markets and achieve the best outcomes for our stakeholders.

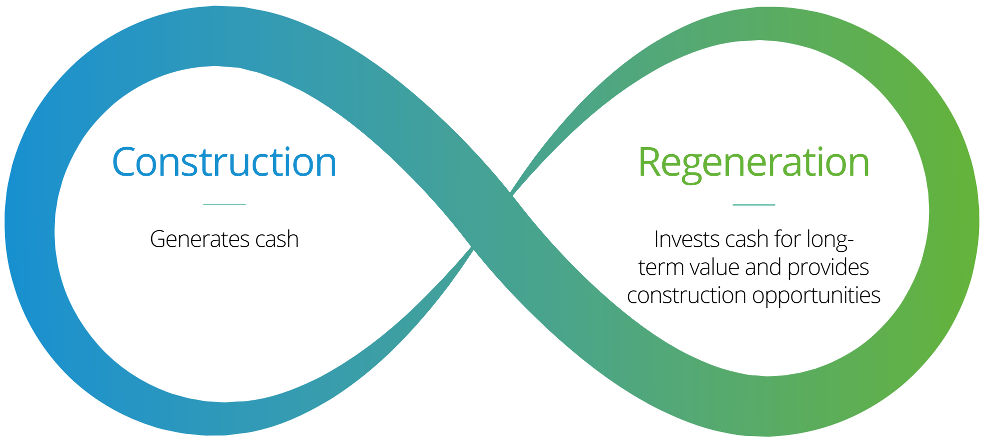
We use cash from our construction activities to invest in long-term regeneration schemes, which in turn provide opportunities for construction.

Our valued resources

- Talented people
- A positive health, safety and wellbeing culture
- Long-term client relationships
- National network of supply chain partners
- Capability and experience in delivering environmental and social value
- Technology for innovation, efficiency, safety and security
- Strong balance sheet and a significant net cash balance

For information on how we manage and sustain our resources, see pages 15 to 17 (our stakeholders); 18 to 43 (responsible business strategy and performance); 44 to 46 (financial review); 47 to 63 (operating review); and 64 to 79 (risk management).

How we operate



Value we create

Transforming the built environment:
New housing, schools and colleges, commercial and critical services infrastructure, social housing property services, and regenerated towns and cities.

High-quality projects:
88% Perfect Delivery

Helping our people succeed:
883 promoted internally

Supporting our supply chain:
66.6% invoices paid within 30 days

Social value:
67p per £1 spent on 110 projects

Environmental value:
40% carbon reduction since 2019

Shareholder returns:
101.0p total dividend per share
237.9p adjusted* earnings per share

PURPOSE, VALUES AND STRATEGY

Focused on *delivering* the best outcomes for all our stakeholders

Purpose

Harnessing the energy of our people to achieve the improbable

We are a group of complementary but very different businesses and every project is unique.

Through our highly decentralised philosophy, our people have the responsibility and authority to make the right decisions at pace.

Our purpose was previously described as 'Inspiring talent to achieve excellence in the built environment'. In 2022, we rearticulated it to convey how we aspire to keep exceeding our stakeholders' expectations, even as those expectations increase.

Values

Our Core Values define our culture and drive our purpose and strategy

The energy of our talented teams, together with our deeply held Core Values, enables us to exceed our stakeholders' expectations and achieve the improbable.

See pages 112 to 114 for how the Board monitors our culture and ensures it aligns with our purpose, values and strategy.

Strategy

Organic growth for the Group through the exceptional performance of our businesses

Achieve quality of earnings, by selecting the right projects aligned to our core strengths

Excel in project delivery for our customers and end users

Secure long-term workstreams, underpinned by our teams' strong and lasting client and partner relationships

Keep innovating to find new and better ways of:

- Protecting people
- Developing people
- Improving the environment
- Working together with our supply chain
- Enhancing communities

Maintain financial strength, especially in adverse economic conditions, with a strong balance sheet, significant levels of cash, attractive dividend policy, and by investing in regeneration activities and growth

See pages 11 to 13 for our performance against our strategic priorities and pages 67 to 77 for our principal risks.

KEY PERFORMANCE INDICATORS

Making good *progress* across our strategic priorities

Strategic priorities	Key performance indicators	Performance	Medium-term targets or drivers
Achieve quality of earnings	Construction operating margin	22: 2.8% 21: 3.2% 20: 1.2%	*2.5%–3.0%*
	Construction revenue	22: £808m 21: £693.5m 20: £670.3m	*£1bn*
	Infrastructure operating margin	22: 3.9% 21: 4.4% 20: 2.8%	*3.5%–4.0%*
	Infrastructure revenue	22: £761m 21: £826.1m 20: £966.5m	*£1bn*
	Fit Out operating profit	22: £52.2m 21: £44.2m 20: £32.1m	*£40m–£45m through the cycle*
	Property Services operating profit[1]	22: £4.3m 21: £4.1m 20: £1.0m	*£15m*
	Partnership Housing operating margin[2]	22: 5.4% 21: 5.8% 20: 3.4%	*8%*
	Partnership Housing return on average capital employed[2,3] (last 12 months)	22: 19% 21: 21% 20: 10%	*Up towards 25%*
	Urban Regeneration three-year rolling average return on capital employed[4,5]	22: 13% 21: 12%	*Up towards 20%*

Performance commentary

Our Construction and Infrastructure businesses achieved margins in line with their medium-term targets, which were revised at the beginning of 2022. Construction made progress towards its medium-term revenue target, while maintaining a focus on contract selectivity. Infrastructure's revenue was impacted by the timing and nature of projects delivered.

Fit Out delivered an excellent performance ahead of its medium-term target.

Property Services' performance improved. However, margins were impacted by inflationary pressures and the timing of annual inflation uplifts.

Partnership Housing delivered a strong operational performance but was impacted by lower open market sales during the fourth quarter in line with the rest of the housing industry.

Urban Regeneration continued to make progress towards its medium-term target.

See pages 18 to 43 for detailed commentary on each division's performance.

Priorities going forward

We will continue to operate in our target sectors and optimise the substantial potential for growth in our regeneration markets. We will also maintain our commitment to contract selectivity and operational discipline.

Fit Out's medium-term target has been upgraded to reflect its 2022 performance and future prospects (see page 54).

KEY PERFORMANCE INDICATORS continued

Strategic priorities	Key performance indicators	Performance	Medium-term targets or drivers	Performance commentary	Priorities going forward
Excel in project delivery	Projects achieving Perfect Delivery[6]	**22 88%** 21 88% 20 90%	Each division is responsible for driving Perfect Delivery on its projects. Results are regularly monitored, reported and reviewed at divisional board level.	Our Perfect Delivery performance, at 88%, was unchanged from the prior year.	The divisions will continue to drive excellence by focusing on quality of delivery and customer experience.
Secure long-term workstreams	Workload secured for the next three years	**22 £8,459m** 21 £8,614m 20 £8,290m	We monitor our secured workload for the current year and beyond as well as the pipeline of projects for which we are 'preferred bidder' (where we have been verbally awarded the project but there is no formal contract or letter of intent in place).	We have a high-quality secured workload with 35% secured for 2025 or later. Within the Construction & Infrastructure division, over 90% has been secured through frameworks and partnerships.	We will continue to focus on developing and maintaining long-term partnerships, working in sectors where we have a proven track record.
Maintain financial strength	Average daily net cash	**22 £256.3m** 21 £291.4m 20 £180.7m	Maintaining significant levels of cash gives us a real competitive advantage. Our cash levels are monitored on a daily basis.	We maintained a strong balance sheet and held significant cash balances at all times throughout the year.	The Board's single, overarching principle governing capital allocation remains a commitment to maintaining a strong balance sheet and significant net cash balances at all times.
Protecting people	Lost time incident rate[7]	**22 0.22** 21 0.29 20 0.23	*0.21*[8]	For detailed commentary on our performance in delivering against our Total Commitments, together with the actions we are taking and our priorities going forward, see pages 18 to 43.	
Developing people	Number of training days[9] per year per employee	**22 3.2 days** 21 3.5 days 20 2.3 days	*5 days*[8]		

KEY PERFORMANCE INDICATORS continued

Strategic priorities	Key performance indicators	Performance	Medium-term targets or drivers	Performance commentary
Improving the environment	Reduction in Scope 1[10] and 2[11] carbon emissions from 2019 baseline of 20,903 tonnes CO_2e	22 45% 21 35% 20 10%	*30%[8]*	For detailed commentary on our performance in delivering against our Total Commitments, together with the actions we are taking and our priorities going forward, see pages 18 to 43.
	Reduction in operational Scope 3[12] carbon emissions from 2019 baseline of 6,339 tonnes CO_2e	22 24% 21 45% 20 37%	*30%[8]*	
	Supply chain (by spend) providing their own[13] carbon data	22 £649m 21 £589m	*£500m[8]*	
	Reduction in carbon emissions from the Group's vehicle fleet[14] from 2019 baseline of 12,078 tonnes CO_2e	22 28% 21 39% 20 25%	*30%[8]*	
Working with our supply chain	Percentage of invoices (by number) paid within 30 days	22 66.6% 21 67.8% 20 64.8%	*70%[8]*	
Enhancing communities	Average monetary value of social activities delivered per £1 spent	22 67p per £1 spent on 110 projects measured 21 71p per £1 spent on 112 projects measured 20 68p per £1 spent on 83 projects measured	*85p per £1 spent[8]*	

1 Before intangible amortisation of £2.0m (2021: £1.5m).
2 Before exceptional building safety charge of £5.5m.
3 Return on average capital employed = adjusted operating profit divided by adjusted average capital employed.
4 Before exceptional building safety charge of £43.4m.
5 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by adjusted average capital employed.
6 Perfect Delivery status is granted to Construction, Infrastructure and Fit Out projects that meet all four client service criteria specified by the division.
7 Number of lost time incidents x 100,000 divided by the number of hours worked. Lost time incidents are those resulting in absence from work for a minimum of one working day, excluding the day the incident incurred.
8 Total Commitment targets are for 2025 – see pages 18 to 43 for 2030 Total Commitment targets and horizon ambitions.
9 A training day is a minimum of six hours' training.
10 Direct emissions from sources owned or controlled by the Group.
11 Indirect emissions generated from purchased energy.
12 All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Toitū 'carbonreduce' scheme (see page 92).
13 Wider Scope 3 emissions outside of operational Scope 3 (see Appendix on page 232 for further information). Data collection started in 2021.
14 Included in Scope 1 emissions.

Note: 2019 carbon emissions baseline numbers have been applied as 2020 performance was impacted by Covid. 2022 figures include BakerHicks DACH operations.

SECTION 172 STATEMENT

Making *informed* decisions

The Board and Group management team's objective is to promote the Group's success for the benefit of all stakeholders, in line with directors' duties set out in section 172 of the Companies Act 2006.

How our directors perform their duties

- **The Board sets the Group's purpose, values and strategy and ensures they are aligned with our culture.**

See pages 112 to 114

- **The Board reviews the Group's strategy and conducts strategy reviews with each division, to ensure the long-term sustainable success of the business with good outcomes for all our stakeholders.**

See page 115

- **The Board sets the Group's risk appetite, assesses the principal risks that could impact on our strategy, performance and stakeholders, and reviews the mitigations we have in place.**

See page 116

- **The Board engages directly or indirectly with our stakeholders, monitors the impact of our activities on multiple stakeholder groups, and takes their interests and priorities into account when making decisions.**

See page 117

- **The responsible business committee monitors our performance against our five Total Commitments to our stakeholders and wider society and reports to the Board on its activities.**

See pages 131 to 133

- **Directors and senior managers undertake training on directors' duties and other relevant topics.**

See pages 110, 111 and 119

Section 172 factor

OUR STAKEHOLDERS

Understanding our *stakeholders'* priorities

Our relationships with our key stakeholders are essential for the success and growth of our business. We develop long-term relationships based on listening, working in collaboration and open and transparent communications.

The quick read...

- The Board engages directly with our people, shareholders, analysts and funders; our divisions manage their relationships with their people, supply chain, clients, partners and local communities
- Our chief executive regularly visits offices and sites, and speaks with employees, clients and subcontractors
- The executive directors are kept informed of the divisions' stakeholder engagement via regular divisional board meetings, and update the Board as appropriate

Our key stakeholders are our people, supply chain, clients and partners, local communities, shareholders, and funders and performance bond issuers. Detail on the importance and priorities of these groups and how we engage with them on an ongoing basis is set out on pages 16 and 17.

Examples of our engagement activities and areas of focus in 2022 are summarised below:

Our people: All but one division conducted employee surveys during the year, with Fit Out's survey scheduled in spring 2023. Actions in response to feedback included: improvements to appraisal and development conversations; guidance on inclusion; and enhancements to internal communications. In addition, the divisions engaged with site employees to drive health and safety improvements and introduced new diversity and inclusion and mental health and wellbeing initiatives. The non-executive directors reported that employees they met during the year appeared open and willing to speak up, and were very positive about the business. Detail of our division's engagement with employees is on page 27 and of the Board's engagement on page 117.

Supply chain: We continued to collaborate with our supply chain, particularly with regard to innovation and responsible business. Key areas addressed included safety (see page 38), carbon emissions (see page 37) and waste (see pages 33 and 34).

Clients and partners: While we engage consistently with our clients and partners before, during and after their projects so that we can deliver smoothly and to the highest standards, we are also increasingly focused on helping them to cut carbon emissions on their projects and buildings and provide support for local communities. For example, Construction used its carbon reduction tool, Carbon*i*Ca, to enable Wirral Council to reduce the whole life carbon of two office buildings by 1,977 tonnes of CO_2e, while Property Services worked with Basildon and Westminster councils to cut energy consumption and costs for social housing tenants.

Local communities: We have continued to provide training, work experience, employment and apprenticeship opportunities to local residents, as well as supporting local charities and community projects through sponsorship, donations or volunteering. We work closely with schools and colleges to promote construction as a potential career, with Construction, for example, now engaged in a total of 40 school partnerships. We have focused in 2022 on providing support to people in fuel poverty and helping young or vulnerable people start a career or get back into work. More detail on our engagement activities with local communities can be found on pages 39 to 43.

Shareholders: We have consulted with our shareholders on remuneration and our new remuneration policy, and as such the chair has not sought to hold separate consultations in 2022. However, the chair and chair of the audit committee will be contacting shareholders in 2023 to see if there are any other matters they wish to discuss, including the Group's overall performance against our strategy.

Funders and performance bond issuers: We secured an extension of our main bank facility by one year.

Our strategy in action

"As a ward councillor, I have seen over 20 new developments commence within my area of responsibility and none of them remotely match the experience of having Lovell in the village ... I dreaded the houses being built due to past negative experiences with other developers in the area. Lovell as a company are vastly different, little disturbance, any problems being swiftly dealt with, community projects have been supported and overall the friendly contact with all members of staff has been appreciated."

Ward Member
Weston, Crewe

OUR STAKEHOLDERS continued

Stakeholder groups	Their key priorities	How the Group engages with them	How the Board engages with them
Our people Over 7,000 talented employees whose passion and expertise enable us to achieve the improbable for our stakeholders. A total of 37% of our people have been with the Group for six or more years.	A fair, respectful and safe environment to work in; regard for their health and wellbeing; investment in their personal development and career progression; support for flexible working; and an open and honest culture that promotes diversity and inclusion.	▪ Formal induction programmes on joining; ▪ regular personal development conversations; ▪ updates on their division's business goals and market conditions, in person and online; ▪ digital interaction including intranets, social media platforms and staff benefit portals; ▪ 'innovation portals' where employees can submit ideas for business improvement or comment on specific topics; ▪ annual conferences communicating key messages and giving all employees an opportunity to speak to senior managers; ▪ Group-wide and divisional forums where employee representatives discuss issues such as health and safety, HR or climate action; and ▪ regular employee surveys, including communicating results and follow-up actions.	▪ An email and video from the executive directors at full and half year, updating everyone on the Group's financial results; ▪ a Group-wide Savings-Related Share Option Plan ('SAYE scheme') that keeps people engaged with the Group's performance; ▪ site visits by non-executive directors as part of their annual divisional strategy reviews (see page 115), where they meet with and are presented to by a mix of employees; ▪ attendance by Board directors at divisional employee conferences and the Group's two-day management conference; ▪ informal meetings between the Board and representatives from two divisions each year; ▪ presentations by divisional managing directors at Board committee meetings; and ▪ a review of how the divisions have sought and responded to feedback from their employees to ensure that their engagement remains effective.
Supply chain A national network of selected suppliers and subcontractors, aligned to our values, who we regard as strategic, long-term partners. Our strong relationships with our supply chain are essential to achieving superior project delivery and can give us a competitive advantage.	Work opportunities, including for smaller businesses; prompt payment; a safe working environment; fair treatment and respect.	▪ Clearly written contracts setting out roles and responsibilities and agreed payment terms; ▪ site inductions and toolbox talks communicating our culture, values and standards, with discussions on topics such as safety, wellbeing and modern slavery; ▪ constructive feedback and, where needed, guidance from the divisions on performance against set criteria; ▪ a Group networking event for suppliers held every two to three years; ▪ learning and support provided through the Supply Chain Sustainability School (see page 35); and ▪ our Group director of sustainability and procurement helps manage relationships with subcontractors and suppliers who work with more than one division.	▪ The Board regularly reviews the divisions' payment practices, health and safety statistics and strategies and actions to prevent modern slavery. ▪ The executive directors are updated on supply chain relationships at the monthly divisional board meetings and keep the Board informed of any matters of interest.
Clients and partners Our clients come from public, commercial and regulated sectors and our partners include local authorities, landowners and housing associations. In addition, we consider the needs and interests of the end users of the spaces and infrastructure we create. Securing work through partnerships, frameworks and repeat business is key to our organic growth strategy.	Excellent customer service and experience; technical knowledge and expertise; delivery of high-quality projects on time and to budget; a positive, solutions-driven approach; working with a responsible and collaborative partner; innovative ways of achieving sustainability, including lower carbon output, in their projects and buildings; a partner with cash resources and a strong balance sheet.	▪ Our national coverage and decentralised approach enable us to engage locally, tailor our services and respond quickly; ▪ regular dialogue helps us understand our clients' and partners' priorities and ensures that we have the skills and capabilities for their projects; ▪ keeping clients and partners informed throughout the project; ▪ a focus on the customer experience; ▪ feedback interviews and questionnaires, with results shared with the project teams and analysed by divisional managing directors; and ▪ recording clients' satisfaction levels, using metrics such as Perfect Delivery.	▪ The executive directors are kept informed of client and partner relationships at their monthly divisional board meetings and update the Board on any matters of interest, such as key contracts or new relationships.

OUR STAKEHOLDERS continued

Stakeholder groups	Their key priorities	How the Group engages with them	How the Board engages with them
Local communities Those who live or work near our projects as well as wider society. Local residents are a potential source of recruits and local suppliers provide valuable local knowledge.	Enhancements to the local surroundings and quality of life that meet local needs and requirements; buildings and developments that are low carbon and sustainable; a considerate constructor that causes minimal disruption; and investment in the local economy through job creation and use of local suppliers and services.	▪ Liaison with local residents by dedicated teams before and during projects; ▪ planning consultations on all projects and phases; ▪ social enterprises that offer training, employability skills and work opportunities; ▪ partnering with schools to present construction as a career option; and ▪ taking part in local charities and events.	▪ The executive directors are kept informed of community initiatives at their monthly divisional board meetings and update the Board on any matters of interest.
Shareholders Our shareholders provide funds for investment in long-term growth. We value the stewardship of our institutional investors and the views of all shareholders and analysts.	Robust financial and risk management; good governance; effective communication of strategy; share price growth; sound capital investment decisions; a progressive dividend policy; a responsible business that creates social and environmental value; and a remuneration policy that promotes sustainable growth.	▪ Regulatory news, the Group website and the annual report; ▪ private meetings and correspondence between the executive directors and institutional shareholders and analysts during the year and following results announcements; ▪ presentations by the executive directors on the full- and half-year results, with a video link so that those unable to attend can take part in a live Q&A discussion; ▪ we invite all shareholders to attend our AGM and vote, and encourage them to submit questions to the directors in advance if they are unable to attend; and ▪ our chair, senior independent director and committee chairs are available to meet with shareholders at any time.	▪ Any written feedback from investors and analysts is circulated to the Board, and verbal feedback communicated at Board meetings. ▪ The Board engages with investors on remuneration. ▪ Feedback and reports from Institutional Shareholder Services, the Investment Association and Pensions & Investment Research Consultants are circulated to the Board ahead of our AGM each year.
Funders and performance bond issuers Our funders and performance bond issuers provide us with access to competitively priced banking, bonding and debt facilities. Performance bonds, often known as surety bonds, are issued by a financial institution to guarantee completion of a contract.	Robust management of working capital and risk.	▪ The Group's finance director and director of tax and treasury meet with our banks and performance bond issuers following the full- and half-year results to update them on the Group's performance and discuss any expectations they may have.	▪ Our finance director reports to the Board on any updates relating to the Group's funding requirements.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE

Playing a critical role in a more *sustainable* future

Our responsible business strategy is integral to our business and drives all aspects of our operations. It is framed around our Total Commitments, which address issues that are material to the Group and our stakeholders (see diagram right).

At the heart of our Total Commitments is the goal of creating social value: by not causing harm to people or the environment, but also by enhancing wellbeing, generating value for communities and leaving the environment in a better condition, including net biodiversity gains. We recognise that we play a critical role in developing a more sustainable future by providing energy-efficient housing and workspaces, health and education facilities, and infrastructure that contribute to the decarbonisation of the UK and adaptation to climate change. Our projects therefore generate social value long after handover.

Our Total Commitments also drive social value throughout the duration of our projects. We procure and recruit locally whenever possible, collaborate with local community organisations to maximise volunteering and charity initiatives, and upskill employees and subcontractors to create economic resilience.

In 2022, we delivered 67p of social value per £1 spent through 110 projects, as measured by our social value bank, a tool that we use to measure our social impact (see page 43).

We have a pathway in place to achieve net zero emissions by 2030 and a robust strategy to achieve our targets (see pages 32 and 80 to 91). We were the first construction company globally to submit our carbon targets for validation by the Science Based Targets initiative (SBTi) in 2018. The validation process ensures that our methodology and targets are rigorous. In 2022, we submitted revised targets for validation that align with a 1.5°C scenario. As part of this, we extended our net zero target to include the full total of our Scope 3 emissions (not just operational Scope 3) by 2045. (See page 232 for Scope 3 definitions.)

In 2022, we reduced our total carbon emissions by 687 tonnes, despite an increase in revenue and including for the first time our BakerHicks DACH emissions. We achieved an 'A' CDP score for the third year in a row, solidifying our position among our peers as a leader in tackling climate change. In addition, we were awarded 'AAA' for the second year running under MSCI's[1] environmental, social and governance (ESG) ratings.

Our Total Commitments are driven by key performance indicators (KPIs) and clear targets. We regularly review our targets to ensure they are sufficiently challenging and fit for the future.

More information on our industry recognition and our performance against a wider set of responsible business metrics is contained in our responsible business data sheet on our website.

1 MSCI provides decision support tools and services for the global investment community.

Our material issues

- Health, safety and wellbeing
- Mental wellbeing
- Modern slavery

- Diversity and inclusion
- Skills development
- Employee engagement

- Climate change
- Carbon emissions
- Waste management

- Supply chain relationships and resilience
- Prompt payment
- Supply chain management

- Delivering social value
- Community engagement

2023 materiality assessment

To ensure our strategy continues to be impactful and adds value to our stakeholders, we conduct materiality assessments every two years. These reviews identify topics relevant to our stakeholders and assess how they impact our business and industry.

During January and February 2023, we conducted a comprehensive, online survey which enabled us to determine both the relevance and significance of a wide range of environmental, social and governance-related issues. The survey asked stakeholders questions based around the Future-Fit Business Benchmark methodology, which links to the UN Sustainable Development Goals.

A total of 2,680 people completed the survey, including 2,125 employees and 555 external stakeholders.

The findings, shown on the right, reinforce the objectives of our Total Commitments and reaffirm their relevance and value to our stakeholders. Our Total Commitments align with the topics listed and our responsible business strategy continues to drive progress against them.

As part of the materiality study, these headline results will be reviewed and developed using in-depth interviews with individuals chosen to represent each stakeholder group.

More information on our 2023 materiality assessment will be disclosed in subsequent reports.

Stakeholder participation

2,680 people in total completed the survey

2,125 of those were employees

555 were external stakeholders

Initial findings from the assessment

The assessment indicated that the most material topics for both internal and external stakeholders include:

- Diversity and inclusion
- Talent recruitment and retention
- Youth training and employment opportunities
- Business ethics and transparency
- Net zero and climate commitments
- Health, safety and wellness
- Resilient and engaged supply chains
- Modern slavery

While the themes emerging from the materiality assessment remain consistent to those identified in our 2020/2021 survey, we have noted that the following have increased in significance:

- Modern slavery
- Net zero and climate commitments
- Resilient and engaged supply chains
- Biodiversity
- Social and environmental positive impacts of supply chains
- Zero avoidable waste

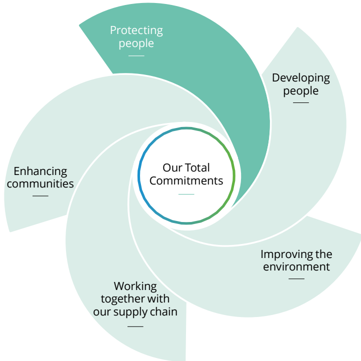
RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued

Protecting people

Providing our employees and subcontractors with a *safe and healthy* work environment, and supporting their physical and mental wellbeing.

The quick read...

- An improved safety performance, driven by focusing on key underlying trends and promoting safety awareness and behaviours
- New initiatives introduced to support people's physical and mental wellbeing, including assistance with the cost of living
- Accreditations achieved in ISO 20400:2017 Responsible Procurement and ELS BES 6002 Ethical Labour Sourcing standards



2022 performance and future targets

2022
0.22
lost time incident rate[1]

2025 target
0.21

2030 target
0.18

Horizon ambition
Zero incidents

Health and safety

In 2022, the number of our lost time incidents decreased to 104 (2021: 136[2]). The number of RIDDOR[3] accidents fell to 28 (2021: 44) and our accident frequency rate fell to 0.06 (2021: 0.09).

In response to a diminished performance in 2021, our health and safety forum focused in 2022 on three key elements to address the underlying trends contributing to incidents during operations: trips, slips and cuts; material handling and storage; and the use of hand tools. Actions taken to address these issues included enhancing the use of visual aids to show what best practice looks like, raising the profile of success stories and rewarding good practice, and increasing dialogue and engagement with supply chain members.

Our senior health, safety and environment leaders across the Group increased their number of site visits by 29% in 2022 and we have seen an improvement regarding serious injuries and high-potential incidents. However, our all-accident statistics have continued to be a challenge, and the health and safety forum is therefore continuing to focus on how we can drive down the number of accidents related to the use of hand tools and trips/slips.

The divisions took steps during the year to improve their safety performance by providing more resources or reinforcing existing practices. For example:

- **Construction** introduced: a new and more visually engaging manager's guide for buried cables; a two-stage permit mandating trial holes in order to reduce buried service strikes; and a guide for using low-level access platforms. In addition, the business used the Construction Incident Frequency Rate (CIFR) metric to drive performance. CIFR measures the frequency of incidents of high severity, helping increase focus on those incidents with the greatest potential to cause harm.
- **Infrastructure** ran a 'Reducing the risk' campaign that included a film and safety discussions facilitated by project leaders. The team also prioritised its health and safety initiative 'Positive Interventions', whereby every site worker is encouraged to point out unsafe behaviours or conditions. Over 14,000 positive interventions were raised across Infrastructure during the year, a rate of 108 based on the number of hours worked on site, compared to a rate of 87 the previous year. These efforts helped improve the division's accident frequency rate to 0.06 (2021: 0.13).

All divisions have continued to meet the ISO 45001 standard for occupational health and safety.

1 Number of lost time incidents x 100,000 divided by the number of hours worked. Lost time incidents are those resulting in absence from work for a minimum of one working day, excluding the day the incident occurred.

2 Restated from 134 in 2021 annual report.

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

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Protecting people

Promoting safe behaviours

In the event of any health and safety incident, learning is shared across all our projects and reviewed regularly by management teams. The following are additional examples of steps taken by the divisions to increase awareness and promote safe behaviours in 2022:

- **Construction** launched a new road safety initiative, using refreshment vouchers to encourage employees using their cars for work purposes to take a break when driving for more than two hours.
- **Infrastructure** conducted a deep dive into the effectiveness of its '100% Safe' programme and will make revisions in 2023 as necessary, according to the results. To promote road safety, the division introduced dashboards showing statistics of individual drivers, such as speeds or length of time spent behind the wheel without taking a break. This enables managers to hold informed conversations with drivers where there is a need to adjust their driving behaviours.
- **Fit Out:** implemented a new health, safety and wellbeing training course for all site-based staff; enhanced its H&SPLUS app to enable quicker incident reporting and recording; and reviewed and updated its 'site standards' document to include noise, vibration and welding. As a result of these measures, the number of accidents on Fit Out sites reduced by 12% in 2022.

  The division also created a new role of supply chain health and safety manager with the aim of achieving long-term change in safety behaviours among subcontractors. The division will use performance data from its ProjectPLUS management tool to identify where improvements are required and then engage with senior managers of the relevant subcontractors to get their commitment, review progress and record improvements.
- **Property Services** began a campaign to encourage the reporting of 'near misses' in order to prevent bigger hazards from occurring. The campaign includes circulating quarterly a case study of a significant near miss that has been reported by an employee. The division also introduced colour-coded 'TraffiSystem' gloves that help workers ensure they are wearing the right protection for the task at hand.
- **Partnership Housing** introduced a 'red item recurrence prevention' process, a red item being a serious health and safety breach. Should such an incident occur, a corrective action report will be registered and tracked until the action is completed. This additional level of management will help prevent repeat incidents and ensure that the action taken is effective. The division also expanded its mandated use of 'MSite' to all new projects, regardless of size. MSite is an online platform for controlling access to sites and providing site inductions. A new supervisor induction film was added to the platform, explaining the additional responsibilities and expectations of subcontractor supervisors. To enhance onsite training and make it more engaging, Partnership Housing arranged five 'mock trials' involving external counsel where site managers acted as a jury and listened to 'witnesses' (team members) review case studies of hypothetical accidents. The site managers then analysed the case, reviewed safety protocols and gave a 'verdict' on whether the site manager in the study had done everything they could to prevent the accident or whether they had been at fault for not following safety standards. The mock trials proved to be an effective way of showing how site conditions, compliance and monitoring could be improved.

Physical and mental wellbeing

We support the wellbeing of our colleagues and are mindful of how the current energy crisis and macroeconomic situation could be causing concern. The benefits we offer include a digital GP service, an employee assistance programme providing legal and counselling services, financial education, group income protection, private medical insurance and an online portal with access to retail deals and discounts.

Our divisions hold health-related awareness weeks and campaigns throughout the year on various topics. These include menopause awareness, with Construction, Infrastructure and Partnership Housing running specific initiatives to support and educate employees. Across the Group, employees are given the opportunity to take a day in addition to their annual leave to be involved in a charity event or to volunteer. The divisions also hold mental health first aid training and regularly communicate wellness advice through multiple channels. Overall, 54% of our employees are covered for private medical services and 72% for life insurance.

While these programmes are characteristic of a comprehensive wellness package, we noticed that not everyone was aware of the type or extent of support available. Therefore, a primary focus for us in 2022 was to increase awareness, accessibility and knowledge-sharing.

Outlined below are examples of new initiatives taken by the divisions during the year:

- **Construction** launched a new wellbeing centre as part of its 'People Portal', addressing fitness, financial support, mental health and nutrition. The division held a virtual presentation for Andy's Man Club, a mental health and suicide prevention charity, and delivered 91 mental health first aid training courses for members of its supply chain, with the courses run by Construction employees accredited with Mental Health England. In addition, Construction made it mandatory for all sites and offices to have sanitary products available free of charge.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Protecting people

Our strategy in action

Destigmatising mental health challenges

According to mental health charity Mates in Mind, which raises awareness of poor mental health, construction is the industry with the highest suicide rate, with over 700 people in the UK taking their own lives each year.

All our divisions make every effort to destigmatise mental health challenges, providing resources and training for mental health first aiders and enhancing communication on the subject.

Partnership Housing ran a mental health week in 2022 that focused on loneliness. A series of events and outreach opportunities included meeting with mental health first aiders, a 'chat, a cake and a cuppa' event and a presentation by Mates in Mind. Employees and subcontractors heard about Chris, a construction worker who had suffered a mental health crisis brought on by severe stress, and were informed about the help that Partnership Housing is providing.

- **Infrastructure** added financial education to its suite of annual wellbeing campaigns, which include menopause, suicide prevention and mental health awareness. The business also enhanced its 'family friendly' policies by making them gender neutral, collectively addressing maternity, paternity and adoption benefits, and adding support on pregnancy, baby loss, fertility and sabbatical leave.
- **BakerHicks** launched a series of new initiatives and offerings to its employees that included: SuperWellness, nutrition-based wellbeing education; VirginGo, a physical exercise challenge; and free access to Headspace, a mindfulness and meditation app.
- **Fit Out** ran a 'Wellness Wednesday' series to inspire employees to 'live and work well'. Throughout the series, 418 employees received free, comprehensive medical tests (cardio, lifestyle review, body composition), 41 signed up to cycle-to-work schemes, and 317 accessed the 'Houndation' wellness app a total of more than 4,244 times. Fit Out set a target of increasing its number of mental health first aiders from 62 currently to over 100, which would mean one first aider to every 10 people.
- **Partnership Housing's** London region held quarterly mental health first aid forums with HR and health and safety leads, and hosted breakfast clubs on sites with ex-military guest speakers to discuss mental health and foster conversations among colleagues.

  In 2022, Partnership Housing joined Construction and Fit Out in extending its employee assistance programme free of charge to its supply chain via the Supply Chain Assistance Programme, providing resources and support regarding mental health. The Supply Chain Assistance Programme provides free and confidential support on a wide range of wellbeing issues including tenancy and housing, medical information, child support, legal inquiries and financial wellbeing.
- **Urban Regeneration** ran a mental health awareness course for all line managers to identify symptoms and initiate conversations of support. The division enhanced its Muse:Well programme with additional money-saving and financial wellbeing advice and launched a new hybrid working policy to support work/life balance.

Responding to the cost of living

We pay the real living wage or above, and two of our divisions are accredited Living Wage Foundation employers. During 2022, the divisions provided employees with a range of support to help with the cost of living, including:

- providing one-off cost of living support payments to lower-paid employees;
- bringing forward annual pay review and bonus payments; and
- enhancing employee benefit packages.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Protecting people

Modern slavery and human rights

We are committed to protecting the human rights of our employees, subcontractors and people living in the communities where we work, and we encourage our supply chain to prevent and address any threats to human rights in their own organisations. Our Core Values and our Total Commitments to our stakeholders include protecting people, working together with our supply chain, and enhancing communities.

We have taken a proactive approach to managing the risks and minimising the likelihood of modern slavery and human trafficking happening both in our own operations and our supply chain. We are continually improving our approach in response to the changing nature of the risks associated with modern slavery. We have adopted a holistic approach that includes risk assessment, due diligence, engagement, collaboration and remediation and we are developing a clear roadmap for how to identify and address modern slavery risks in our operations and supply chain.

Our human rights policy (see page 95) states our support of the UN Guiding Principles on Business and Human Rights and the Universal Declaration of Human Rights. Our Group Code of Conduct provides a framework for how we should act when engaging with our clients, colleagues and suppliers. All employees are required to complete a modern slavery e-learning module and an e-learning module on our Code of Conduct which includes training on modern slavery and anti-bribery. We provide a whistleblowing service operated by an independent third party, Safecall. The service is available 24 hours a day to all our employees and subcontractors to raise any concerns about behaviours or decisions that do not uphold the standards set by our Code of Conduct, modern slavery policy and other policies.

We do not prevent or deter anyone who works for us from joining or taking part in a trade union. We continue to provide resources on modern slavery to our supply chain through our partnership with the Supply Chain Sustainability School.

In 2022, we managed our modern slavery risk in the following ways:

- We partnered with Unseen, an anti-slavery charity offering a range of services to help companies stay on top of forced labour risks in their businesses and supply chains. We commissioned Unseen to conduct a gap analysis across our business and support us in developing a plan for prioritised action. The gap analysis was undertaken in late 2022 and in 2023, an action plan will be developed and rolled out, spearheaded by a newly formed, cross-divisional forum that will include a member of Unseen. The forum will help facilitate implementing Unseen's recommendations.
- We achieved accreditations in ISO 20400:2017 Responsible Procurement and ELS BES 6002 Ethical Labour Sourcing standards.
- We updated our Modern Slavery and Human Rights Minimum Trading Standard for inclusion in new contracts. Our trading standard forms part of our terms and conditions of engagement with suppliers and includes contractual obligations relating to modern slavery mitigation. The new text has been reviewed by Unseen and will be implemented in 2023.
- We rolled out an updated and expanded toolkit for employees including site posters, site inductions, supervisor briefings, toolbox talks and links to learning materials. These new resources are video-based and interactive to encourage viewers to engage with the material, making it more effective. In 2022, Construction carried out 33 ethical site surveys in partnership with global data validation company Achilles, which included over 1,000 direct conversations with site operatives.

Further details on our commitment to preventing modern slavery can be found in our 2021 modern slavery statement on our website.

Our 2022 modern slavery statement will be published on our website in June 2023.

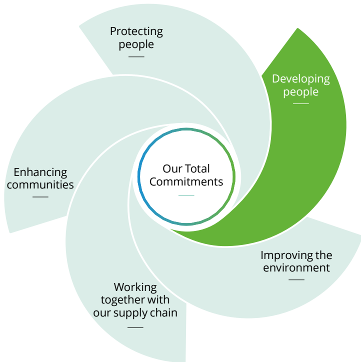
RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued

Developing people

We foster an *inclusive* work environment where everyone has access to the resources and services they need to achieve their personal ambitions, deliver the best outcomes for our clients and drive the business forward.

The quick read...

- Collaboration with external organisations and networks to attract a wider and more diverse talent pool
- New and enhanced inclusion awareness training for employees, leaders and supply chain
- Strategic approach to personal development plans and leadership training to ensure that our people achieve their potential and the business has the skills and future leaders it needs



2022 performance and future targets

2022
3.2
training days[1] per employee on average

2025 target
5 days

2030 target
6 days

Horizon ambition
7 days

1 A training day is a minimum of six hours' training.

We recruit and retain talented people and are focused on continuously improving and expanding the resources they need to perform well. These include collaborative office environments, flexible working arrangements, and training and mentoring to help our people increase their skills and knowledge. We promote internally where we can and actively engage with our employees to hear their views. Three of our businesses have achieved accreditation from Investors in People (Construction holds Platinum status and Infrastructure and Partnership Housing each hold Gold status), demonstrating a fulfilment of commitments to our employees. We monitor our retention rates and actively encourage dialogue among our divisions to ensure we are providing rewarding and satisfying workplaces for all.

Diversity and inclusion

Diversity is vital to our long-term success as it drives innovation and attracts the best employees, and each year we introduce new initiatives and enhance existing practices. We consider diversity in the broadest sense, including age, gender, ethnicity, culture, socio-economic background, disability and sexuality.

We are working to increase our diversity and to ensure that no discrimination occurs, however unintentional it may be. We give full and fair consideration to job applications made by disabled people, commit to making reasonable adjustments to their roles and responsibilities, and offer the training and support they need to give them the same opportunities for career progression as our other employees.

For example, Property Services' applicant system guarantees an interview for anyone that has a disability, is a veteran, has accessed one of our social value initiatives or is an internal candidate meeting the minimum requirements of the role.

Our divisions work with industry bodies and initiatives to attract the best people into the industry. These include the 5% Club, a national campaign to generate opportunities for graduates and apprentices. The table below shows the percentage of Group employees making up the 5% Club.

	2022	2021
Apprentices	**280**	231
New graduates recruited	**78**	61
Sponsored students	**67**	44
Total structured trainees	**425**	336
Percentage of total employees[1]	**6%**	5%

1 Based on number of UK employees at 31 December.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Developing people

We have maintained our national partnerships with Women into Construction (WiC), Working Families/Working Mums, BPIC (Black Professionals in Construction) and Build Force UK. These networks enable us to reach a wider audience and share information about the benefits of a career in construction with those who may have a different perception of what it is like to work in our industry. We collaborate with learning institutions to open our business to new ideas and skillsets. For example, in 2022, Construction, in conjunction with the Cranfield School of Management, invested in a 'Shaping our Future' programme where diverse teams research the challenges and opportunities that drive the business and industry forward.

The divisions' diversity initiatives have started to show results. Fit Out runs a Foundation Programme that provides tailored training and mentoring for graduates and apprentices and in 2022, 28% of the new cohort identified as non-White British. Our efforts are also being recognised in the industry, as the National Construction Equity and Inclusion Plan devised by the Construction Leadership Forum in Scotland has cited BakerHicks as an exemplar. Fit Out's Foundation Programme and BakerHicks' 'Belonging' initiative were highlighted in inclusion consultancy INvolve's 2022 'If Not Now, When?' report on black inclusion in business.

Examples of new and enhanced diversity initiatives in 2022 are listed below:

- **Construction** developed a strategy in 2021 to improve its approach to inclusion. In 2022, five new education and awareness modules were introduced and the strategy/training was expanded to include the supply chain for the first time. Construction also completed an 18-month project on rethinking recruitment, onboarding, development, and a retention process for the Gen Z workforce: 17% of employees are now classified as 'early career', the highest level the business has ever achieved.
- **Infrastructure** relaunched its mentoring programme with refreshed training for mentors and mentees. To date, over 100 employees have been mentored by more senior colleagues, aiding their personal and career development.
- **BakerHicks** is rolling out new inclusivity awareness training, with 74% of employees completing the LGBTQ+ sessions, and sessions on unconscious bias and disability scheduled for 2023. The division introduced a new podcast series, 'Wavelength', which explores the journeys of colleagues with diversities such as dyslexia, diabetes, social anxiety, hearing impairment and autism, with depression and obsessive compulsive disorder to follow. The impact of these stories from volunteers has been both educational and emotive, fostering kindness and understanding at new levels.
- **Property Services'** HR team designed and delivered 'inclusive leadership' training to all line managers and 'creating an inclusive workplace' training to help engineers who spend much of their time out repairing and maintaining properties feel included. Property Services has also signed a 'social mobility pledge' to consider how employment can provide social mobility and commit to recruiting people with diverse backgrounds.
- **Partnership Housing** completed a pilot engagement with WiC in Norfolk. The pilot was successful, with a job offer being made to a participant and as a result, the division is exploring support of a WiC HUB in the region.
- **Urban Regeneration** set up an equality, diversity and inclusion committee which developed a strategy focusing on five elements: training/education, promotion, policies, reporting, and recruitment/career progression. The division also partnered with the University of Reading's Henley Business School and the Reading Real Estate Foundation on its career initiative 'Pathways to Property', which through a wide range of activities brings together students, teachers and the property industry to support the next generation of property professionals. Urban Regeneration employees presented to students at the university and the division provided a work experience placement for a student in October.

As at the year end, 25% of the Group's employees were women (2021: 25%) and 9% from an ethnic minority background. In 2021, we reported that 15% of our employees were from an ethnic minority background; however, having revalidated our data collection process in 2022, we restate this figure as 9%. The table below shows the Group-wide diversity in numbers.

	2022	2021
Women	**1,755**	1,605
Men	**5,303**	4,904
Minority ethnic background	**610**	563
Non-minority ethnic background	**6,448**	5,946

Information on our Board and senior leadership diversity can be found on page 120.

Our strategy in action

Committing to workplace equality

Infrastructure has signed Business in the Community's 'Race at Work Charter'. Signing the charter means taking action to support ethnic minority career progression, support race inclusion allies in the workplace, capture ethnicity data and publish progress, and promote diverse-led enterprise owners in the supply chain.

Infrastructure has appointed its managing director, Simon Smith, as executive sponsor for race, and is working to encourage more employees to declare their ethnicity status. The data will be used to understand where improvements can be made, for example in recruitment, retention or promotion. Currently, 84% of people in Infrastructure are declaring their ethnicity. The division is aiming for a percentage in the mid-90s to enable meaningful strategic analysis.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Developing people

Gender pay gap

Our 2022 median gender pay gap is 30.6% (2021: 29.6%). The gap remains high and reflects a higher number of senior male employees in the Group. We have analysed the slight increase on last year and concluded that this is a result of normal business practices (i.e. employees leaving and joining). Women continue to make up 11% of the upper pay quartile (2021: 11%) compared to 39% (2021: 39%) in the lower quartile. We recognise that we need to make further progress in helping more of our female employees progress into senior positions. We continue to develop and progress initiatives across the Group to attract more women into the industry at junior levels, and to develop and retain women who already work with us.

Skills development

In line with our purpose, we are committed to providing our people with the resources they need to achieve their maximum potential and progress their careers through the business.

- **Construction** has developed a senior business leader programme with the Cranfield School of Management, with 184 people engaged to date. Its objective is to support succession planning by helping talented managers successfully transition into senior leadership roles. The division's management and leadership behavioural framework has been fully integrated into all employees' performance reviews and so far over 300 people have received 360-degree feedback.
- **Infrastructure** invested in a new competency management system to support workforce planning, increase visibility of transferable skills across the division, and develop a more agile workforce. The system will be fully rolled out by 2024.
- **Fit Out** has more than 270 employees being supported in their professional development, including QUEST scholarships with the Institution of Civil Engineers and qualifications with the Institution of Mechanical Engineers, Royal Institution of Chartered Surveyors, Institute of Environmental Management and Assessment and the Chartered Institute of Procurement and Supply. Fit Out also signed five managers onto an Institute of Leadership & Management (ILM) Level 5 distance learning programme, and hopes to extend the programme in 2023.
- **Property Services** launched a new appraisal toolkit to standardise its approach across all job levels. The toolkit includes a new learning and development portfolio to support career conversations between employees and managers and make it easier for employees to access the wide range of promotion opportunities available to them. The division also enhanced its HR system to analyse competency gaps in the business and, based on the analysis, is developing a framework of career paths for launch during 2023. The framework defines the minimum training and qualifications needed for all operational roles so that individual employees' development plans can be effectively targeted to ensure that the business has all the skills it needs.
- **Partnership Housing** continues to provide face-to-face learning and support through its training coordinators and 'Lovell Academy'. Twenty assistant site managers joined the division's site manager development programme in September 2022, an intensive course providing them with the skills and knowledge the division will need as the business expands.
- **Urban Regeneration** also has a skills and competency framework for each role that links to a career pathway and training matrix. During the year, the division began a review of its job descriptions to clarify the difference between roles and support transparent career progression.

These examples show how our divisions approach long-term talent development and develop transferable and versatile skillsets necessary for a fast-paced business.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Developing people

Employee engagement

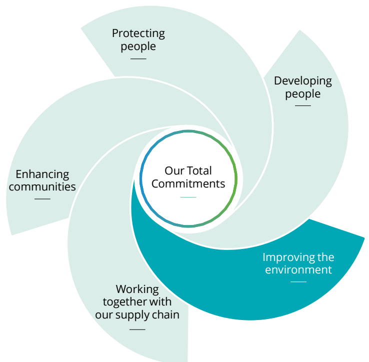
Throughout the year, the divisions undertake a variety of employee engagement activities which include surveys, forums, and career and wellbeing initiatives (see pages 16, 21 and 22 for more detail). In 2022, all but one division completed employee surveys; Fit Out decided to delay its survey until spring 2023 to allow more time for new initiatives that were implemented following its 2021 survey to take effect. A summary of the divisions' survey findings and their resulting actions is set out below.

- **Construction** achieved a 92% response rate and the results demonstrated continued improvement in all categories. In response to feedback received, Construction introduced a new appraisal system, 'Appraisd', in 2022 to promote better-quality conversations between employees and their managers, framing the conversations around two questions: 'measuring performance' and 'measuring potential'.
- **Infrastructure**, in addition to its engagement survey, conducted a wellbeing survey and an assessment of its people strategy, practices and outcomes in support of its Investors in People accreditation. In response to feedback received, Infrastructure has increased its focus on leadership development, launching a 'frontline development' programme for managers who engage with site-based employees, and a 'people manager' programme.
- **BakerHicks** uses The Happiness Index (THI) for its surveys and in 2022 achieved an 89% response rate (the average THI response rate is 70%). BakerHicks scored 8.2% (THI considers 7.2% to be 'good'), indicating a strong level of engagement. Scores were highest in commitment to helping the organisation succeed, getting along well with people at work, and enjoying work with teammates. However, people scored questions around personal growth and enablement more moderately. In response, BakerHicks is implementing a new learning management system that delineates career paths and provides self-service online training; and has developed a 'Behaviour Charter', with line manager guidance, on ADHD, autism, menopause, pregnancy and infancy loss, and transitioning at work.
- **Property Services'** survey achieved a response rate of almost 70%, much improved from 42% in 2019. The division scored highly on questions around role expectations, impact on local communities, health and safety, acceptance, and inclusivity but more moderately on remuneration, career development, line manager communication on performance, and wellbeing. As a result, Property Services is reviewing the inclusivity of its benefits, improving the cascade of communications through regular bulletins and structured toolbox talks, and supporting wellbeing by launching performance and wellness conversations, menopause support and providing all line managers with mental health awareness training. The division's 'Your Voice' people forum meets three times a year to maintain the flow of feedback from employees to management.
- **Partnership Housing** completed its Investors in People assessment and found that its employees are confident to express themselves via representative groups and in work-related discussions. The assessment did, however, identify that the division could develop its communications further. As a result, 'The Lovell Way' was launched, a philosophy that focuses on treating people – employees and customers – in a respectful, caring and empathetic way, particularly when times are challenging. From 2023, Partnership Housing is introducing quarterly 'pulse' surveys to assess how people are feeling about the business. Pulse surveys contain fewer but more targeted questions for a faster response.
- **Urban Regeneration's** employee engagement survey had a 94% response rate. The division scored highly on questions related to fairness, trust, equality and respect. The senior leadership team reviewed the results through a series of regional roadshows which in turn generated more feedback. As a result, the division is focusing on improving recognition and innovation. Urban Regeneration was certified in 2022 by the 'Great Place to Work' organisation; the certification process has given the division access to a unique methodology enabling it to better understand what makes a company a great place to work.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued

Improving the environment

We are acting to *combat climate change* by working towards net zero carbon emissions by 2030 and reducing the level of carbon in the projects and buildings we deliver.



The quick read...

- Further reduction of carbon emissions in our operations while assisting clients in reducing emissions from their projects and buildings
- New targets aligned to a 1.5°C scenario submitted for revalidation by the SBTi
- New investment in two high-quality carbon offset projects in the UK that will reduce emissions and promote biodiversity
- Reduction of total waste by 57%

2022 performance and future targets

2022
45%
reduction in Scope 1 and 2 carbon emissions from 2019 baseline[1]

2025 target
30%

2030 target
60%

Horizon ambition
Zero emissions

2022
24%
reduction in operational Scope 3 carbon emissions from 2019 baseline[2]

2025 target
30%

2030 target
60%

Horizon ambition
Zero emissions

2022
£649m
supply chain by spend providing their own carbon data[3]

2025 target
£500m

2030 target
£1bn

Horizon ambition
100%
of supply chain by spend

2022
28%
reduction in carbon emissions from the Group's vehicle fleet from 2019 baseline[4]

2025 target
30%

2030 target
60%

Horizon ambition
100%
of vehicle fleet fully electric

1 Scope 1 is direct emissions from sources owned or controlled by the Group and Scope 2 is indirect emissions generated from purchased energy. The 2019 baseline was 20,903 tonnes CO_2e.

2 All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Toitū 'carbonreduce' scheme (see page 92). The 2019 baseline was 6,339 tonnes CO_2e.

3 Wider Scope 3 emissions outside of operational Scope 3. See the Appendix on page 232 for further information.

4 The 2019 baseline was 12,078 tonnes CO_2e. Vehicle fleet emissions are included in Scope 1 emissions.

Note: A 2019 baseline has been applied as 2020 performance was impacted by Covid. 2022 figures include BakerHicks DACH operations.

See page 80 for Task Force on Climate-related Financial Disclosures and page 92 for Streamlined Energy and Carbon Reporting disclosures.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Improving the environment

We recognise that we have a critical role to play in both mitigating our own environmental impact and helping our clients and supply chain to better adapt and respond to the changing climate. We are continuing to reduce our carbon emissions, improve air quality, shift towards a circular economy to minimise waste and improve waste management, and increase biodiversity. We recognise the interlinkages between these objectives and therefore take a holistic approach to our environmental management.

Our divisions work in partnership with others in the industry and environmental standard setters to stay ahead of regulatory requirements and instil best practices. For example, Fit Out is working with BRE (the Building Research Establishment) to promote Environmental Product Declarations and has joined an industry consortium to develop Net Zero Carbon Building Standards for the office and higher education sectors. Other members of the consortium are BRE, the Carbon Trust, the Institution of Structural Engineers, the Royal Institute of British Architects (RIBA), the Royal Institution of Chartered Surveyors, the Chartered Institution of Building Services Engineers and the Better Buildings Partnership. The Standards will be for use by developers, contractors, asset owners and managers, occupiers, investors, building industry professionals, and suppliers and manufacturers: anyone who wants to fund, procure or design a net zero carbon building or demonstrate that their building is 'net zero' by its being aligned with an industry-agreed standard.

We make homes more energy efficient, providing our clients with solutions for decarbonising existing properties as well as new designs. According to the UK Green Building Council (UKGBC), the built environment contributes around 25% of the UK's total carbon footprint and 80% of the buildings we will be using in 2050 have already now been built. Therefore, decarbonising existing homes will contribute significantly to reducing the UK's overall emissions.

When regenerating towns and city centres, we develop mainly brownfield areas that are well connected to public transport infrastructure, helping reduce reliance on driving, and we are incorporating more greenscaping into our projects to provide flood protection and enhance air quality.

Our divisions have decarbonisation plans in place to achieve net zero by 2030 as part of their wider sustainability strategies. For example, Urban Regeneration has launched a new sustainable development strategy centred on net zero carbon, health and wellbeing, enhancing biodiversity and promoting a circular economy. The divisions are also increasingly prioritising biodiversity in their operations and achieving biodiversity net gain (BNG) in many projects. In 2022, we invested in converting farmland in the Lakenheath Fen area into protected wetlands (see page 31) and in the restoration of peatlands in the Great North Bog (see page 93).

Climate change and carbon emissions

We have continued to maximise opportunities to decarbonise critical infrastructure, help our clients meet their net zero targets and enable people to live more sustainably. We consider climate resilience when procuring, designing and decommissioning and will be able to achieve more as demand from our clients rises. Some key examples of how our divisions have helped decarbonise society in 2022 include:

- **Construction**, through innovative design and collaboration with its supply chain, was able to measurably reduce the carbon footprint of nearly 50 projects in 2022, including Hertfordshire's first net zero school. For more information, see the case study on page 37.
- **Infrastructure's** Dinorwig-Pentir 400kV cable replacement scheme is providing critical infrastructure for National Grid's connection to the 1,800MW Dinorwig hydroelectric power station, a source of clean energy for UK residents.
- **BakerHicks** provided the Scottish rail network with geotechnical services and assessment reports for 150 miles of track and 175 bridges. These projects are part of Network Rail's rolling programme of decarbonisation to remove diesel passenger trains by 2035.
- **Fit Out** achieved BREEAM, LEED or SKA sustainability ratings on 100 projects in 2022, a record number.
- **Property Services** retrofitted a 'show home' for Westminster City Council to encourage local residents to make their homes more energy efficient (see page 57).
- At **Partnership Housing's** site in Pendleton, Salford, new technology was installed in homes to reduce energy consumption. Examples included a wastewater heat recovery heating system that recycles heat energy from bath and shower waste water; flue gas heat recovery which reduces gas consumption when producing hot water; solar panels with battery backup; and mechanical ventilation with heat recovery. The combination of these systems has allowed for an energy performance around 50% above building regulations, reducing emissions and helping to reduce fuel poverty.
- **Urban Regeneration** continued constructing Eden, a 115,000 sq ft office designed to meet the UKGBC's 'net zero in operation' status, based on its 2035–2050 Design for Performance standard. Eden, designed to Passivhaus principles, has been selected as a LETI (Low Energy Transformation Initiative) 'Pioneer Project' due to its exceptionally high sustainability performance. A Passivhaus building requires very little energy to achieve a comfortable temperature year-round, typically offering space-related heating and cooling energy savings of up to 75% compared to the average new build. Also in Salford, Urban Regeneration is on site with the Greenhaus development, which will deliver 74 fully affordable Passivhaus-certified homes.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Improving the environment

Providing industry-leading climate solutions and expertise

We promote innovative solutions to climate change that are grounded in data and inform operational strategy on our projects.

- **Carbon*i*Ca:** Our carbon reduction tool assesses the potential emissions of a project and building early in the design stage, including carbon embodied in the materials and projected emissions throughout the building's life cycle. The tool highlights elements that will result in higher emissions and suggests lower-carbon alternatives for the client, designer and supply chain to consider. Launched in 2020, we have continued to roll out the tool to all divisions, with 50% of our construction projects now set up to use it. We have also developed a web-based app that will extend the tool's use and accessibility. As an example of Carbon*i*Ca's effectiveness, Construction used it on a project for the Wirral Growth Company, a joint venture between Wirral Council and Urban Regeneration, to reduce the whole life carbon of two office buildings by 1,977 tonnes of CO_2e. The reductions were achieved by using lower-carbon alternatives to concrete mix and steel, and reducing the volume of the structural framing system.
- **goldeni:** Property Services' software uses sensors placed in social housing to provide landlords and residents with real-time data that helps ensure their properties are healthy, compliant and energy efficient. Sensors can pick up water leaks, for example, or a boiler in need of servicing, and by tracking homes using central heating too often or too little can identify properties in fuel poverty or that need additional insulation. In 2022, Property Services entered an agreement with Basildon Borough Council to install goldeni sensors in the council's 10,000+ homes. Construction is currently trialling goldeni on one of its projects to provide real-time environmental data on carbon and air quality. For more information on goldeni, see page 56.
- **Carbon Zero:** Property Services launched a new software platform in 2022 to help social housing landlords improve their properties' carbon performance and ensure they achieve an Energy Performance Certificate rating of C by 2035, as required by the government's Clean Growth Strategy. The tool collects and analyses data from sources such as asset management systems and surveys, and provides a net zero route map for each property, including the components and labour needed for improvements, costs and a timeline for completion. Landlords can adjust the route map, for example to match available funds or supply chain capacity and to prioritise tenants in fuel poverty.
- **Passivhaus:** Urban Regeneration is working to define new Passivhaus levels of performance to be applied to all new homes in its developments.

Educating management and leadership

We continue to invest in training our people to become experts in climate construction solutions. Three members of Fit Out and two Construction employees completed in-depth CISL (Cambridge Institute for Sustainability Leadership) courses in the year. In addition:

- **Construction** launched its 'Carbon Literacy Project' which aims to promote change in how the Group, and the industry as a whole, designs, procures and builds to reduce carbon emissions. The project entailed training 30 employees to present to clients, the supply chain and local schools and communities on how they can reduce emissions. Construction also ran a half-day training course on carbon for all its client-facing employees and continued to develop its internal network of 'carbon champions'.
- **BakerHicks** now has 11 in-house certified Passivhaus designers and is looking to train a number of employees as EnerPHit assessors. EnerPHit is the Passivhaus certificate for retrofitting existing buildings.
- **Fit Out** ran training sessions for employees and supply chain members on sustainability and decarbonisation, including a forum on carbon embodied in furniture, plus multiple carbon literacy sessions for its design teams.

Each year, all Group employees are encouraged to make, or renew, carbon pledges. In 2022, the pledge was accompanied by an interactive learning video about the Group's progress in emissions reduction, the impacts of climate change on our clients, and the climate-related risks and opportunities faced by the business.

Reducing our own carbon footprint

Reducing the Group's carbon footprint is critical and demonstrates that we are playing our role in decarbonising, meeting stakeholder expectations and being a responsible business. We have already calculated the amounts by which we will need to reduce our Scope 1, Scope 2 and operational Scope 3 carbon emissions from specified activities each year to achieve net zero by 2030, considering the growth of the business over the period (see chart on page 32).

Our emissions arise predominantly from bulk fuel used on sites, our vehicle fleet, and electricity use, and so our roadmap entails reducing travel emissions, switching to alternative fuel and renewable energy, achieving site efficiencies, and adopting and supporting new technologies. Our management practices are being recognised: Construction received 'Champion' status against the industry Carbon Reduction Code, the highest level of compliance available.

> "Sustainability was probably the biggest key driver for this project. You have expertly managed the environmental elements, particularly the carbon report. You aren't afraid to challenge us if we can achieve more. We liked that."
>
> **Fit Out client**

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Improving the environment

Our strategy in action

Restoring land for wildlife, the climate and people

The Group has formed a partnership with the Royal Society for the Protection of Birds (RSPB) to help them restore existing farmland into a haven for wildlife. Our investment will enable the RSPB to buy ploughed fields the size of 81 football pitches and convert them into a peat-rich, biodiverse wetland. This land is next to RSPB's existing site at Lakenheath Fen on the Norfolk/Suffolk border and means they can extend the habitat they've already created for a range of birds. Wetlands are a critical habitat for bitterns, which not too long ago were on the verge of extinction in the UK, but the population at Lakenheath is now growing.

Another benefit of the rewetting is protecting the peat in the soil and helping reduce carbon emissions: peat reserves in wetland cannot oxidate, keeping their stored carbon from entering into the atmosphere.

The project demonstrates how high-quality offsetting projects create meaningful partnerships with conservation champions, help address biodiversity and climate change, and provide wellbeing opportunities for locals.

Photo credit: Jeff Kew

Choosing renewable and alternative energy

We continue to reduce the use of diesel generators, use solar-powered site cabins, switch from gas oil to hydrotreated vegetable oil (HVO) and replace petrol and diesel-fuelled vehicles with hybrid and electric. Currently, 65% of our electricity is purchased from renewable sources. Our divisions are using HVO for as many site vehicles as possible (60% of our bulk fuel now consists of HVO) and encouraging their supply chains to use it instead of diesel in their vehicles. HVO is made largely of vegetable oil and waste animal fat and reduces emissions by up to 90%.

Adopting new technology and initiatives

- **Infrastructure's** 'Great Green Challenge' was an innovation event launched in 2021 where teams of employees were given a carbon challenge and presented ideas on carbon reduction to a panel of judges. Selected ideas were given a green light for investment. One such idea was the trialling of 'Rouute™ Technologies', an off-grid energy harvesting system that generates electricity from passing vehicles, cyclists and pedestrians for use on remote sites. The trial took place in 2022 on a National Grid visual improvement project, and a decision on its feasibility will be made in 2023. A follow-up Green Challenge event in October 2022 explored fuel alternatives to reduce reliance on diesel and resulted in, for example, the purchase of lithium lighting towers to light up sites at night or in winter. The lithium towers offer fuel savings of almost 50% and there are plans to replace all existing stock of lighting towers with lithium.
- **Partnership Housing** trialled a solar-driven generator during the winter months to see how it performed with the least amount of sunlight. The solar technology is quieter and often cheaper than a standard generator. Over the course of 101 days, the 'Solartainer' reduced generator runtime by 67%, resulting in a saving of over 6,000 litres of fuel, £8,000 of fuel costs and 1.7 tonnes CO_2e. The division is now testing a hybrid battery generator and, having successfully trialled an electric telehandler, has decided to acquire more as they become available.
- **Urban Regeneration** is working with Built by Nature, a network of stakeholders dedicated to exploring the challenges and opportunities of reducing carbon in commercial buildings by accelerating the use of sustainable timber.

Investing in high-quality, UK-based carbon offset projects

While our decarbonisation plan is robust and meets the stringent criteria of the SBTi, we recognise the role of carbon offsets in tackling residual emissions. We will only invest in high-quality offsets that are located in the UK and will have additional benefits of enhancing biodiversity and contributing to healthier living for local communities.

- **Lakenheath**: We have partnered with the RSPB to help them restore existing farmland into wetlands (see case study left).
- **Great North Bog**: In addition to Lakenheath, we have invested in the Great North Bog, a peatland restoration initiative in northern England. The project covers 7,000 sq km of upland peat with the capability of storing up to 400m tonnes CO_2e. Eleven sites have been identified and the process of rewetting begun. Read more about the project on page 93.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Improving the environment

Our net zero plan is based on the following principles:

Report

Ensuring all our relevant carbon data is measured, reported and independently verified; including Scope 1, Scope 2 and operational Scope 3 in our net zero boundary; and using our carbon charge to measure the cost of carbon we produce. Our carbon charge encourages our divisions to reduce their own emissions and generates a fund that we use to invest in carbon offset projects. We are committed to developing future reporting to address the guidance outlined by the Transition Plan Taskforce (TPT) issued by HM Treasury in April 2022.

Remove

Assessing various carbon reduction initiatives to remove carbon from our activities where possible.

- Our divisions pursue opportunities to innovate and adopt new technologies that reduce our dependency on carbon-based assets and services. See more on page 30.

Reduce

Encouraging stakeholders to reduce their own and the Group's emissions, through initiatives such as supplier engagement (supply chain portal) and employee engagement (carbon pledge and e-learning).

- We invest in training our employees to develop the necessary expertise and resources to be leaders in climate construction solutions. See more detail on page 30.
- See page 37 for information on how we enable our suppliers to be carbon conscious.

Replace

Considering low-carbon alternatives, such as electric vehicles, and designing low- and zero-carbon buildings to replace carbon-intensive activities.

- We procure most of our electricity through renewable sources. More information on how we opted for renewable and alternative energy sources in 2022 can be found on page 31.
- Our divisions provide industry-leading solutions and expertise to give our clients the information they need on low-carbon alternatives. More information can be found on pages 29 and 30.

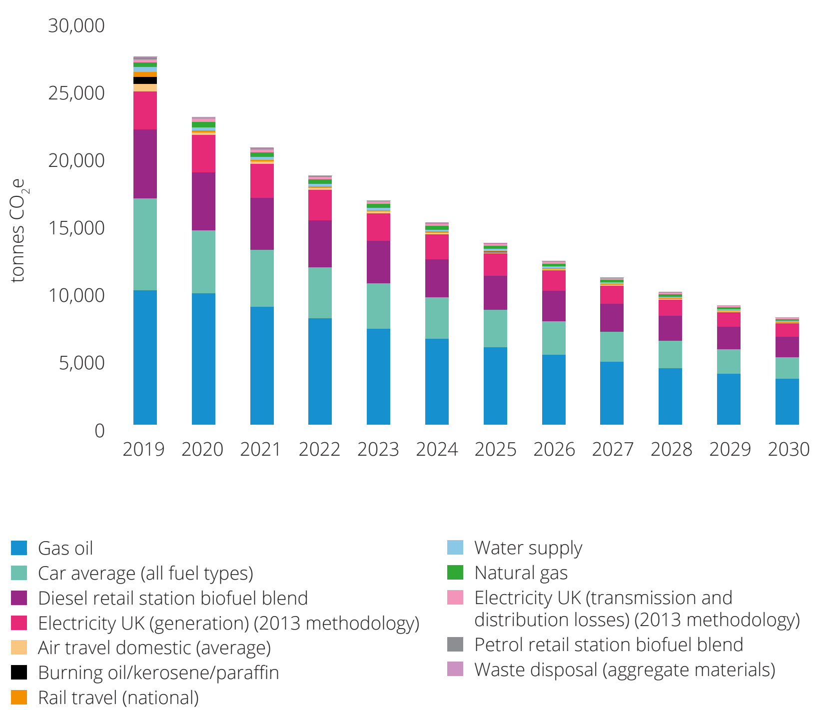
Offset

We will only offset any residual emissions once removal, reduction and replacement have been applied.

- We are committed to high-quality projects located within the UK. For more information on our Lakenheath Fen, Blenheim, Carbon Delta and Great North Bog projects (see pages 31, 33 and 93).

More information on our net zero plan can be found in our Task Force for Climate-related Financial Disclosures section on pages 80 to 91.

Net zero pathway by source of emissions



RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Improving the environment

- **Blenheim:** We have now planted seven of the nine woodlands we are creating at the Blenheim Estate in Oxfordshire. This consists of 200,000 trees. We have also designed a 'Centre for Nature' for local children, wildflower meadows and new footpaths that link with existing pathways to create over 15km of circular walking space.
- **Carbon Delta:** Property Services has set up a scheme where carbon savings from energy-saving retrofits it carries out for local authorities on social housing can be converted into carbon credits. The local authorities can then either use these credits to offset unavoidable embodied carbon in future construction and regeneration projects, or sell the credits to raise funding for further decarbonisation schemes. The conversion of carbon savings into credits is done using the globally recognised Verified Carbon Standard programme developed by VERRA.

Promoting biodiversity and air quality benefits

Our decarbonising projects create additional benefits for local biodiversity. BNG is an approach to development that leaves biodiversity in a better state than before, or 'nature positive'. It typically involves creating new habitats or enhancing existing ones and begins with a survey of the existing plot to establish a baseline. While it is anticipated that from summer 2023, a minimum of 10% BNG will be legally required for all development projects in England, our divisions have already been proactively integrating biodiversity into their projects. For example, Construction considers on every project how biodiversity can be enhanced, commits to a target, and tracks the number of its projects recording a BNG.

A large part of our work is regenerating city centres and developing areas of landscaped public realm such as parks, canal sides and cycle paths which help increase biodiversity, as well as air quality and the wellbeing of residents and workers. Urban Regeneration has set goals for enhancing biodiversity on its developments as part of its new sustainable development strategy. The Eden building in Salford (see page 29) will be wrapped in one of Europe's largest living walls. A surface area of 4,000 sq m will encompass 350,000 plants belonging to 32 different species. Eden's rooftop will provide a home for birds and bees and is expected to increase biodiversity in the area by 174%.

Our reforestation of the Blenheim Estate has measurably improved soil and water quality in the Dorn and Glyme catchment areas and generated new wildlife. The woods have 28 varieties of trees and some of the saplings planted in 2022 came from the acorns of 500- to 1,000-year-old trees gathered from the Estate's ancient High Park. A total of around 5,000 of these English oaks, which support more wildlife than any other native species in the UK, will eventually be planted across the nine woodlands. Also being planted are conifer trees which provide winter habitats for wildlife. The underlying layer of vegetation in the woodlands has begun to attract pollinating bees and other wildlife that support the ecosystem.

The Blenheim project aims to set new standards for auditing and transparency in biodiversity assessments, monitoring changes to the air, water and soil, and tracking carbon levels using state-of-the-art technology that quantifies environmental changes. We completed our first air quality assessment in 2022 and passed our first carbon audit conducted by Grown in Britain.

Other biodiversity-related activities in 2022 included:

- **Construction** employees volunteered in creating a wildlife garden and pond for pupils of Wintringham Primary School (see page 43).
- **Fit Out** employees spent a day planting a variety of specialist bog plants to support the Lancashire Wildlife Trust's restoration efforts.
- **Partnership Housing** has mandated that ecology assurance checklists be completed on all projects from 2023 onwards. The division is working to prevent pollution of watercourses which can happen when the ground is broken and loose soil is carried off by rainwater, or when spillages occur during refuelling on site. New training in sediment escape and spillages has been introduced for the project teams.

In 2022, we achieved a 'B' score from CDP for our disclosure on managing forest-related risks and opportunities, with the average score for our sector being 'C'.

We are reviewing and monitoring the development of the new Taskforce on Nature-related Financial Disclosures framework and are taking early steps in anticipation of the final version to be issued in September 2023. This includes carrying out an impact and dependence assessment to locate our interface with nature and evaluate our nature-related dependencies.

Waste management and a circular economy

In 2022, we reduced our total waste by 57% to 373,071 tonnes (2021: 859,081 tonnes), of which 96% was diverted from landfill. Our waste intensity (total tonnes of waste produced per £m of revenue) decreased by 61% to 103.3 tonnes (2021: 267.4 tonnes). Our construction waste increased by 124% to 91,195 tonnes (2021: 40,662 tonnes) due to the nature of works undertaken; 96% was diverted from landfill.

Our sustainable procurement policy requires our employees to adopt best practice (reduce, reuse and recycle) in their buying decisions. In 2022, we continued our strategy of participating in a greater number of manufacturers' take-back schemes and improving our ordering and material selection with waste reduction as an objective. Our approach is to collaborate with our supply chain and other stakeholders who will responsibly reuse waste generated from our operations. Our site waste management plans are supported by our waste service providers, resulting in the sharing of best practice and lessons learned and increased opportunities to reduce waste at source or recycle.

Examples of our waste management activities include:

- In 2022, as a Group we increased our wood recycling by 64% compared to 2021. We recycled over 3,500 cubic metres of wood, 27% of which was high grade to maximise its reuse.
- **Construction** is developing a waste toolkit showcasing examples of waste reduction and circular economy initiatives that are available via its supply chain. The business avoided waste in 2022 by: recovering cable drums for reuse; using plastic-free cleaning products and an alternative to single-use plastic overshoes; donating surplus floor tiles for reuse; reusing a trailer as part of a site set-up, which had been destined for disposal by a local authority; and participating in a supplier's vinyl flooring take-back scheme.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Improving the environment

Construction has also partnered with the Alliance for Sustainable Building Products on a project called ZAP (zero avoidable packaging) to reduce the use of plastic packaging in the industry, construction being the second-largest plastic consumer.

- **Infrastructure** piloted a new waste desk for the Group in 2022 to help reduce and manage waste more effectively by consolidating the number of its waste service providers, providing access to waste liaison officers, and improving waste reporting systems. The desk advises on requirements for the identification, storage, transport, treatment, deposit and disposal of all waste. In addition, Infrastructure is working with its PPE provider to arrange for materials to be recycled into new clothing or, if the PPE is too degraded, for it to be reused in other products, such as sound boarding or insulation. Infrastructure's Great Green Challenge (see page 31) aims to eliminate single-use plastics by removing virgin plastic materials and single-use plastic bottles.
- **Fit Out** is working with waste contractors to collect used plastic boarding and sheeting for recycling, for example by using it to make ProplexRE, a new type of floor and surface protection sheet. The division has also engaged with Community Wood Recycling, a network of social enterprises, to donate wood waste to its reclaimed timber stores. As part of Fit Out's project for the European Bank for Reconstruction and Development (EBRD) (see page 53), the division created a specialised 'deconstruction guide', so that when the space is next renovated, future contractors and project managers will know exactly how to dismantle the components and where they can be sent for recycling or repurposing. The guide covers a wide range of materials (flooring, joinery, blinds and doors) and provides: a 'materials passport' to identify each material or item; details on manufacturer take-back schemes; information about any hazardous substances; advice on how components should be broken down; detail of recycled content; and cleaning protocols or maintenance requirements to maximise the lifespan of the products and avoid the need for replacement.
- **Partnership Housing** has become the first housebuilder to recycle asbestos waste. The division has collaborated with Thermal Recycling, a company that specialises in diverting asbestos from landfill, to package and convert asbestos waste into a safe and reusable cement substitute. Over 25 tonnes of asbestos have so far been converted, having been removed from three demolished buildings at the division's Castleward development in Derby. Partnership Housing is also moving from plastic signage to a new compostable, cardboard-based product.

In 2021, the Group signed up to The Pallet Loop, a circular economy pallet reuse scheme for the construction sector. In 2022, the scheme was rolled out across the divisions. Partnership Housing, for example, collected over 4,000 pallets, resulting in savings of 539kg CO_2e and approximately £11,000.

Our strategy in action

A digital pathway to zero construction waste

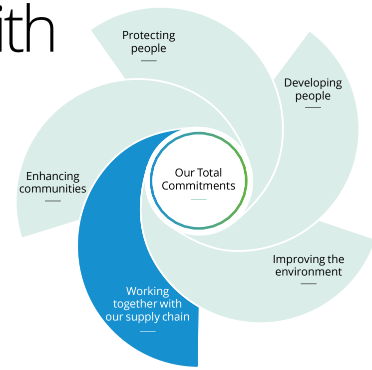
Construction and demolition waste accounts for more than a third of all waste generated in the EU and despite the number of initiatives to tackle waste, landfilling is still prevalent. Construction has joined BIMBox, University of Salford, University of Manchester and Arcas & Callisto Consulting on a four-year watershed study, known as RECONMATIC, to find automated ways to share information on materials from the start of a project so that waste can be managed more sustainably.

Construction will contribute its carbon and waste predictor tools and its experience in digital design, building information modelling and offsite construction. The business has also gathered a vast amount of data on materials such as concrete, steel and plasterboard and will work with the University of Salford to map out optimised waste streams. With BIMBox, Construction will develop a new dataset, WASTEie, to standardise waste information that can be easily shared between clients, designers and contractors so they can design out waste and find more effective ways of reusing and recycling.

RECONMATIC aims to help the industry achieve the EU's target of zero construction and demolition waste by 2050. It is being funded by UK Research and Innovation and Horizon Europe, an EU research and development funding programme.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued

Working together with our supply chain



We have built *longstanding* relationships with our supply chain partners.

The quick read...

- Strong relationships helped with managing increased energy prices, inflation and supply of materials
- Methods of engagement included new digital platforms as well as in-person meetings and events
- Collaborated on new ways to increase safety and reduce carbon emissions
- A continued focus on faster payment of invoices

2022 performance and future targets

2022
66.6%
of invoices (by number) paid within 30 days

2025 target
70%

2030 target
80%

Horizon ambition
95%

Our relationships with our supply chain partners are essential in the successful delivery of our projects and in maintaining our resilience and overcoming challenges in the market.

Supply chain relationships and resilience

Our Morgan Sindall Supply Chain Family of suppliers and manufacturers was set up 20 years ago to help build long-term relationships, and now has 400 members. Members benefit from training, design support, on-site practical advice, access to contract information and upcoming projects and a dedicated relationship management team. Eighty-three percent of our spend by value in 2022 was with our Supply Chain Family. In addition, we have continued to partner with the Supply Chain Sustainability School. As at the end of 2022, 2,778 of our suppliers were registered with the School, up from 2,595 in 2021.

Our strong relationships with a diverse range of suppliers help ensure we continue to get access to the materials we need for our projects. We share our project delivery requirements with our suppliers at an early stage which allows for advance planning, sufficient lead-in periods and for our suppliers to build their capacity. For example, Construction undertakes project procurement risk reviews to identify areas of potential concern with regard to supply chain capacity and materials supply. By engaging with subcontractors and suppliers on key packages, we can better understand any risks and take mitigating actions to help support our supply chain. This has been extremely valuable during Brexit, Covid and more recently following the invasion of Ukraine, in helping to deal with issues around capacity constraints, extended lead times, materials availability and logistics issues.

Construction also worked closely in 2022 with its clients and supply chain to manage the impact of increasing energy prices and associated cost inflation. Examples included early procurement of key materials, vesting of supplies where required to ensure manufacturing slots were maintained, accelerated payments to subcontractors to allow early ordering, and supporting subcontractors with the re-sourcing of materials away from Russia and Ukraine.

We always try to procure locally to secure competitive pricing and logistical benefits as well as reducing our environmental impacts and maximising social benefits to local communities. Where needed, we work with our supply chain partners to help them succeed and elevate their standards to meet our own, especially in relation to safety and carbon emissions management. Through our Group-wide procurement agreements with suppliers, we can give our subcontractors access to better pricing.

Our suppliers and subcontractors play an important role in helping us fulfil our responsible business goals and providing opportunities for innovation. These two areas were priorities for us in 2022 when engaging with our supply chain.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Working together with our supply chain

Supply chain management

In 2022, we were accredited to ISO 20400:2017 Responsible Procurement, ELS BES 6002 Ethical Labour Sourcing Standard, and BES 6001 Responsible Sourcing of Construction Products. These certifications ensure we maintain high standards in our operations and a resilient supply chain.

Developing an in-depth understanding of our suppliers and subcontractors enables us to manage them strategically and effectively. Our divisions continuously engage with their supply chains through in-person events, newsletters and training sessions. They have also been working to digitise our supply chain management; for example, in 2022:

- **Construction** introduced: a new digital supply chain platform which enables electronic tendering; simplification and standardisation of the tendering process; measurement and targeting of local spend and spend with small- and medium-sized enterprises (SMEs), social enterprises and micro businesses; and performance management on projects.
- **Fit Out** systems measure subcontractors on social value, such as whether they are an accredited real living wage employer, a social enterprise, a certified B Corp (accredited as providing social and environmental benefits as well as delivering profits) or a diverse-owned business.
- **Property Services** has set up a fully integrated trading system, MSi marketplace, whereby its operatives can order products from selected suppliers with whom the division has negotiated discounts, knowing they are getting fast and easy access to the best prices. The system provides data on how much is spent on each product across all Property Services projects, which helps in the negotiation of future deals. Over 75,000 purchase orders have been processed through MSi marketplace to date, reducing Property Services' spending on supplies per project despite inflation and price volatility.
- **Partnership Housing** produces a biannual newsletter circulated to its supply chain, and in 2022 encouraged suppliers to provide stories of steps they are taking to improve sustainability. The stories are being showcased in the newsletter as a way of sharing best practice.

In 2022, we took part in the Supply Chain Sustainability School's employee diversity benchmarking survey to see how our suppliers performed against others. The results showed that our supply chain is younger (7.9% people aged 18–25 compared to the survey average of 6.8%); more ethnically diverse (21.9% ethnic minority compared to 17.5%); and, by employing 21.8% women, close to the survey average of 23%. A total of 339,912 people were surveyed, of which 37,261 were members of our supply chain. We will be sharing the findings with our suppliers to identify needs and develop diversity initiatives through the School's Fairness, Inclusion and Respect programme.

Our strategy in action

Working to achieve synergy

Fit Out's northern region held a conference for its subcontractors to discuss how they are working together on the environment, health and safety and social responsibility. Breakout sessions gave the 100 subcontractor attendees the chance to take part in group discussions around each of the three conference themes, and provide feedback to Fit Out on the region's performance.

Following the event, everyone who took part was emailed the actions Fit Out would be taking in response to the feedback, such as: further training on waste management and carbon engineering; greater involvement of Fit Out's health and safety team in communicating site standards; and more information on community activities the supply chain could get involved in. Going forward, the conference will become an annual event.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Working together with our supply chain

Our strategy in action

Collaborating to cut carbon

Construction has set its teams a '10 Tonne Challenge' to work with their supply chain partners to find ways of reducing carbon on their projects by at least 10 tonnes. Solutions include sourcing materials with lower embodied carbon, reducing concrete volumes, setting up energy-efficient sites, reducing waste, and using alternative fuels and offsite methods of construction that reduce carbon emitted in manufacture and transport. The Carbon*i*Ca tool (page 30) has been an effective resource on this initiative, helping the teams calculate projected emissions and identify where high carbon elements could be replaced.

Construction teams and their supply chain partners together saved 12,610 tonnes of Scope 1, 2 and operational Scope 3 carbon emissions on 49 projects in 2022.

12,610 *tonnes CO_2e saved*

Some 10 Tonne Challenge outcomes

534 *tonnes CO_2e saved*
Cosham Fire Station

340 *tonnes CO_2e saved*
North Manchester General Hospital

308 *tonnes CO_2e saved*
Buntingford First School, Herts

Working together to address climate change

Tackling the challenge of our Scope 3 emissions requires us to engage with our supply chain and leverage our relationships and skillsets to enable them to improve their environmental performance. For example, Partnership Housing expects all supply chain members as a minimum to be working towards bronze membership of the Supply Chain Sustainability School. To achieve this they will have completed a sustainability assessment in the past year and attended at least five of the School's training activities or events in the past six months.

Through our Supply Chain Family, we have been able to accelerate the adoption of HVO fuel by providing our suppliers with access to it. As a result, we increased our use of HVO on our projects from 15% to 60% in 2022. This demonstrates how we can help to encourage the adoption of more sustainable practices. Other examples from 2022 are as follows:

- **Construction** introduced regional, in-person supply chain events as part of the free carbon training it provides for supply chain partners. The business now has 40 subcontractors signed up to a carbon pledge, 32 having signed up in 2022. Making a carbon pledge is the first step in Construction's 'carbon maturity framework' which ranks the progress of supply chain partners in reducing their carbon emissions. The carbon pledge also gives supply chain partners access to work through the SCAPE public sector framework. In addition, Construction organises lunch-and-learn sessions with potential suppliers identified as having sustainability credentials, with five such events held in 2022.
- **Fit Out** has built a new 'carbon materials tracker' into its project management software, ProjectPLUS, to enable it to track Scope 3 emissions from materials on all its projects. Carbon usage is analysed using the Group's Carbon*i*Ca tool (see page 30).
- **Partnership Housing** conducted a sustainability audit of 50 key material suppliers and manufacturers in 2022. The division scored participants on a wide range of climate-related criteria, including carbon reduction initiatives, renewable energy supply, energy management systems, and alignment with the division's environmental and waste policies. The results were used to identify potential areas for improvement and where Partnership Housing might be able to work with suppliers to inspire change. Following the audits, Partnership Housing's sustainability team visited six suppliers to learn more about how they were reducing their own emissions and developing products/solutions to help us build greener homes. The team learned about new technologies on the horizon so that we will be ready to adopt them when they become available.
- In addition, **Partnership Housing** surveyed 300 supply chain members to learn more about embodied carbon. The results will enable the division to assess how soon it will have the data it needs to develop its building technology to meet the demands of the government's Future Homes Standard (which increases the energy-efficiency requirements of new homes).

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Working together with our supply chain

Working together to increase safety

Gathering information on our supply chain also helps identify areas where we can help educate and train them, or increase their awareness. The following health and safety training was provided to subcontractors during the year:

- **Construction** ran regular sessions for its subcontractors, including supervisor behavioural workshops, safety when working around machinery, and introductions to new safety products, in conjunction with PPE and equipment suppliers. Construction also organised a three-week national campaign with online and in-person roadshows on topics such as dropped objects, tool tethering, and safe working at height; and workshops that provided smaller subcontractors in particular with a unique opportunity to experience best practice. In addition, Construction promoted a 'Safe Start Campaign' to reinforce its 100% Safe message to local supply chains following periods of shutdown such as the Christmas break. The campaign included statutory reinspection of machinery and site tours to refresh subcontractors on the minimum standards they had been introduced to at the start of the project.
- **Fit Out** started an initiative involving 1,801 subcontractors to assess the extent to which their operatives have been trained in site safety appropriate to their trade. Using the information, a rolling programme of targeted consultations and audits will aim to improve the operatives' health and safety performance and create an improved safety culture.

Innovating together

- **Partnership Housing** has been working with wall and flooring suppliers to develop construction methods that help build a new home 45% faster. By manufacturing flooring and frame materials off site, they are easier to assemble, produce less waste, require fewer deliveries and reduce the risk of accidents.
- **Infrastructure** has introduced 'Innovation Bites', where supply chain members are invited to present to employees on innovative new products and services. Infrastructure hosted 24 sessions in 2022.

Supporting our supply chain in growing their businesses

Part of our ethos of collaborative working is a commitment to support local businesses and engage early with key subcontractors and suppliers to drive cost-effective solutions. Fit Out's supply chain strategy is based on rewarding performance and encouraging growth, and is the reason why the division pursues a policy of working with predominantly SMEs. Of Fit Out's supply chain, 95% are classified as SMEs.

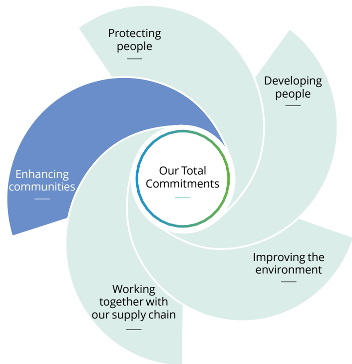
- **Construction** has introduced local events with leaders of its preferred subcontractors to discuss safety, learn about suppliers' expectations and share best practice.
- **Fit Out** has 320 'preferred' subcontractors who have performed consistently well according to set criteria, with 23 promoted to this status in 2022. The division is working to promote greater diversity in its supply chain: identifying businesses that are diverse-owned and raising awareness among employees of the value of diversity in the supply chain. The division has been a corporate member of MSDUK for two years and is working with them to identify suppliers it could potentially work with. MSDUK is a UK supplier diversity advocacy organisation working for inclusion of ethnic minority businesses in corporate supply chains.
- **Partnership Housing** hosts 'Meet the Buyer' events across multiple regions. These events provide suppliers and subcontractors with the opportunity to meet Partnership Housing employees and clients to discuss topics such as health and safety, upcoming projects and procurement opportunities. Three events were held in 2022, including in the East Midlands and North East, two of the division's newest regions.

Paying promptly

Paying our supply chain on time is essential and makes us attractive to work for, and we aim to pay our suppliers as promptly as possible. We do not use any supplier finance arrangements. Our divisions have reported the following data under payment practices regulations for the six months to 31 December 2022:

- **Construction & Infrastructure**, our largest division, improved its payment rate within 60 days to 99% (2021: 98%).
- **Fit Out** paid 96% of its invoices within 60 days (2021: 97%).
- **Property Services** paid 97% of invoices within 60 days, up slightly from 96% in 2021.
- **Partnership Housing** maintained its 2021 rate of 96% of invoices paid within 60 days.
- **Urban Regeneration** improved its payment rate to 98% within 60 days (2021: 94%).

Enhancing communities



We want to leave a positive *legacy* by improving the built environment and creating social and economic value for the communities where we work.

The quick read...

- Provided training, work experience, apprenticeships and job opportunities to local communities, including young people and long-term unemployed
- Worked with schools and colleges to encourage more young people to pursue a career in construction
- Took part in local community and charity initiatives
- Helped local residents save on their energy costs

2022 performance and future targets

2022
67p
of social value per £1 spent on 110 projects

2025 target
85p

2030 target
90p

Horizon ambition
£1.01

We are active members of the communities in which we work, delivering positive social, environmental and economic impact, known as social value, that will last long beyond the completion of our projects. We work with our clients, supply chain partners, local communities and other stakeholders to codesign and deliver activities that prioritise outcomes that matter most to local people. Our teams focus on enhancing social mobility and removing barriers to employment and education by building partnerships with charities, schools and community organisations.

Our Group social value panel, which is made up of representatives from across the divisions, meets regularly to share best practice and address shared challenges. In 2022, the panel focused on developing a new Group-wide social value toolkit that will support us in delivering better outcomes for our stakeholders as well as consolidating our relationships with partner organisations to ensure we get the most from our existing projects.

In addition, Infrastructure created an 'Enhanced Communities (EC) Strategic Multiplier Group' which will focus on identifying social value initiatives that are transferable and scalable so that they can be replicated across different projects and regions. Key areas of focus for the group include social mobility, partnerships with schools and colleges, and community engagement. The group is also responsible for interacting on Infrastructure's behalf with Business in the Community and similar industry players, an important part of the tendering process to win business.

The decentralised nature of our business, along with a network of over 60 permanent office locations, allows us to tailor community initiatives to local needs and foster opportunities via existing relationships with local organisations and suppliers. For example, our new social value toolkit includes resources for our project teams to conduct local needs analysis, and a directory of local charities and organisations.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Enhancing communities

Engaging with communities and delivering social value

In 2022, our community enhancement activities centred on:

- **Community employment**: collaborating with our client and supply chain partners to provide training, work placements and job opportunities for local residents;
- **Education**: working with local partners to promote the next generation of industry professionals from different backgrounds, enhancing educational experiences and sharing employee skillsets and expertise;
- **Charity partnerships**: supporting local and national organisations that are important to our employees, customers and communities local to our operations and offices; and
- **Volunteering**: encouraging employees to donate their time and expertise to support educational institutions, charities and employment partners.

Energy crisis and affordable housing

Our social initiatives and community development projects always take into consideration local demands and needs. This year, the energy crisis and associated rise in the cost of living has been of particular focus.

Property Services runs an energy café scheme for local residents as part of its partnership with HACT (Housing Associations' Charitable Trust) – see case study right. Through HACT's Energy Hardship Fund (made up of donations from supply chain and procurement organisations), the division provided 570 energy vouchers worth £22,071 during the winter of 2021–2022 to support social housing residents in paying their increasing energy bills. To date, Property Services has provided 1,600 energy vouchers worth nearly £80,000 to 600 families in fuel poverty.

We work with local councils and government agencies to deliver affordable, high-quality new homes:

- **Property Services** worked with Basildon Borough Council on a scheme to support homeless people by converting a disused adult learning facility into 10 one-bedroom, self-contained homes and assembling a further six one-bedroom units known as 'Solohaus', donated by the Hill Group. The project was completed in November 2022, in time for the colder weather. The division also supported the Chartered Institute of Housing's 'Homeful' campaign, which explores ways of resolving homelessness, by funding a research assistant to join their team.
- **Partnership Housing** built 2,765 affordable homes in 2022, a 30% increase from the prior year. The division works with housing association partners to aim for 40%–50% affordable housing on its developments, compared to the regulatory requirement of 20%–30%.
- **Urban Regeneration**, on its Greenhaus development in Salford, is working with Salix Homes to build 96 affordable homes. The homes are targeted to be Passivhaus certified and expected to reduce energy bills for residents by up to 90% (see page 29 for information about Passivhaus principles). Several projects under construction in Urban Regeneration's portfolio are providing 50% affordable homes, for example Manor Road in Canning Town, London (177) and Islington Wharf in Manchester (106).

Our strategy in action

Helping local residents save on their energy costs

Property Services runs 'energy cafés' offering local residents practical advice on reducing their energy bills. The cafés are hosted by Property Services employees trained to Level 3 qualifications in Energy Awareness.

The project was originally designed to support elderly people who don't have the digital skills to research cheaper energy providers online. The cafés now provide information on a variety of issues, including how to get access to grants and benefits available, and suggestions for small or relatively low cost changes that people can make to their properties to help cut their energy consumption. As a result, the cafés are attracting a wide range of residents, from young adults living on their own for the first time right up to those beyond retirement age.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Enhancing communities

At Novus Apartments in Slough, the division secured £2.5m of First Homes funding as part of the Homes England Early Delivery programme. This has enabled eligible purchasers to buy a new home with a 30% discount and created 32 additional affordable homes for local people.

Local apprenticeships, work and training opportunities

We offer work experience, training and apprenticeships in communities where we work; undergraduate sponsorships and graduate training programmes; and returnships for people who have had a career break; all of which bring new and varied talent into the business.

In 2022, 379 students took part in Construction's virtual work experience programme, delivered in partnership with Speakers for Schools. During the week, teams of students were given a brief for which they had to deliver a project proposal, attended virtual meetings with experts and a virtual site tour, and were given training in CV and interview techniques. Sixty-five percent of the participants were female. Property Services also completed virtual work experience for 30 Year 10–13 students. The division carried out a survey after the exercise and found that 90% of students felt they had developed their teamwork skills and 80% had expanded their knowledge of possible career opportunities in the industry.

- **Construction** offers dedicated learning facilities called 'Knowledge Quads' on its projects where requested by its clients. Each Quad focuses on four key areas: skills, education, employment and discovery. In 2022, working with Wirral Met College, Construction launched its second Knowledge Quad in the Liverpool city region, creating a link between industry and education by ensuring that Quad curricula align with employer requirements. Construction has invested in a total of seven Knowledge Quads to date. In Manchester, the division hosted 12 students studying T Level and T Level Transition Programme courses at Manchester College. Each T Level included an industry placement lasting at least 45 days, whereby students receive valuable work experience while employers get early sight of the new talent in their industry.
- **Infrastructure** worked with Copeland Work & Skills Partnership to provide a four-day programme for eight autistic adults to improve their employability skills. Participants got to meet employers and visit workplaces. On completion, two found employment and four progressed to further training. Infrastructure also took part in a 'Festival of Work' hosted in Cumbria where over 500 students and 150 adults engaged in workshops, networking events and learning sessions to find out more about training and employment opportunities in the industry.
- **Fit Out** has continued to engage with the Leonard Cheshire Foundation, a charity that finds work placement opportunities for people with disabilities. In 2022, the division doubled its placements in design, site management and finance. Fit Out also worked with iConsult, a youth employment partner, on one of its projects to provide a six-week work experience programme for five local people from disadvantaged backgrounds. The programme rotated the students between the Fit Out site team and supply chain partners, introducing them to a variety of trades.
- **Property Services** continued during the year to host employability sessions for local residents, helping with CVs, cover letters and interview preparation; and hosted Level 1 qualification training for people unemployed or in receipt of benefits in St Albans, Waltham Forest and Basildon. The division also took part in a Kick Start scheme to support young people in danger of long-term unemployment. Twenty young adults were given a six-month work placement and, on completion, 15 were offered full-time roles.
- **Partnership Housing** joined with veterans' charity Alabaré and Wiltshire Council to provide ex-military personnel with transferable skills to help get them started on a career in construction. The scheme offers not only training and work experience but also the opportunity to secure one of the homes they have helped to build over the course of the year-long work placement.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Enhancing communities

Working with schools and colleges

A large part of our community engagement strategy is working with schools and colleges to promote construction as a potential career path. Throughout the year, our divisions visit schools and universities, using their skills and knowledge of the industry to host events and workshops and attract talented young people into our future workforce. We also build relationships with not-for-profit organisations and other community initiatives, offering a career in construction as an avenue for social mobility.

- **Construction** is engaged in 40 ongoing school partnerships. The partnerships entail Construction and the school pledging to work together to support pupils by providing hands-on work experience and exposure to people who work in the industry. The schools we partner with will support a minimum of the following standards: four Gatsby Benchmarks (England), four Career Education Standards (Scotland) or four Areas of Learning and Experience (Wales). In addition, Construction became the first construction company to partner with Developing Experts, an education platform focusing on STEM subjects (science, technology, engineering and mathematics) that provides more than 6,500 schools with over 1,000 interactive lessons and industry and career links. As part of this collaboration, Construction will develop a bespoke set of lessons reflecting the diverse range of careers available in the industry and helping children, teachers and parents better understand how construction relates to their everyday lives.
- **BakerHicks** employees volunteered with Middlesex University, London South Bank University, Birmingham City University and the University of Salford to help interview students and offer work experience placements. As part of the work experience, BakerHicks assigns each student a mentor, and gives them mock interviews, CV reviews and training based on BakerHicks projects aligned to their studies. The business also linked up with New College Lanarkshire and the WorldSkills programme, a charity hosting a worldwide competition in digital construction. BakerHicks designed the competition which assesses participants' knowledge, practical skills and employability against set criteria in a timed environment. The competitive, practical nature of the event helps the students build on their knowledge and stand out when applying for roles.
- **Property Services** has an ongoing partnership with Construction Youth Trust and The Fulham Boys School as part of the Building Brighter Futures programme. The programme aims to help young people discover a range of property services, construction and built environment professions. Over a four-month period in 2022, Property Services held lectures for Year 9 students, looking at the breadth of career roles within the industry.
- **Partnership Housing** formed an education partnership with the Wensum Trust in Norfolk to educate young people about the range of career opportunities in the sector. The division hosted a 'construction careers day' at local school Acle Academy, where carpentry and bricklaying apprentices presented on pathways for apprenticeships.
- **Urban Regeneration** has begun a three-year commitment to support the Reading Real Estate Foundation's 'Pathways to Property' project, to widen access to the real estate profession by raising awareness of the vast range of careers available in the sector.

Activities have included providing mentoring and work experience placements for sixth form students.

Community projects and charities

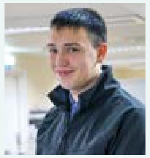
We engage employees, clients and our supply chain to deliver community projects and support local charities. This is a way of showcasing our values and building community relationships. It is also an opportunity to leverage our business sources, knowledge and skillsets to shape the industry in a positive way. We do not just focus on financial donations; we provide support with our time and resources. Some examples of our many activities in 2022 include:

- **Fit Out** joined its client in renovating a community centre for local emotional wellbeing charity Barca-Leeds. Fifty-two people volunteered a total of 432 hours, and £22,000 of materials were donated. See also the Period Poverty campaign that Fit Out ran on a separate project (page 53).
- **Property Services** is working with Westminster City Council on the pilot Phoenix Programme supporting female survivors of domestic abuse in rebuilding their confidence and developing skills they need to enter or re-enter the workplace. Participants receive an assessment of their needs followed by help with digital and other work skills, CV and interview preparation, mentoring, work experience and managing finances. Property Services provides guaranteed interviews for roles with the division and its supply chain. Property Services has also partnered with Smart Works, a UK charity that dresses and coaches unemployed women for success at their job interview.

Our strategy in action

Creating opportunities for young people

Infrastructure sponsors a 'Future Pathways' programme in Cumbria to provide life and employability skills for students. In 2022, the division guided 36 students from three schools through the programme, and is working to increase the number of schools to 10.



Fifteen-year-old Jack joined the eight-week programme in 2018.

"I got the chance to meet new people and build skills like teamwork, resilience and independence, which helped improve my confidence and supported me in getting ready for the world of work."

Five years on and following a course at the local University Technical College, Jack is six months into his first job as an apprentice for Infrastructure. The division currently engages over 50 apprentices and has been awarded Gold accreditation from the 5% Club for its commitment to providing 'earn and learn' opportunities – one of just 107 UK employers to achieve this.

RESPONSIBLE BUSINESS STRATEGY AND PERFORMANCE continued
Enhancing communities

- **Partnership Housing** has helped with fundraising for Building Heroes, a charity that helps military veterans transition to civilian life. One of the division's employees, who has interstitial lung disease, became the first man to complete the London Marathon wearing an oxygen tank, raising £20,000 to support vital, life-saving research at Asthma + Lung UK.
- **Urban Regeneration** continued to sponsor LandAid and Computers 4 Charity by donating 40 refurbished computers to the West Midlands homeless youth charity St Basil's.

Measuring the social value we create

We use a social value bank to measure and track in monetary terms the social, economic and environmental value we add to local communities through our activities. The bank aligns with the valuation methodology used in HM Treasury's Green Book and OECD guidelines.

In 2022, Urban Regeneration introduced a version of the social value bank specifically designed for developers. It measures the long-term social impacts of completed developments, for example the benefits of having a new school or hospital in the area.

In 2022, we used the social value bank on 110 projects and it calculated that we contributed 67p of social value for every £1 spent. Examples of social value on these projects included:

- 1,002 apprenticeships and training opportunities for young people (2021: 545);
- 612 job opportunities for unemployed people (2021: 643);
- 553 job opportunities for local people (2021: 407);
- 4,779 hours supporting schools (2021: 7,979); and
- 9,253 hours community volunteering (2021: 9,620).

Property Services uses the 'Wellbeing Valuation Approach' of external verifier HACT to calculate its social value impact. The HACT valuation confirmed that between April 2021 and March 2022 (HACT's reporting cycle), the division achieved £3.5m of social value (2021: £1.8m), with every £1 spent generating £25 (2021: £12) in social value across its contracts.

Our clients request that social value is measured through various tools that also include the 'Social Value Portal' and HACT, which is why only 110 of our projects were measured using our social value bank. In addition, clients have different priorities for how we deliver social value, which influences the kind of activities we undertake. For example, in 2022, the number of hours spent supporting schools fell as the schools preferred fewer, more engaging in-person events to a greater number of virtual events. We recognise that our social value bank is not fully reflecting the social value we generate, and in 2023 we will consider how best to capture the full scope of what we do.

Our strategy in action

A wildlife classroom

Construction employees volunteered to create an outdoor wildlife learning area for the pupils of Wintringham Primary School in Cambridge. They cleared an overgrown area, dug out a pond, filled it and created hard-standing areas for pond-dipping activities. The team also landscaped the area, planted a variety of plants and installed a lifebelt station. In total, 284 volunteer hours and nearly £5,000 in donations were contributed.

FINANCIAL REVIEW

Our results were another record for the Group

"Our strong balance sheet and cash position enable us to continue making the right decisions for the long term."

Steve Crummett
Finance Director

The quick read...

- Record revenue and adjusted* operating profit despite inflation and market headwinds
- £48.9m exceptional building safety charge recognised in the period
- Net working capital increase in regeneration businesses
- Maintained our high-quality order book

Financial performance

Revenue for the year increased 12% to £3,612m (2021: £3,213m), with adjusted* operating profit increasing 6% to £139.2m (2021: £131.3m). This resulted in an adjusted* operating margin of 3.9%, a decrease of 20bps compared to the prior year (2021: 4.1%). Reported operating profit was down 32% to £88.3m (2021: £129.8m). Details on performance by division are shown on pages 47 to 63.

As discussed on page 200, an exceptional charge totalling £48.9m was recognised during the year in respect of building safety. Of this charge, £9.8m related to the Group's interests in joint ventures and was therefore recognised within the share of net profit from joint ventures in the consolidated income statement.

The net finance expense decreased to £3.0m (2021: £3.6m) primarily due to increased interest income on deposits as a result of rate rises during the year. Adjusted* profit before tax was £136.2m, up 7% (2021: £127.7m).

	2022	2021
Revenue	**£3,612m**	£3,213m
Operating profit – adjusted*	**£139.2m**	£131.3m
Operating profit – reported	**£88.3m**	£129.8m
Profit before tax – adjusted*	**£136.2m**	£127.7m
Profit before tax – reported	**£85.3m**	£126.2m
Earnings per share – adjusted*	**237.9p**	226.0p
Basic earnings per share – reported	**132.7p**	212.4p
Year-end net cash*	**£354.6m**	£358.0m
Average daily net cash*	**£256.3m**	£291.4m
Total dividend per share	**101.0p**	92.0p

* See note 28 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

FINANCIAL REVIEW continued

The tax charge for the year is £24.4m, which equated to an effective tax rate of 28.6% and was higher than the UK statutory rate of 19.0% due primarily to the exceptional building safety charge recognised in the period which is not all expected to qualify for tax relief. The adjusted tax charge is £27.0m, which equated to an effective adjusted tax rate of 19.8%. Almost all of the Group's operations and profits are in the UK, and we maintain an open and constructive working relationship with HMRC.

The adjusted* earnings per share increased 5% to 237.9p (2021: 226.0p). Reported basic earnings per share was 132.7p (2021: 212.4p). The total dividend for the year increased 10% to 101.0p per share (2021: 92.0p).

Financing facilities

During 2022, the Group maintained a total of £180m of available bank facilities, of which £165m mature in 2025 and £15m in 2024. No drawings on the facilities were made during the year. The banking facilities are subject to financial covenants, all of which were met throughout the year.

In the normal course of our business, we arrange for financial institutions to provide client guarantees (performance bonds) to provide additional assurance to the clients that the contracted works will be carried out. We pay a fee and provide a counter-indemnity to the financial institutions for issuing the bonds. As at 31 December 2022, contract bonds in issue under uncommitted facilities covered £148.3m (2021: £137.2m) of our contract commitments.

Further information on the Group's capital management strategy and use of financial instruments is given in note 26 to the consolidated financial statements.

Tax strategy

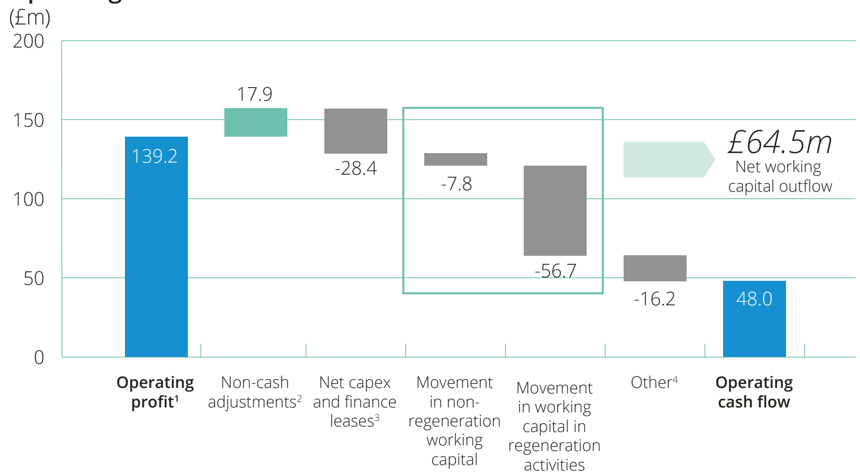
The Group's tax strategy, which is approved by the Board, is published on our website at morgansindall.com.

Net cash

Operating cash flow in the year was an inflow of £48.0m, after increases in working capital in regeneration activities of £64.5m. The net cash outflow for the year was £3.4m, resulting in closing net cash of £354.6m (2021: £358.0m).

The average daily net cash* for the year was £256.3m (2021: £291.4m). Our strong cash position provides significant balance sheet strength and competitive advantage.

Operating cash flow*



1 Adjusted = before intangible amortisation of £2.0m and exceptional building safety charge of £48.9m.
2 Includes depreciation £22.9m and share-based payments £9.7m; less share of underlying net profits of joint ventures £14.3m and movement in fair value of shared equity loans £0.4m.
3 Includes repayment of lease liabilities £17.2m, purchase of property, plant and equipment £10.5m and purchase of intangible fixed assets £1.3m; less proceeds on disposal of property, plant and equipment £0.6m.
4 Dividends from joint ventures £1.4m, shared equity redemptions £1.5m and impairment of investments £0.9m; less provision increases £19.5m and gains on disposals £0.5m.
* See note 28 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

FINANCIAL REVIEW continued

Net working capital

Net working capital is defined as 'inventories plus trade and other receivables (including contract assets), less trade and other payables (including contract liabilities) adjusted'. Net working capital (excluding non-cash movements[3]) has increased by £63.7m to (£89.9m) as shown below:

	2022 £m	2021 £m	Change £m
Inventories	**333.9**	288.5	+45.4
Trade and other receivables[1]	**646.3**	559.9	+86.4
Trade and other payables[2, 3]	**(1,070.1)**	(1,002.0)	-68.1
Net working capital	**(89.9)**	(153.6)	+63.7

1 Adjusted to exclude capitalised arrangement fees and accrued interest receivable of £1.3m (2021: £1.0m).
2 Adjusted to exclude accrued interest of £0.6m (2021: £0.5m) and joint venture finding obligations of £4.0m (2021: £nil).
3 Movements in trade and other payables also include the non-cash movements relating to the unwinding of discounting on land creditors (£1.2m) and other non-cash movements.

Movements in net working capital relate to investments in regeneration activities as noted in the operating cash flow chart on page 45, and increased working capital related to Property Services as new projects mobilise. Payables related to regeneration activities include creditors for land purchases which are held in inventories.

Provisions

Group provisions have increased by £19.6m. The most significant addition related to building safety provisions (excluding provisions relating to joint ventures) of £39.1m. These were offset by releases and utilisation during the year, most notably the release of a specific contract and legal provision of £22.7m. This provision had a corresponding insurance receivable included in trade and other receivables that was also released and therefore there was no net impact to the income statement.

Secured workload

The Group's secured workload[1] at 31 December 2022 was £8,459m, a decrease of 2% on the prior year end (2021: £8,614m). The divisional split is shown below.

	2022 £m	2021 £m	Change %
Construction & Infrastructure	**2,601**	2,715	-4%
Fit Out	**841**	897	-6%
Property Services	**1,204**	945	+27%
Partnership Housing	**1,984**	1,498	+32%
Urban Regeneration	**1,847**	2,574	-28%
Inter-divisional orders	**(18)**	(15)	
Total	**8,459**	8,614	-2%

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

Steve Crummett
Finance Director

OPERATING REVIEW

Construction & Infrastructure

Construction & Infrastructure delivered a steady performance, achieving operating margins well within their respective medium-term targets despite inflationary headwinds and supply chain issues.

The quick read...

- Maintained focus on disciplined contract selection and operational delivery
- Contracts almost exclusively procured through negotiation, two-stage tenders or frameworks
- c75% of all work is with public and regulated sectors, with most clients indicating continued commitment to capital project spending
- High-quality secured order book
- Expected to make positive progress towards revenue targets in 2023, while maintaining margins within target ranges

Construction & Infrastructure

Supporting Group strategy

- Achieve quality of earnings
- Excel in project delivery
- Secure long-term workstreams

KPI performance / medium-term targets

- Construction operating margin 2.8% / 2.5%–3.0%
- Construction revenue £808m / £1bn
- Infrastructure operating margin 3.9% / 3.5%–4.0%
- Infrastructure revenue £761m / £1bn

Relevant risks

- Economic uncertainty
- Health and safety incident
- Talent retention and attraction
- Partner insolvency
- Inadequate funding
- Mismanagement of working capital and investments
- Poor contract selectivity
- Poor project delivery

+3%

Revenue (£m)

	Revenue (£m)
22	**1,569**
21	1,520
20	1,637

-10%

Operating profit (£m)

	Operating profit (£m)
22	**52.1**
21	58.1
20	35.7

-50bps

Operating margin (%)

	Operating margin (%)
22	**3.3**
21	3.8
20	2.2

OPERATING REVIEW continued
Construction & Infrastructure

Divisional revenue increased 3% to £1,569m (2021: £1,520m), while operating profit was down 10% to £52.1m (2021: £58.1m). The operating margin was 3.3%, down 50bps against the strong prior-year comparator (2021: 3.8%).

Of the divisional revenue split by type of activity, Construction accounted for 51% of divisional revenue at £808m, with 49% being Infrastructure[1] at £761m.

Key to performance is risk management and the division maintained its focus on disciplined contract selection and operational delivery throughout the year. Contract by procurement type consisted mainly of negotiated work, two-stage tendered work or work procured through frameworks. The public and regulated sectors, which together accounted for c75% of revenue in the year, remained positive with most clients indicating that committed spending on capital projects remained in place. In turn, the division's order book also remains high quality, with the secured order book at the year end at £2,601m, 4% lower compared to the prior year (2021: £2,715m).

1 BakerHicks design results are reported within Infrastructure.

Construction

Construction's revenue increased 16% to £809m (2021: £694m), while operating profit increased 3% to £22.6m (2021: £21.9m).

The continued focus on improving operational delivery and prudent risk management all contributed towards achieving an operating margin of 2.8% (2021: 3.2%).

The order book at the year end was £802m, a reduction of 1% on the prior year (2021: £810m) and up 6% from the half-year position (HY 2022: £760m). Of the total, £646m (81% by value) is secured for 2023. This compares to £599m of work which was secured for the year ahead at the start of last year.

In addition to the total order book, Construction also had £758m of work at preferred bidder stage at the year end, 41% higher than the equivalent amount at the same time last year (2021: preferred bidder £537m).

In education, project wins included the £63m redevelopment of King Henry VIII Secondary School in Abergavenny into a 1,900-place, all-through school for Monmouthshire County Council, with enabling works completed in October; and Buntingford First School (£10m) which will be Hertfordshire's first carbon-neutral primary and nursery school and built to Passivhaus standards. In addition, Construction was awarded a £15.1m contract to refurbish an existing bank headquarters to create the Leeds Mathematics School, a 240-place sixth form college, for the Department for Education.

Completions in the year included: the £49.8m, 100% electric-powered SEE Building (Science, Engineering and Environment) and the £8.3m,

Our strategy in action

From the ashes, a new school in just 45 weeks

Ravensdale Infant and Nursery School in Derby was destroyed in an arson attack, leaving 296 children without their school. Derby County Council wanted the school rebuilt as quickly as possible and Construction, appointed through the SCAPE framework, delivered a new school in just 45 weeks. The pace of build was achieved using a modular design: 58 units, built off site, were assembled into a modern, high-quality building, with minimum disruption to the neighbouring junior school.

The division kept parents and teachers updated on progress and hosted a 'Rebuild it in a day' event so that the children could understand the work taking place.

The new school is 300 sq m larger, reconfigured to provide efficient teaching and play space, and gives each classroom direct access to its own outdoor learning and play area.

"This is a joyous milestone for all staff and pupils at the school and I am pleased to see the school rebuilt to the highest standards, on budget and on time."

Councillor Evonne Williams,
Cabinet Member for Children, Young People & Skills, Derby City Council

OPERATING REVIEW continued
Construction & Infrastructure

NERIC Building (North of England Robotics Innovation Centre) for the University of Salford; the £32.4m Glebe Farm School in Milton Keynes, the area's first fossil-free school; the £13.9m Renton Primary School in West Dunbartonshire; the £7.8m Ravensdale Primary School in Derby; and a £5.6m, two-storey teaching block at Horsforth School in Leeds which provided 365 additional places.

In healthcare, Construction was awarded the £11.9m Priscilla Bacon Hospice, a new state-of-the-art facility on an eight-acre site in Norwich; and, via the Pagabo framework, a £14.5m project to deliver a new imaging centre at Milton Keynes University Hospital.

In other sectors, Construction was awarded, in partnership with Urban Regeneration, the development of two new Grade A office buildings in Birkenhead, totalling £40m in project value and on track for completion in 2023. Work progressed at Spinnaker View, an affordable homes development in Gosport for older people with care and support needs, being delivered with Partnership Housing; a £109.9m, 34-storey mixed-use development at Manor Road in Canning Town, in partnership with Urban Regeneration; and a new car park and cycle hub at North Manchester General Hospital. Work completed during the year on the £23.3m Great Yarmouth Marina Centre.

Framework appointments included a place on the £9bn Procure 23 framework, a partnership between Crown Commercial Services and NHS England and Improvement; Lot 1 (£8m–£25m) and Lot 2 (>£25m) of the North West Construction Framework; and construction projects valued between £250k and £10m on the £1bn Pagabo Medium Works Framework (the division's third appointment to this framework).

Infrastructure

As expected, Infrastructure's revenue was 8% lower at £761m (2021: £826m) with operating profit of £29.5m, 19% lower than last year's strong performance (2021: £36.2m), driven mainly by the timing and nature of projects delivered through its frameworks. This balance of work resulted in an operating margin of 3.9% (2021: 4.4%).

Infrastructure's order book at the year end was £1,799m, down 6% on the previous year end (2021: £1,905m); however, it was up 1% on the half-year position (HY 2022: £1,775m). Over 90% of the value of the order book is derived through frameworks, consistent with the strategic focus on long-term workstreams from its clients.

The focus for the division remained on its key sectors of highways, rail, nuclear, energy and water.

In highways, Infrastructure was awarded the A45 scheme at Great Doddington, its first project on National Highways' new Scheme Delivery Framework, a £3.6bn, six-year programme to deliver vital renewals to maintain safety and reliability. Work continued on the A11 as part of National Highways' Concrete Roads Programme – Reconstruction Works Framework, a four-year programme worth c£130m to repair or replace the concrete surface of motorways and major A roads in England; and National Highways' Lower Thames Crossing scheme, where Infrastructure is part of a joint venture delivering the Integration Partner contract. Works completed in the year included the M27 junctions 4 to 11 smart motorway upgrade; the A45 Sprint corridor for Transport for West Midlands, a c£40m scheme forming part of a bus priority corridor linking Walsall with the

Our strategy in action

Shorter journey times, lower emissions

Infrastructure delivered the A45 section of the Sprint bus priority route for Transport for West Midlands, with new and enhanced bus lanes connecting Walsall with Birmingham, Solihull and Birmingham Airport. The improvements were designed to stimulate growth in the region, linking people to jobs, housing, leisure facilities and onward connections.

The new route, which gives buses priority at junctions, is helping to ease congestion, cut bus journey times for passengers and reduce harmful emissions. Cycle routes have also been improved through the shared use of the bus lanes. Infrastructure provided 26 jobs for local people on the scheme, 70 apprenticeship weeks and 415 work experience days.

"Collaboration, couldn't ask for more 10/10. Social value 10/10 ... Community engagement, good neighbour... The Morgan Sindall Infrastructure team just got it; from the beginning, we have been a partnership."

Andrew Elliott, Sprint Delivery Director, Transport for West Midlands

OPERATING REVIEW continued
Construction & Infrastructure

centre of Birmingham, Solihull and Birmingham Airport; and the installation of safety technology to detect stopped vehicles on motorways without a hard shoulder, delivered through the Smart Motorway Alliance with National Highways.

In rail, Infrastructure secured several schemes with Network Rail: the Bangor to Colwyn Bay signalling power upgrade; a £7.5m project on the CP6 Wales and Western framework; Lot 1 of the Building and Civils Framework, which involves renewing structural assets within Network Rail's Western region as part of their CP7 programme; and the detailed and temporary works design for the refurbishment of Liverpool Street Station roof, procured through SCAPE's Construction Framework. In addition, the division secured the Surrey Quays station upgrade, a £40m contract awarded through the London Rail Infrastructure Improvement Framework. Work progressed on the Northumberland Line extension project for Northumberland County Council; the Network Rail Parsons Tunnel rockfall shelter extension in Devon; several access-for-all schemes with Merseyrail; and the project to upgrade Slough Crossrail station as part of Network Rail's CP6 framework in the Western region. During the year, the division completed the Central Area enabling works for HS2 and the Barking Riverside Extension project for Transport for London.

In nuclear, work continued on Sellafield's £1.6bn Programme and Project Partners contract, in its third year of a 20-year framework, and on the Infrastructure Strategic Alliance. Work continued on the D58 facility for BAE Systems and completed on the D59 facility.

In energy, National Grid awarded Infrastructure the £112m Dinorwig scheme and the £9.2m ZZA overhead line route as part of the RIIO-2 electricity construction EPC (Engineer, Procure and Construct) framework, which involves the construction, refurbishment and decommissioning of overhead line and underground cable systems operating between 33kV and 400kV across its transmission network. In addition, the division was awarded a place on Scottish & Southern Electricity Network's (SSEN) RIIO-2 framework for an initial term of five years with an option to extend by two years. The framework involves the construction, refurbishment and decommissioning of overhead lines, underground cable systems and substations operating between 33kV and 400kV across SSEN's transmission network. Energisation (transferring energy into the grid) was completed on the Dorset and Peak East Visual Impact Provision schemes for National Grid.

In water, tunnelling was completed on the Thames Tideway 'super sewer' project to expand London's sewer network and help prevent pollution in the Thames, while work continued as part of the long-term AMP7 framework with Welsh Water.

In the BakerHicks design business, projects completed in the year included: the newly refurbished Whitechapel Station as part of the Crossrail scheme in London; the Dorset Visual Impact Provision underground cabling scheme for National Grid; an onshore HVDC (high voltage direct current) convertor station as part of National Grid's IFA2 scheme linking the UK and

French electricity systems; Ulster Hospital's Acute Services Block; Clydebank Health and Care Centre for NHS Greater Glasgow and Clyde; Renton Primary School in West Dunbartonshire; two Community Custody Units for Scottish Prison Services, in Maryhill, Glasgow, and Dundee; the Medicines Manufacturing Innovation Centre in Renfrewshire; and a large-scale cell culture production facility in Vienna.

Work continued on the multi-disciplinary design for Scottish Prison Services' new HMP Highland in Inverness; Engineering, Procurement and Construction management services for a new state-of-the-art, fill-finish drug manufacturing facility; and civil and structural engineering services for the £42.5m Allander Leisure Centre in Bearsden, East Dunbartonshire.

OPERATING REVIEW continued
Construction & Infrastructure

Divisional outlook

The medium-term target for Construction is maintaining its operating margin within the range of 2.5%–3.0% per year while increasing revenue to £1bn per year.

Infrastructure's medium-term target is to maintain its operating margin within the range of 3.5%–4.0% per year while also increasing revenue to £1bn per year.

Based upon the timing of orders and projects, both Construction and Infrastructure are expected to make positive progress towards their revenue targets in 2023, while maintaining their margins within their target ranges.

Construction

Medium-term targets

£1bn
Revenue

2.5%–3.0%
Operating margin

Strategy

- Focus on quality and margin above volume
- Strengthen regions where we have lower market share
- Continue to seek long-term workstreams

Market conditions

- Good market, especially the public sector
- Clients and supply chain value balance sheet strength
- Supply chain risk

Infrastructure

Medium-term targets

£1bn
Revenue

3.5%–4.0%
Operating margin

Strategy

- Key sectors: highways, rail, nuclear, energy and water
- Remain disciplined on contract selection. In excess of 90% work through frameworks
- Only work in joint ventures if very clear advantages

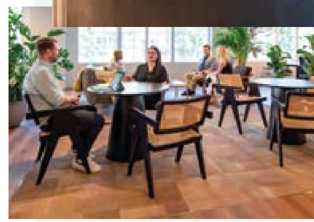
Market conditions

- Political support for investment
- High level of bidding activity
- Projects can take time to commence on site

OPERATING REVIEW continued

Fit Out

Fit Out delivered another excellent performance, driven by strong and consistent project delivery, a high-quality workload and continued focus on enhanced customer experience.



The quick read...

- Record result, with increased revenue and operating profit, and strong operating margin
- Sizeable order book at year end, with 70% relating to 2023
- Strong pipeline of opportunities, with over £100m of work at preferred bidder stage, £300m pending decision, and over £200m being tendered
- Medium-term target upgraded to reflect performance
- Expected to be slightly ahead of the top end of new target in 2023

Fit Out

Supporting Group strategy

- Achieve quality of earnings
- Excel in project delivery
- Secure long-term workstreams

KPI performance / medium-term target

- Operating profit £52.2m / £40m–£45m

Relevant risks

- Economic uncertainty
- Health and safety incident
- Talent retention and attraction
- Partner insolvency
- Inadequate funding
- Mismanagement of working capital and investments
- Poor contract selectivity
- Poor project delivery

+22%
Revenue (£m)

22	**968**
21	795
20	700

+18%
Operating profit (£m)

22	**52.2**
21	44.2
20	32.1

-20bps
Operating margin (%)

22	**5.4**
21	5.6
20	4.6

OPERATING REVIEW continued
Fit Out

Revenue increased 22% to £968m (2021: £795m) while operating profit increased 18% to £52.2m (2021: £44.2m), a record result for the division, resulting in a strong operating margin of 5.4% (2021: 5.6%).

During the year, there was no significant change to the overall balance of the business compared to previous years. The commercial office sector contributed 73% of revenue (2021: 76%), with work in the public sector and for local authorities dropping back only slightly to 12% of revenue (2021: 16%), offset by an increase in higher education work to 11% (2021: 7%). The retail banking sector made up the remainder.

Similarly, the geographical spread of the business remained broadly similar to the prior year, with the London region accounting for 60% of revenue (2021: 58%).

In terms of type of work delivered in the year, there was a slight shift towards traditional fit out work, up to 87% of revenue (2021: 80%); however, this was not indicative of any longer-term trends. Design and build work made up the remainder at 13% of revenue (2021: 20%).

The proportion of revenue generated from the fit out of existing office space increased to 83% (2021: 78%), with the fit out of new office space reducing to 17% (2021: 22%). Of the fit out of existing office space, work was broadly split evenly between refurbishment 'in occupation' and non-occupied space. Again, such movements are not viewed as material.

At the year end, the secured order book was £841m, a sizeable workload albeit a reduction of 6% from the previous year end (2021: £897m). Importantly, of this total, £591m (70%) relates to 2023 and this level of orders for the next 12 months is 12% higher than it was at the same time last year.

In addition to these secured orders, the division had over £100m of work in the pre-contract 'preferred bidder' stage at the year end, as well as in excess of £300m of work already tendered and pending a decision and over £200m of work at the tender stage. The average value of enquiries received through the year was around £3m.

Our strategy in action

Supporting our client's social commitments

Fit Out transformed 370,000 sq ft over 13 floors for the European Bank for Reconstruction and Development (EBRD) in London's Canary Wharf. EBRD asked the division to use for inspiration its mission to 'invest in changing lives' and build a greener and more inclusive future for all.

Fit Out reviewed the steelwork requirement on the project and, by reducing or reusing steel, achieved significant cost savings and a carbon reduction of 65 tonnes. The project is on target to achieve BREEAM Outstanding and WELL Building Standard Platinum ratings.

Focusing on inclusivity, the project team instigated an on-site Period Poverty campaign, collecting more than 55,350 sanitary products for food banks and women's homeless shelters, enough to help 615 women for six months. This initiative led to the project achieving Considerate Constructors Scheme Leading Lights 'ultra site awards' for Equality, Diversity and Inclusion, and Workforce.

OPERATING REVIEW continued
Fit Out

Traditional office fit out projects won in the year included: 360,000 sq ft for Marsh McLennan in London; Shell UK's 250,000 sq ft Waterloo HQ; 250,000 sq ft for the relocation of a global financial organisation to Paddington; 150,000 sq ft HQ for GSK in London's Life Sciences hub, known as the Knowledge Quarter; 110,000 sq ft for a professional services firm in London; and 80,700 sq ft for ROKU Europe in Manchester.

Project completions included: 366,000 sq ft for the European Bank for Reconstruction and Development (EBRD) in Canary Wharf; 200,000 sq ft for BP in the North Colonnade in Canary Wharf; 141,000 sq ft for Boston Consulting Group in London; 57,000 sq ft for International Hotel Group in Windsor; 50,000 sq ft for Convene in Bishopsgate, London; 20,000 sq ft for CBRE Investment Management in London; 17,000 sq ft for Tarmac in Birmingham; 13,300 sq ft for euNetworks in London; and projects for the BBC in Newcastle and the Cambridge Design Partnership in Cambridge.

In higher education, projects won and on site during the year included: the 19,000 sq ft fit out of a laboratory and workspace at Queen Mary University's Francis Bancroft building; 25,000 sq ft for Coventry University that included a laboratory refurbishment; three projects for University College London totalling £40m; an £8m fit out and refurbishment of Middlesex University's West Stand at StoneX Stadium; and the fit out of the School of Health at Leeds Beckett University.

In commercial design and build, significant wins included: a 50,145 sq ft fit out for IMG Media in Stockley Park; KAO Corporation's new 11,500 sq ft London office; 10,000 sq ft for Navico at The Boathouse in Southampton; 8,000 sq ft for The Gibson Garage in London, the first dedicated office and retail experience for Gibson's guitar and music fans outside of the US; and the 2,500 sq ft HQ for Teck Resources in St James Square, London.

Design and build projects completed in the year included: Montagu Private Equity's new office in London; Hutchinson 3G UK/Three's new 117,000 sq ft workspace in Reading; and a 180,000 sq ft Cat A fit out at Campus Reading, one of the largest office developments in the UK.

Projects delivered through public sector frameworks and corporate partnerships included: an 86,000 sq ft office fit out for the Government Property Agency in Peterborough; £39m of works for the Mayor's Office for Policing and Crime, with a future order book of £22m; 39 projects won through Fit Out's partnership with NatWest Group; 10 projects for commercial landlord GPE to deliver 50,000 sq ft of high-quality lettable office space across London; and a 60,000 sq ft fit out for the University of Leicester via the Pagabo framework. Also via Pagabo, work continued at Nottingham Central Library for Nottingham City Council.

Divisional outlook

Fit Out's medium-term target has been upgraded as of February 2023 to reflect the division's 2022 performance, its market position and future prospects, and it is now expected to deliver average annual operating profit through the cycle of £45m–£50m.

The division exceeded this target in 2022 and, based on the timing of projects in the order book and the current visibility the division has of future workload for the first half, Fit Out is again expected to be slightly ahead of the top end of this new target in 2023, at broadly similar levels to 2022.

Fit Out

Upgraded medium-term target

£45m–£50m

Average annual operating profit through the cycle

Strategy

- Continued focus on enhanced customer experience
- Maintain current market share
- No compromise on quality of delivery

Market conditions

- Very strong demand driven by: lease renewals; repurposing offices; greater energy efficiency
- High level of enquiries

OPERATING REVIEW continued

Property Services

Property Services improved its performance in the period with an increase in revenue and operating profit.[1] Revenue growth was driven by the mobilisation of new contracts.

The quick read...

- Strategic focus remains on delivering repairs and planned maintenance with a strong social value offering
- Three new integrated contracts worth a total of £380m began operations in the year
- Operating profit and margin adversely impacted by inflationary pressures on labour, materials and other general costs
- Annual retrospective inflation-uplift mechanisms, to be applied to pricing from Q2 2023, are expected to drive significant uplift in profitability and progress towards medium-term target

Property Services

Supporting Group strategy

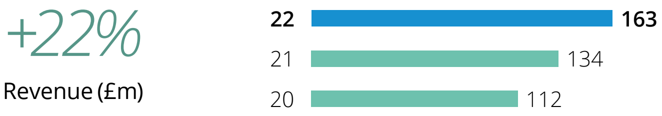
- Achieve quality of earnings
- Excel in project delivery
- Secure long-term workstreams

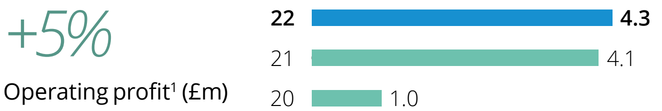
KPI performance / medium-term target

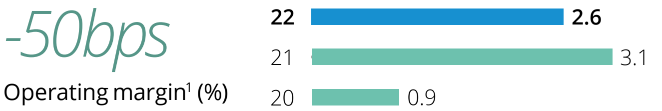
- Operating profit[1] £4.3m / £15m

Relevant risks

- Economic uncertainty
- Health and safety incident
- Talent retention and attraction
- Partner insolvency
- Inadequate funding
- Mismanagement of working capital and investments
- Poor contract selectivity
- Poor project delivery







1 Before intangible amortisation of £2.0m (2021: £1.5m).

OPERATING REVIEW continued
Property Services

Revenue increased 22% to £163m (2021: £134m) and operating profit 5% to £4.3m (2021: £4.1m), while operating margin was lower at 2.6% (2022: 3.1%). The significant revenue growth was primarily driven by new contracts being mobilised in the year. Specifically, three new integrated contracts worth a total of £380m started operations: a 10-year contract with South East housing association, Moat, to provide services to 11,500 homes across South East London, Kent, Essex and Sussex, worth over £200m and with the potential to be extended by a further five years; an £80m contract with Longhurst Group, maintaining 6,500 homes in their East region for up to 10 years; and a 10-year contract with Welwyn Hatfield Borough Council, delivering maintenance and planned works for 9,500 homes, worth £120m.

The addition of these new contracts provides a run-rate entering 2023 at which the division has sufficient critical mass to support the operating model and drive the focus on improved contract performance.

While revenue increased, however, operating profit and operating margin were both adversely impacted by inflationary pressures on labour, materials and other general costs. Due to the significant time lag between such cost increases experienced and the timing of annual inflation-uplift mechanisms in client contracts, the division was unable to recover any such increases in the year and absorbed the full impact on most of its responsive maintenance contracts. Operationally, availability of industry resource was also a continuous challenge throughout the year, which further impacted efficiency of contract delivery.

Strategically, the division remains focused on delivering repairs and planned maintenance with a strong social value offering, servicing public sector housing through its integrated contracts with housing associations and local authorities. At the year end, the secured order book was £1,204m, up 27% from the prior year end (2021: £945m). Of this total, in excess of 85% is for 2024 and beyond.

During the year, the division's data collection technology, goldeni, which was launched in 2021, was installed in hundreds of social homes. Its sensors pick up data on temperature, humidity and air quality to identify properties that may be susceptible to damp or mould, so that corrective action can be taken. In Basildon, 25 homes piloted new boiler sensors which send out alerts for any urgent repairs needed before the resident is even aware. The boiler programme will be expanded in 2023. Also planned for 2023 is a pilot scheme in St Albans where goldeni sensors will be used to test the effectiveness of energy-efficiency works.

Divisional outlook

The medium-term target for Property Services is £15m operating profit per year.

The 2022 result was significantly impacted by inflation in the cost base. For many of the division's responsive maintenance contracts, the annual retrospective inflation-uplift mechanisms will be applied to future pricing from the second quarter of 2023 onwards. The impact of this is expected to drive a significant uplift in profitability in 2023 and progress made towards its medium-term target.

OPERATING REVIEW continued
Property Services

Property Services

Medium-term targets

£15m
Operating profit

Strategy

- Improve operational efficiency and service levels
- Continue to complement services with social value offering

Market conditions

- Local authority clients more focused on housing maintenance
- Stable market with long-term workstreams
- Inflation affecting the profitability of contracts

Our strategy in action

Retrofitting more homes to save energy

Property Services transformed a one-bedroom terraced flat into an energy-efficient show home for Westminster City Council. The council is aiming for net zero carbon emissions on its housing estates by 2040 and hoped the show home would encourage more residents to sign up to its retrofit scheme. The flat's new energy-saving devices, including insulation, double glazing, air source heat pump, electric hob, smart ventilation bricks and solar panels, resulted in a 55% reduction in heat demand and an improvement in energy performance rating from E/D to B. Carbon emissions are expected to drop by c2.5 tonnes per year and energy bills by c£250. Following the show home's opening in July, it was visited 135 times and uptake to the retrofit scheme increased by 25%. To date, the division has retrofitted over 500 homes for the council.

"These measures are a really impactful step forward towards having a more comfortable home and will help reduce energy bills which we hope will be of comfort to residents during the cost of living crisis. These improvements will also hugely reduce carbon emissions."

Cllr Matt Noble
Cabinet Member for Climate Action,
Regeneration and Renters, Westminster City Council

OPERATING REVIEW continued

Partnership Housing

Partnership Housing delivered a strong operational performance in the year with good strategic progress made across the business.

The quick read...

- Revenue and operating profit up, with lower operating margin reflecting slight increase in lower-margin contracting work
- Successful year of winning high-quality work, providing good visibility of longer-term workstreams through partnerships
- Increase in secured order book, with 36% for 2024 and beyond
- Average capital employed expected to increase towards c£250m in 2023
- Expected to deliver materially lower profit in 2023; however, medium-term targets remain valid and unchanged

Partnership Housing

Supporting Group strategy

- Achieve quality of earnings
- Excel in project delivery
- Secure long-term workstreams

KPI performance / medium-term targets

- Operating margin[1] 5.4% / 8%
- Return on capital[3] 19% / up towards 25%

Relevant risks

- Economic uncertainty
- Exposure to residential market
- Health and safety incident
- Talent retention and attraction
- Partner insolvency
- Inadequate funding
- Mismanagement of working capital and investments
- Poor contract selectivity
- Poor project delivery

+22%
Revenue (£m)

22	696
21	572
20	474

+£41.5m
Average capital employed[1,2] (£m)

22	197.3
21	155.8
20	167.0

+13%
Operating profit[1] (£m)

22	37.4
21	33.2
20	16.0

+£33.7m
Capital employed[1,2] at year end (£m)

22	189.3
21	155.6
20	130.6

-40bps
Operating margin[1] (%)

22	5.4
21	5.8
20	3.4

Return on capital employed[3] (%)

22	19
21	21
20	10

1 Before exceptional building safety charge of £5.5m.
2 Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).
3 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by adjusted average capital employed.

OPERATING REVIEW continued
Partnership Housing

Revenue for the year was up 22% to £696m (2021: £572m). Split by type of activity, mixed-tenure revenue was up 15% to £371m (53% of divisional revenue) while contracting revenue (including planned maintenance and refurbishment) increased by 31% to £325m (47% of divisional total).

Operating profit increased 13% to £37.4m (2021: £33.2m), resulting in an operating margin of 5.4% (2021: 5.8%) with the margin reduction in part reflecting the dilutive impact of the slight change in business mix towards lower-margin contracting activities.

The division had a successful year of winning high-quality work, providing good visibility of longer-term workstreams through its partnerships. The secured order book at the year end was £1,984m, an increase of 32% on the prior year end (2021: £1,498m) with 60% of its total value for 2024 and beyond.

The return on capital employed for the year was 19%, based upon the average capital employed for the last 12-month period of £197.3m. The capital employed at year end was £189.3m, an increase of £33.7m from the prior year end. In 2023, the average capital employed is expected to increase up towards c£250m, reflecting the increased scale of the business and stage of developments.

Mixed tenure

Increasing the number and size of mixed-tenure sites continues to be a key aspect of the division's growth strategy. Significant progress has been made in this area, with currently a total of 58 mixed-tenure sites at various stages of construction and sales (up from 48 at the prior year end), and an average of 157 open market units per site (up from 143 at the prior year end). Average site duration is 48 months, providing long-term visibility of activity.

During the year, 1,936 units were completed across open market sales and social housing (including through joint ventures) compared to 1,653 units in 2021. The average sales price of £258k compared to the prior-year average of £249k. Of the open market units, a reduction in sales activity during the fourth quarter of the year was experienced in line with the rest of the UK housing industry.

Of the total divisional order book, the amount relating to the mixed-tenure activities increased 29% to £1,279m (2021: £992m). In addition, the amount of mixed-tenure business in preferred bidder status or already under development agreement but where land has not been drawn down was over £500m at the year end.

Partnership Housing increased its portfolio of long-term joint ventures during 2022. The division formally executed a 15-year joint venture with Suffolk County Council with an initial five sites (2,800 homes) immediately under option. Preferred bidder status was achieved with Peabody Developments for the next two phases of its major regeneration programme at Thamesmead totalling 750 new homes. In addition, Partnership Housing has been selected as preferred bidder by Scarborough Council for their 30-year 'Better Homes' joint venture, with initial sites identified to deliver over 700 new homes in the Scarborough area. Scarborough Council will be part of the new North Yorkshire Unitary Council from April 2023, which would be the contracting authority.

Planning permission was secured for the first scheme of Partnership Housing's joint venture with West Sussex County Council, with works anticipated to start on site in 2023. Compendium Living, the division's joint venture with The Riverside Group, began work during the year on two further phases worth £35m, at Ings in Hull and Castleward in Derby. Work also started on the development of 163 units at the site of the former Philips factory in South Lanarkshire; and 766 units on an additional phase of the One Woolwich Programme in London. The division legally completed the purchase of a 398-unit site in Queensferry, Edinburgh, with the majority of units affordable homes or forward sold to Sigma Homes as private-for-rent.

Elsewhere, progress continued on other mixed-tenure schemes, in partnerships with Riverside, Clarion Housing, Trafford Housing Trust, Together Housing Group, Repton Property Developments (owned by Norfolk County Council), the Borough Council of Kings Lynn & West Norfolk, Flagship Group, Pobl Group and Homes England.

Contracting

In contracting, the total number of equivalent units built was 2,010, up from 1,477 in the prior year. Of the total divisional order book, the contracting secured order book was 39% higher at £705m (2021: £506m), of which £357m is for 2023.

Key contracting schemes awarded in the year included: a £17m scheme in Stockton in conjunction with sister division, Urban Regeneration; a £70m project at Gallions 3B, Newham for Notting Hill Developments Ltd; a £30m, 143-unit scheme at Barne Barton,

OPERATING REVIEW continued
Partnership Housing

Our strategy in action

Creating new homes in Norfolk that help fund public services

Since 2019, Partnership Housing has been managing the development of council-owned land in Norfolk to create 385 new, quality homes in Acle, Hopton and Attleborough (46% affordable or shared ownership), with proceeds from the house sales going towards funding local public services.

Working with the council's development company, Repton, the division's role has extended from land acquisition and planning to construction, sales, and aftercare for the homebuyers. Partnership Housing has provided 15 apprenticeship opportunities on the scheme to date and has set up a formal education partnership with local Wensum Trust, to introduce its pupils to a career in construction.

Planning approval has been requested for a further 100 homes in Attleborough and discussions are ongoing with Repton to develop more areas in the county.

> **"Our priority is to build high-quality homes … across the county that deliver a financial return to help the council to continue delivering key services. Lovell's experience as a developer and a contractor, as well as their complete commitment to partnership working throughout the process, has been instrumental in our achieving these objectives and we look forward to continuing our excellent partnership with them as we progress further development opportunities over the next few years."**
>
> **Cllr Andrew Proctor**
> Chairman of Repton and Leader of Norfolk County Council

Plymouth, for Clarion Housing; a £15m, 90-unit scheme for Saffron Housing Trust on the old Wymondham Rugby Club site in South Norfolk; and the £20m, 124-unit Chartist Garden Village scheme in Pontllanfraith for Pobl Group. Work started on the final phase of development at The Mill in Cardiff and an £11m refurbishment scheme at The Lakes in Oldbury for Sandwell Metropolitan Borough Council, which will transform five low-rise residential buildings into modern social accommodation for rent.

Divisional outlook

Partnership Housing's medium-term targets are firstly to generate a return on average capital employed of up to 25%, and secondly to deliver an operating margin of 8%.

Looking ahead, although its focus on long-term partnerships with the public sector provides a reasonable level of forward visibility and resilience, the economic headwinds and general uncertainty in the housing market will inevitably impact on the division's financial performance.

Current expectations are that the division will deliver materially lower profit in 2023 compared to 2022, with both its medium-term target measures of operating margin and return on capital employed also expected to be significantly lower in the year. Despite this, however, the medium-term targets remain valid and unchanged and strategic development and investment in the business will continue to progress as planned.

Partnership Housing

Medium-term targets

25%
Return on capital employed up towards 25%

8%
Operating margin

Strategy

- Increase in the size and number of mixed-tenure sites
- Geographical expansion
- Continue to invest for the future despite the downturn

Market conditions

- Strong pipeline of large mixed-tenure schemes
- Good market for contracting work provides resilience
- Lower sales in mixed-use sites in fourth quarter of 2022. Slight pick up in the first few weeks of 2023

OPERATING REVIEW continued

Urban Regeneration

Urban Regeneration made good progress with its long-term regeneration schemes, delivering a significant uplift in activity and performance in the year.

The quick read...

- Increase in operating profit and return on capital employed
- Key contributors to performance were profit and development fees from Lewisham Gateway, London, and New Victoria, Manchester, and the sale of 166 homes across the portfolio
- Average capital employed for 2023 expected to increase to c£110m
- Return on capital employed was 20% in 2022 and a broadly similar performance is expected in 2023

Urban Regeneration

Supporting Group strategy

- Achieve quality of earnings
- Excel in project delivery
- Secure long-term workstreams

KPI performance / medium-term target

- Three-year rolling average return on capital employed[3] 13% / up towards 20%

Relevant risks

- Economic uncertainty
- Exposure to residential market
- Talent retention and attraction
- Partner insolvency
- Inadequate funding
- Mismanagement of working capital and investments
- Poor contract selectivity
- Poor project delivery

+20%
Revenue (£m)

22	244
21	203
20	124

+£16.4m
Capital employed[1,2] at year end (£m)

22	100.4
21	84.0
20	100.8

+56%
Operating profit[1] (£m)

22	18.9
21	12.1
20	8.8

Return on capital employed[3] (last 12 months) (%)

22	20
21	13
20	7

-2.2m
Average capital employed[1,2] (£m)

22	96.5
21	98.7
20	124.0

Return on capital employed[3] (average last three years) (%)

22	13
21	12

1 Before exceptional building safety charge of £43.4m.
2 Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).
3 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by adjusted average capital employed.

OPERATING REVIEW continued
Urban Regeneration

Operating profit of £18.9m was an increase of 56% on the prior year (2021: £12.1m), while the return on capital employed in the year increased to 20%, based on the average capital employed in the year of £96.5m.

Key contributors to performance were profit and development fees generated from Lewisham Gateway, London, and New Victoria, Manchester, developments which were both subject to forward funding deals signed in 2020; and the sale of 166 homes across the portfolio, including 115 sales at Atelier, Salford, delivered by The English Cities Fund (a joint venture with Legal & General and Homes England). The operating result also included a charge of £4.3m relating to building remediation costs which arose in the ordinary course of business and are not within the scope of the exceptional building safety charge (see page 61).

Of the division's active long-term regeneration schemes, construction progress was made with the final phase of Lewisham Gateway which will deliver 649 homes for rent, c25,000 sq ft of retail space, c15,000 sq ft of food and beverage space, 10,000 sq ft of offices and Lewisham's first major multiplex cinema, pre-let to Empire Cinemas. Work also continued at New Victoria, Manchester, to deliver 520 homes for rent on a 450,000 sq ft, formerly unused site next to Manchester Victoria train station, due to complete in 2023; 106 homes at Islington Wharf in Manchester, through the division's Waterside Places joint venture with the Canal and River Trust; 113 affordable homes at Northshore in Stockton-on-Tees; a 64,000 sq ft office building and 399-space multi-storey car park at Stockport Exchange; two office buildings totalling 150,000 sq ft in Birkenhead, pre-let to Wirral Council; and a 144-bedroom Holiday Inn hotel in Blackpool.

In addition, a number of new schemes and phases commenced. Construction began in 2022 on One City Park, a 56,000 sq ft office building in Bradford city centre; the final phase at Hale Wharf, Tottenham Hale, to deliver a further 191 affordable homes for Haringey Council; and Forge Island, a new leisure destination in Rotherham town centre that will provide a boutique cinema, Travelodge hotel and six independent restaurants.

Completions in the year included the final 100,000 sq ft units at Logic Leeds, bringing the 15-year regeneration scheme to an end; 211 homes for sale at the Novella apartment development in Manchester; 34 homes (30 affordable) handed over as part of the 75-home Brixton Centric in partnership with Lambeth Council and Notting Hill Genesis housing association; and 44 homes at West Cliff Mansions, Bournemouth, through the Bournemouth Development Company joint venture with BCP Council.

Several developments within The English Cities Fund joint venture were active during the year, including Four New Bailey, Salford, where a 20-year pre-let had been signed with BT for 175,000 sq ft of Grade A office space; and the Eden building at New Bailey, a 115,000 sq ft, speculative office building, designed to be carbon neutral in operation and featuring Europe's largest living wall (43,000 sq ft), which is due to complete in 2023. Planning consent was secured for a new 22-storey, 196-apartment building for rent in Salford Centre; and for the regeneration of St Helens and Earlestown town centres in partnership with St Helens Borough Council, which will create new homes, transport infrastructure and public spaces.

The £2.5bn, 240-acre, mixed-use regeneration of Salford Crescent also progressed with planning consent obtained to deliver Salford Rise, a 90-metre, green boulevard that will connect communities in Salford with new opportunities generated by Salford Crescent.

Early-stage progress has also been made on a number of schemes. Plans are progressing following a public consultation on Horsham Enterprise Park, a sustainable new neighbourhood for Horsham, which will provide 270,000 sq ft of commercial space, up to 300 high-quality homes and extensive improvements to public spaces. The division will be working together with Partnership Housing on the residential element. Plans are also being prepared for submission following a public consultation exercise for Weston M6, a £176m, 1.3m sq ft employment park near the HS2 interchange in Crewe; and for the revitalisation of Prestwich in partnership with Bury Council, to create a new heart in the village centre with wellbeing spaces, new homes, a community hub and public realm.

In the second half of the year, the division was selected as development partner for Arden Cross, Solihull, a £3bn scheme to create an internationally connected, 346-acre city district including up to 6m sq ft of commercial development, up to 3,000 homes, key transport infrastructure and large areas of public space. The development agreement is set to be signed in 2023, followed by a master-planning and public consultation exercise. Arden Cross will take approximately 20 years to complete.

The active development portfolio of schemes includes 16 projects on site at the year end, totalling £1,215m gross development value,[1] with a further five projects with a gross development value of £334m, expected to start on site in 2023.

At the year end, the order book was £1,847m, a reduction of 28% on the prior year end, and is long term in nature with over 70% of its value for 2025 and beyond. As the division's new business pipeline tends to be large-scale schemes which can take a significant time to bid, any short-term movements in the order book are not considered to be representative of future workload. No value is yet taken in the order book for Arden Cross.

The order book retains a diverse regional and sector split:

- by value, 42% is in the North West, 46% in London and the South East, 10% in Yorkshire and the North East and 2% in the rest of the UK: and
- by sector, 49% by value relates to residential, 29% to offices and 13% to industrial with the remainder broadly split between retail and leisure.

Divisional outlook

Based upon the current profile and type of scheme activity across the portfolio, the average capital employed for 2023 is expected to be c£100m.

The medium-term target for Urban Regeneration is to increase its rolling three-year average return on capital employed up towards 20%. The division delivered a return on capital employed of 20% in 2022 and a broadly similar performance is expected in 2023.

1 Includes projects delivered through joint ventures at 100% of the project value to the joint venture.

OPERATING REVIEW continued
Urban Regeneration

Our strategy in action

Reconnecting a community

Lewisham Gateway is one of South East London's largest regeneration schemes, delivering much-needed new homes and commercial and leisure space in the heart of Lewisham. The borough was originally dominated by a large, congested roundabout that cut it off from the local train stations. Phase 1 of the scheme included removing the roundabout, re-routing two culverted rivers and rebuilding the highway system. The result was easy access to transport and land freed up to create a vibrant new place to live, work and visit. Phase 2 is making good progress, and by its completion in winter 2023 Lewisham Gateway will have delivered 1,000 new homes, 10,000 sq ft of flexible workspace, c20 shop and restaurant units, a new riverside park with children's play space, and a long-awaited multiplex cinema.

"Lewisham Gateway ... represents true regeneration, repurposing an under-utilised and congested site to create an attractive and thriving new neighbourhood which brings benefits not just to Lewisham but the wider area, improving connectivity and providing new opportunities."

Heather Juman
Head of Area South, Housing and Land, Greater London Authority

Urban Regeneration

Medium-term target

20%

Three-year rolling average return on capital employed up towards 20%

Strategy

- Increase size and length of mixed-use regeneration schemes
- Grow presence in Midlands region, eg Arden Cross scheme
- Greater selectivity of higher return on capital employed schemes

Market conditions

- Strong government support for mixed-use urban regeneration
- Good prospects for new mixed-use schemes of scale
- Lots of bidding activity

MANAGING RISK

Our approach to risk is based on sound governance

Risk is inherent in our business and cannot be completely eliminated. However, our risk governance model ensures that our principal risks and robust internal controls are under regular review at all levels.

Our operational teams are highly skilled in their fields and valued for their ability to identify and manage the risk embedded in our day-to-day operations. The mix of skills and experience of our people is a valuable resource at all key stages, from project selection, through bidding to project delivery. A detailed system of delegated authorities allows our people the ability to perform while at the same time being responsible and accountable for their actions.

Our senior management teams at divisional and Group level, aided by our internal reporting process, maintain oversight to ensure that all decisions and actions remain in line with our expectations and risk appetite.

Risk governance

Top-down
Define risk appetite; identify, assess and mitigate risk at corporate level

Group Board
Responsible for setting the Group's risk appetite and ongoing risk management, including assessing principal and emerging risks.

Audit committee
Assists the Board in monitoring risk management and internal controls and by formally reviewing Group and divisional risk registers.

Divisional boards
Identify risks facing their businesses and take measures to mitigate the impacts. Senior managers take ownership of specific risks and ensure that appetite levels are not exceeded.

Risk committee
Heads of key Group functions – legal, company secretarial, IT, finance, audit, tax, treasury and commercial – review Group and divisional risk registers before presentation to the Board and audit committee. The committee ensures inherent and emerging risks across the Group are identified and managed appropriately.

Group forums
Cross-divisional groups dedicated to topics such as health and safety, HR, IT security, social value and climate action. Meet regularly to discuss matters arising, taking action where necessary via established authorities and reporting lines.

Detailed risk reviews
Conducted twice a year by each division, recording significant matters in their risk registers. Each risk is evaluated, before and after the effect of mitigation, as to likelihood of occurrence and severity of impact on strategy.

Strategic planning
Objectives and strategies are set to align with the risk appetite defined by the Board. Any changes are reviewed at monthly Group and divisional Board meetings to ensure matters are addressed in an ongoing and timely manner.

Delegated authorities
Approval of material decisions – such as project selection, tender pricing and capital requirements – is assigned to appropriate levels of management up to and including the Board; for example, the Board must approve undertaking large or complex projects.

Divisional reporting
Divisional risk registers highlight risks and mitigations embedded in day-to-day operations for which every employee has some responsibility. Significant risks are monitored via rigorous reporting and communicated to the Board and delegated authorities.

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

Bottom-up
Identify, monitor, report and mitigate risk at operational level

Our risk profile

The Group's risk profile continues to be supported by a strong balance sheet and secured workload, and a continued focus on contract selectivity.

The quick read...

- The government remains committed to investment in construction and infrastructure and a substantial proportion of our work is with public sector and regulated industry clients
- Our teams have been managing macroeconomic challenges with the support of our clients, partners and supply chain, with whom we have long-term relationships
- Our strong balance sheet, contract selectivity, high-quality delivery and prudent risk management give us resilience

Our markets have continued to receive high levels of government support owing to their contribution to the UK economy and underlying demand. In addition, the Group's resilience and agility have been demonstrated during periods of macro disruption, which provides comfort for the future.

This resilience is the result of a number of factors, including our strong balance sheet, our decentralised approach and ability to respond quickly to change, and our long-term focus on contract selectivity, high quality of delivery, prudent risk management and strong client and supply chain relationships (see pages 15, 16 and 35).

The macro environment

UK construction continues to benefit from the government's sustained commitment to investment, as confirmed in the Autumn Statement, particularly in regeneration, construction and infrastructure (primary areas in the UK targeted for growth). In addition, our diversity of offering protects the business from cyclical changes in individual markets.

Inflation

We have witnessed significant inflationary pressures as a result of macro conditions that initially included Brexit and Covid, and more recently include the conflict in Ukraine and the energy crisis.

Despite the considerable challenges presented by these issues, our project teams have managed the impacts well, resulting in minimal disruption to our operations. Our supply chain partners have been very supportive, due partly to the Group's standing in the industry but also, importantly, to the excellent working relationships and practices we have established with them in recent years.

Our preferred and predominant two-stage and negotiated procurement routes help significantly by allowing early collaboration with our clients and supply chain. This enables us to set pricing levels at a very early stage and gives us a great degree of programme certainty. We have also used mechanisms such as contingency allowances and/or indexation provisions on contracts. During construction, we closely monitor the timing of materials deliveries and intervene with support for our supply chain where required.

Inflation has stretched budgets and resulted in some instances of us, our clients and our partners delaying decisions; however, our current order book and predominant public sector and regulated industry focus do offer some resilience, particularly as underlying demand is still strong.

There is an increasing risk that our supply chain partners may be trading with strained finances as a result of inflationary and borrowing pressures, compounded by increases in interest rates. Our teams are acutely aware of this and have increased their due diligence as well as providing help and assistance where appropriate. We do expect to see further disruption during 2023, but not material.

Partnerships and public sector clients

The divisions remain focused on long-term partnerships, our favoured route to market as it allows us to work with clients and in environments where we have a track record in delivery, enabling more predictable outcomes. In addition, a substantial proportion of our regeneration schemes and construction order book are supported by public sector and regulated industry clients, via frameworks with committed spend and joint venture arrangements secured over the medium to longer term. Our regeneration activities consist mostly of lower-risk, non-speculative arrangements that ensure more efficient use of capital, underpinned by a long-term visible pipeline.

Divisional perspectives

Construction & Infrastructure's long-term focus on selecting the right projects has continued to deliver margins within its target range and a positive cash position and reflects its work over the past few years to improve risk management in all areas of its operation. The division's future order book remains high quality, consisting predominantly of public sector work via two-stage or negotiated procurement routes in established sectors. Contingency allowances and the ability to pass through supply chain costs have been maintained by our preferred procurement routes and our focus on delivering essential and critical infrastructure.

MANAGING RISK continued
Our risk profile

Fit Out, while more susceptible to GDP and macroeconomic fluctuations, also enjoys a significant proportion of two-stage/negotiated work in its future order book with visibility into 2023. Demand remains high as offices are repurposed and the short timescale of most projects assists with control of inflationary measures.

Partnership Housing and Urban Regeneration have continued to see high levels of residential demand during 2022 with sales exceeding expectations across a broad UK portfolio. In the medium term, we are reassured that our housing capability is geared towards the UK's underlying need for housing, and the fact that the homes we build, aimed at the affordable end of the market, should remain in demand.

Looking forward to 2023, there are several macro uncertainties that could put pressure on our residential portfolio. For example, households are faced with rising prices (most notably energy costs), resulting in lower consumer confidence, and government incentives are set to reduce. However, UK structural demand for affordable housing, where most of our portfolio resides, is undiminished, employment prospects remain positive and the political incentive is strong.

Whatever scenarios play out, we have several options available to help mitigate and manage negative fluctuations should they arise. For example, a large proportion of our schemes are in public sector partnerships. These are typically earmarked to improve and accelerate local estate regeneration and they therefore continue to be driven by central and local government, even in declining markets. These schemes are resilient because they are flexible; future phases can be remodelled to meet changing market dynamics, such as changes to the commercial and tenure mix or alternative funding structures. In addition, the schemes are subject to viability testing, eligible for gap funding, include profit-sharing arrangements, allow for alteration in the pace of the build, and include robust risk and capital controls, all of which reduces risk and helps manage expenditure by limiting exposure at key stages of development. As a result, we expect progress in some regeneration projects to slow but not stop.

While we work closely with our local authority partners, challenges relating to planning delays remain an issue for our development programmes.

The Building Safety Act has tightened safety regulations for residential buildings, and we are well advanced in our response to ensure that current live project specifications are compliant. We have investigated issues on past projects and made provisions, with the cash expected to be expended over the next two to three years. Some of the cash may be recoverable, although this will take time to resolve. More detail on our activities in relation to the Building Safety Act can be found on page 8.

Property Services has been affected in the short term by inflationary pressures. Given the prevailing circumstances, in most instances we have negotiated with our customers compensation above standard Consumer Price Index, although there will be a lag before the full impact of this is felt.

Financing

In terms of resourcing our medium- and long-term plans, the Group remains in a strong financial position (see page 45 for detail of our average daily net cash and committed credit facility).

People

Where we are recruiting, we are seeing significant interest in the new positions we have created to help us achieve our strategic objectives. However, we do recognise some challenges associated with changes in lifestyle, cost of living, poaching and an ageing workforce, which we must carefully manage.

A culture where people feel included and empowered continues to be a key ingredient of our success, and our commitments to tackling climate change and delivering social value are key to attracting and retaining the talent we need to grow and sustain the business. Read more on how we engage with and develop our people on pages 16 and 24 to 27.

This review should be read in conjunction with the viability statement on pages 96 to 98.

MANAGING RISK continued

Principal risks

Our principal risks are those we consider the most significant in terms of potential impact to the business and have been extensively reviewed.

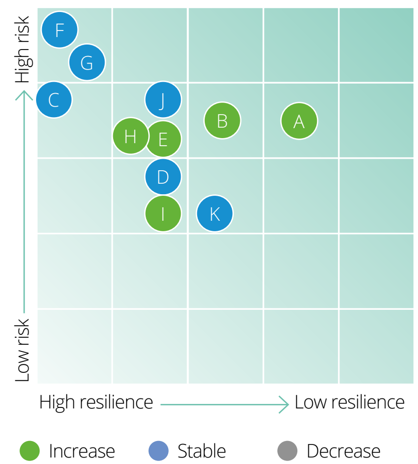
In 2022, the Board conducted its annual review of the Group's risk appetite and noted that macroeconomic uncertainty, together with inflationary and interest rate headwinds, continues to elevate certain risks towards the upper end of appetite. It noted that the Group's current strategy was well suited to deal with these issues; however, given their fluidity, the Board would closely monitor the situation during 2023 and, should the need arise, take appropriate action which the Group is well placed to manage. The adjacent table indicates our risk appetite and risk velocity (the speed at which the risk would impact the Group).

Risk appetite and velocity

Principal risk	Risk appetite	Risk velocity	Risk category	Internal/ external risk	Strategic priority
A. Economic change and uncertainty	Medium		Strategic	External	
B. Exposure to the UK residential market	Medium		Strategic	External	
C. Health and safety incident	Low		Operational	Internal	
D. Talent retention and attraction	Medium		People	Internal	
E. Partner insolvency or adverse change of behaviour	Low		Financial and operational	Internal	
F. Inadequate funding	Low		Financial	Internal	
G. Mismanagement of working capital and investments	Low		Financial	Internal	
H. Poor contract selectivity	Medium		Operational	Internal	
I. Poor project delivery	Low		Operational	Internal	
J. Cyber activity/failure to invest in IT	Low		Operational	External and internal	
K. Climate change	Low	[1]	Strategic and operational	External	

1 Risk velocity impacts are both short/medium term (e.g. severe weather event) and long term (e.g. temperature change).

Risk severity and resilience



Risk velocity

Within three months

Within one year

Over a year

Strategy key

Increase our quality of earnings

Excel project delivery for our clients

Consistently deliver on our Total Commitments

Secure long-term workstreams

Maintain a strong balance sheet

MANAGING RISK continued
Principal risks

Strategic risk

A. Economic change and uncertainty

Despite economic headwinds, our market sectors remain structurally secure and our balance sheet strong. We believe the diversity of our operations, quality and volume of our pipeline of opportunities, and secured short- and medium-term workload in both regeneration and construction will provide a level of insulation against any specific adverse market conditions where they occur.

Risk description

There could be fewer or less profitable opportunities in our chosen markets, including a decline in construction activity caused by macroeconomic weakness.

Allocating resources and capital to declining markets or less attractive opportunities would reduce our profitability and cash generation.

Update on risk status

- Continued scrutiny of UK construction balance sheets underpins our competitive position in the sector and gives confidence to our clients, employees and supply chain.
- In a declining market, a strong balance sheet allows us to remain agile, continue to take long-term decisions and respond to opportunities.
- The UK is continuing to invest in areas that complement our strategy (as confirmed in the Autumn Statement), including affordable housing, education, critical infrastructure and urban regeneration. Our business model is designed to provide a mix of earnings across different market cycles.
- The Group has shown strong credentials throughout the recent market turbulence and we expect to navigate any subsequent market fluctuations with limited material disruption.
- Our public and regulated sector focus, pipeline and order book, coupled with a strong underlying demand for buildings in these sectors, gives some comfort around inflationary and interest rate challenges provided government funding continues to accommodate increases.

Mitigation

- The diversity of our operations protects against fluctuations in individual markets while our decentralised approach enables our divisions to respond quickly to change.
- The Board regularly reviews the economic environment in which we operate to assess whether any changes to the outlook justify a reassessment of our risk appetite or business model.
- We stress test our business plan against the current economic outlook to ensure our financial position is sufficiently flexible and resilient.
- We are strategically focused on a high-quality order book underpinned by a strong balance sheet and financial strength.
- A high proportion of our secured workload is with public sector and regulated entities via long-term arrangements, with a healthy level of demand and typically preferential terms.
- We continue to be very selective and our procurement routes, margins, contract terms and secured workload remain favourable.
- We use analytical software to enhance our understanding of our medium-term pipeline quality and risk, enabling us to predict trends more accurately and adjust our strategy in response.

Change in risk

Responsibility

The Board

Strategic priority

MANAGING RISK continued
Principal risks

Strategic risk

B. Exposure to the UK residential market

Government support for UK housing needs complements our product positioning. While government housing incentives have reduced, the homebuyer market continues to be supported by employment levels (including high job vacancies) which are favourable and expected to remain so over the short to medium term. Headwinds such as interest rate rises and inflation could impact consumer confidence, mortgage availability and loan-to-value ratios. However, our portfolio is geared towards the affordable market which the government is expected to continue to incentivise.

Risk description

The UK housing sector is strongly influenced by government stimulus and consumer confidence.

Inflationary and interest rate pressures could challenge scheme viability, slowing down our secured order book conversion.

If mortgage availability, affordability or consumer confidence is reduced, this could impact on demand, make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital.

Update on risk status

- During 2022, residential sales and volumes returned to pre-Covid levels and, on certain schemes, we accelerated build to meet increased demand.
- We have experienced a reduction in sales activity in the fourth quarter of 2022 in line with the rest of the UK housing industry, but underlying demand combined with the geographical characteristics of our portfolio and our affordable housing offering provide some comfort.
- Clear government support for new affordable housing continues, which supports our business model and market positioning.
- In Urban Regeneration, there are short-term viability challenges to navigate due to current inflation and interest rates. We are working through this with our partners and, where necessary, seeking additional gap funding and sources of finance with better terms. We expect progress in some regeneration projects to slow but not stop.
- Negative housing dynamics such as a reduction in consumer confidence due to lower real net disposable income could impact sales; however, current and future government stimuli, such as the stamp duty reliefs and mortgage guarantee scheme for properties up to £600k, complement our product offering.
- Constrained planning remains a frustration and has the potential to delay our schemes. However, anticipated improvements in the system could allow further efficiencies and increase the speed at which we bring developments forward.
- Commentators suggest that household inflation should ease in the second half of 2023, which should help alleviate affordability issues.

Mitigation

- A rigorous, three-stage formal appraisal process is undertaken before committing to development schemes and capital commitments.
- We work closely with public sector partners and government agencies such as Homes England to secure extra development funding if required.
- We use mostly non-speculative, risk-sharing development models, subject to viability conditions that lessen negative impacts from market fluctuations.
- On selected large-scale residential schemes, we seek to forward sell and/or fund sections to targeted institutional investors to reduce risk.
- Our residential portfolio has a wide geographical spread, protecting against regional market variations, and is geared towards providing an affordable product.
- Rather than building up a land bank, we target option agreements with landowners that limit and/or defer long-term exposure and boost return on capital employed.
- We regularly monitor and forecast our pipeline of development opportunities and secured workload, which includes monitoring key UK statistics such as unemployment, lending and affordability.
- For a large proportion of current schemes, we have the ability to slow (or accelerate) build rates should the need arise.
- Our partnership model provides some resilience by allowing us to flex scheme phasing, timing, tenure mix and funding structures to suit varying market scenarios. The model can be de-risked by increasing the proportion of contracting work in Partnership Housing, forming strategic joint ventures and increasing the proportion of affordable units.

Change in risk

Responsibility

The Board, executive directors and divisional senior management teams

Strategic priority

MANAGING RISK continued
Principal risks

Operational risk

C. We cause a major health and safety incident and/or adopt a poor safety culture

We made improvements in our safety performance in the first half of 2022, having taken steps to increase health and safety awareness and promote safe behaviours. Our challenge now is refining our approach to drive further improvement and ensure that everyone who comes into contact with our work, on and off site, goes home safe and well.

Risk description

Our number one priority is to protect the health and safety of our key stakeholders and the wider public.

Health and safety will always feature significantly in the risk profile of a construction business. We carry out a significant portion of our work in public areas and complex environments.

Accidents could result in legal action, fines, costs and insurance claims as well as project delays and damage to reputation. Poor health and safety performance could also affect our ability to secure future work and achieve targets.

Update on risk status

- We have continued to reinforce the principles of 'safe by design', where safety is considered throughout the design process.
- To address underlying trends contributing to safety incidents, we focused on three areas in 2022: trips, slips and cuts; material handling and storage; and the use of powered/non-powered tools. See page 20 for more information.
- We continued to meet the ISO 45001 standard for occupational health and safety.
- The divisions took steps to increase awareness and promote safe behaviours (see page 21 for details).

Mitigation

- The Board is responsible for health and safety, which is the first item on the agenda at every Board meeting. In addition, our responsible business committee focuses on our health and safety culture to drive better behaviour and performance.
- Individuals in each division, and on the Board and Group management team, are given specific responsibility for health and safety matters.
- Our Group health and safety forum meets quarterly, with representatives from all divisions sharing best practice and exchanging information on emerging risks.
- We have well-established procedures in place including safety systems, audits, site visits, incident investigation and root-cause analysis, monitoring and reporting, and reporting of near-miss incidents and incidents that could potentially have resulted in serious injury.
- Our regular health and safety training includes behavioural change, housekeeping on site and leadership engagement in driving site standards.
- Each division's health and safety policy is communicated to all its employees, and senior managers are appointed to ensure the policies are implemented.
- We have developed major incident management and business continuity plans, which are periodically tested and reviewed.
- All divisions are accredited to ISO 45001 (see page 20).
- We continue to offer our colleagues a range of benefits that promote physical and mental wellbeing (see pages 21 and 22).

Change in risk

Responsibility

The Board, Group management team, divisional senior management teams, health and safety forum

Strategic priority

MANAGING RISK continued

Principal risks

People risk

D. We fail to attract and retain the talent we need to maintain and grow the business

Our current success is helping us attract and retain people, and in the short to medium term we are focusing on increasing the Group's diversity. Current staff retention is challenged by both social and business-related issues, for example lifestyle changes, poaching and an ageing workforce.

Risk description

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

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

If we fail to attract and retain the talent required to meet our clients' and other stakeholders' expectations, this could damage our reputation and our ability to secure future work and meet our targets.

Update on risk status

- Improvements continue to be made to the working environment and investment made in technology and leadership training.
- We are responding to the challenge of an ageing employee population and undertaking work to improve our diversity and inclusion (see pages 24 and 25).
- We are considered a leader in the sector in addressing climate emissions, which should help attract younger recruits. We also offer an increasing digital emphasis and improved working environments, practices and employment packages. However, it is recognised that the sector has work to do in terms of being attractive and the first choice for young people.

Mitigation

- We give our people empowerment and responsibility together with clear leadership and support.
- We offer them a strong Group culture and attractive working environments, remuneration packages, technology tools and wellbeing initiatives to help improve their working lives.
- We conduct employee engagement surveys and monitor joiner and retention metrics including voluntary staff turnover. We carry out annual appraisals that provide two-way feedback on performance and conduct exit interviews when people leave.
- Our succession planning includes identifying and developing future skills.
- We provide training and development to build skills and experience, such as our leadership development and graduate, trainee and apprenticeship programmes.

Change in risk

Responsibility

The Board, Group management team, divisional senior management teams

Strategic priority

See pages 24 to 27 for more information about our commitment to developing people.

MANAGING RISK continued
Principal risks

Financial and operational risk

E. Partner insolvency and/or adverse behavioural change

Some partners may have been trading with stretched finances following the pandemic, the unwind of government measures introduced to support business recovery, and the reverse charge VAT initiative. More recent inflation and interest rate increases have likely put further pressure on our partners' balance sheets, leading to a greater likelihood of failure.

Risk description

An insolvency of a key client, subcontractor, joint venture partner or supplier could disrupt project works, cause delay and incur the costs of finding a replacement, resulting in significant financial loss. There is a risk that credit checks undertaken in the past may no longer be valid.

Update on risk status

- As we are less able to rely on historical supply chain credit checks, our teams have heightened sensitivity and are looking for signs of stress that would enable early intervention and options to resolve; this includes measures to gain greater control and transparency.
- Current UK macroeconomic issues have stretched many of our supply chain partners' balance sheets. However, the strength of our balance sheet gives us the option to step in and help them manage short-term issues, such as cash flow, if and as deemed appropriate.
- Our strategy has been to reduce payment days and our supply chain partners regard us as dependable and responsible. In addition, we do not hold any cash in the form of retention from our preferred supply chain partners which helps reduce their cash flow pressures and the likelihood of failure.

Mitigation

- Our business model and order book are predominantly focused on public sector and regulated industries and commercial customers in sound market sectors, reducing the likelihood of a material customer failure.
- We carry out rigorous due diligence, particularly on commercial clients and supply chain partners, obtaining where necessary relevant securities in the form of guarantees, bonds, escrows and/or more favourable payment terms.
- We conduct a formal, multi-stage tender review and approval process before entering into contracts, with a focus on client payment behaviours, cash terms and profiling, and liquidity.
- Formal due diligence is carried out when selecting joint venture partners, including seeking protection in the event of default by one of the partners. Joint ventures require executive director approval.
- We work with preferred or approved suppliers where possible, which aids visibility of both financial and workload commitments.
- We monitor our supply chain utilisation to ensure we do not overstress their finances or operational resource.
- We rigorously monitor work in progress, debts and retentions.

Change in risk

Responsibility

Executive directors, divisional senior management teams

Strategic priority

MANAGING RISK continued
Principal risks

Financial risk

F. Inadequate funding

Our committed bank facilities of £180m are in place, £165m until October 2025 and £15m to March 2024, which, coupled with our strong cash position, provide significant headroom.

Risk description

A lack of liquidity could impact our ability to continue to trade, or restrict our ability to achieve market growth or invest in regeneration schemes.

Update on risk status

- £180m of bank facilities remained available but undrawn throughout the year.
- During the reporting period and for the foreseeable future, our average net daily cash continues to be healthy and clearly indicates the cash-backed nature of the business.
- Our balance sheet continues to provide assurance for our stakeholders and allows us to continue investing in regeneration schemes while remaining selective in construction.

Mitigation

- We have a Group-led, disciplined capital allocation process for significant project-related capital, which takes into consideration future requirements and return on investment.
- We monitor our cash levels daily and conduct regular forecasting of future cash balances and facility headroom.
- Our long-term cash forecasts are regularly stress tested.

Change in risk

Responsibility

Executive directors, Group tax and treasury director, divisional senior management teams

Strategic priority

G. Mismanagement of working capital and investments

Our strong balance sheet and cash position continue to support investment in long-term regeneration schemes and protect against economic downturn, allowing us to make the right long-term decisions.

Risk description

Poor management of working capital and investments leads to insufficient liquidity and funding problems.

Update on risk status

- Our ongoing focus on working capital management has enabled us to maintain levels similar to prior years while continuing to improve our supply chain payment practices and investment in regeneration.
- Our cash position is not supported by any form of supply chain debtor finance and gives a clear indication of our financial health.
- We continue to maintain a positive momentum in cash management in construction due to a combination of improved returns, cash optimisation and cash conversion.
- Our average net daily cash for the period demonstrates our disciplined working capital management.
- The introduction of the VAT reverse charge for construction services in March 2021 had the effect of significantly improving our net cash position.

Mitigation

- Our delegated authorities require that capital and investment commitments are notified and signed off at key stages with senior level approval.
- We reinforce a culture within our bidding and project teams of focusing on cash returns to ensure they meet expectations.
- We monitor and manage our working capital with an acute focus on any overdue work in progress, debtors or retentions.
- We monitor cash levels daily and produce weekly cash forecasts.
- We manage our capital on regeneration schemes efficiently, for example through phased delivery, institutional and government funding solutions, and forward funding where possible.

Change in risk

Responsibility

Executive directors, Group tax and treasury director, divisional senior management teams

Strategic priority

MANAGING RISK continued
Principal risks

Operational risk

H. Poor contract selectivity and/or bidding

The quality of our long-term secured workload in our predominantly public and regulated industry sectors should safeguard our future performance, allowing us to continue selecting the right projects. Client budgets have become more stretched and preconstruction periods are taking longer. We continue to maintain sensible contingency levels, although these have narrowed, and there is scope for passing through inflationary costs, particularly on the essential and critical work we carry out.

Risk description

In a volatile market where competition is high, a division might accept a contract outside its core competencies or for which it has insufficient resources.

If a contract is incorrectly bid, this could lead to contract losses and an overall reduction in gross margin. It might also damage our relationship with the client and supply chain, leading to a reduction in work volumes.

Update on risk status

- Our order book consists of a high proportion of public sector, regulated industry and framework clients with typically healthier risk profiles and is secured in limited competition.
- We have not changed the sectors or markets we operate in and are therefore unlikely to engage in a project outside of our capability. In construction, the majority of our work has been secured via negotiated and two-stage procurement routes.[1]
- Materials availability and inflation have been challenging in the period, requiring significant additional management, but have not resulted in any major issues. This is due largely to our standing in the market, the dedication of our people and supply chain (see page 35), and our focus on preferred procurement routes.
- In construction, inflation is generally managed through negotiated and two-stage procurement routes and the use of project contingencies and/or indexation that allow price increases to be recovered.

Mitigation

- It is part of our strategy and culture to be selective in our work. We target optimal markets, sectors, clients and projects. We limit our participation in open market bids, conducting a large proportion of our projects via framework or joint venture arrangements with repeat clients who share our values. This provides a high probability of predictable and successful outcomes.
- When bidding, we aim for negotiated and two-stage procurement routes that allow us early engagement.
- Our divisions select projects according to pre-agreed types of work, project size, contract terms and risk profile. A multi-stage process of bid review and approval includes tender review boards, risk profiling and a system of delegated authorities to ensure approval at appropriate levels of management.
- We profile the skills and capabilities required for the project to ensure that we allocate the right people.
- Our divisions have processes in place to select supply chain partners who match our expectations in terms of quality, sustainability and availability.
- We conduct a robust review of our pipeline and bids at key stages, including rigorous due diligence and risk assessment, and obtain senior level approval.

Change in risk

Responsibility

Executive directors, divisional senior management teams

Strategic priority

1 Negotiated and two-stage procurement routes allow us early engagement in the project and greater visibility, influence and certainty over pricing and programming.

MANAGING RISK continued
Principal risks

Operational risk

I. Poor project delivery (including changes to contracts and contract disputes)

Our focus on project selectivity, the quality of our order book and our close engagement with our supply chain partners helps reduce the probability of poor performance. Inflationary pressures increase the risk but are considered manageable, although stretched client budgets and supply chain finances and any related change in behaviours could increase the risk of disputes and/or failures. However, our longstanding relationships and focus on customer experience should help navigate us through significant issues, should they arise.

Risk description

Changes to the scope of works and contract disputes could lead to costs being incurred that are not recovered, loss of profitability and delayed receipt of cash.

Failure to meet client expectations could incur costs that erode profit margins, lead to the withholding of cash payments and impact working capital. It may also result in reduction of repeat business and client referrals.

Not understanding the project risks may lead to poor delivery and could result in reputational damage and loss of opportunities.

Ultimately, we may need to resort to legal action to resolve disputes, which can prove costly with uncertain outcomes as well as damaging relationships.

Update on risk status

- The pressure on client budgets has increased due to impacts from inflation, which in turn can lengthen preconstruction periods.
- The high proportion of repeat, framework-related, two-stage and negotiated work in our current order book continues to reduce the likelihood of forecasting impacts due to delays, unforeseen changes and disputes, meaning we are more likely to achieve sustainable and predictable outcomes.
- There is a recognised shortfall in the construction labour market, exacerbated by impacts from Covid and Brexit. However, in the short term, while we have seen issues, we, together with our supply chain, are managing the situation.
- We have responded to the Building Safety Act which primarily deals with building regulations and fire safety, with Construction, Partnership Housing and Urban Regeneration having updated their methodology to ensure that project specifications remain compliant. This includes a complete refresh of design management and procedures, increased on-site scrutiny and records and engagement of independent fire consultants on more complex schemes.
- In terms of existing Building Safety Act and related legacy issues, we have completed an in-depth analysis of our portfolios and sought internal and external expert advice. Where there have been concerns over the compliance of cladding materials or with the overall fire safety of buildings, and we are committed to rectifying them, appropriate remedial activity has or will be undertaken and/or expenditure provided for. See page 8 for more information on our building safety commitments.

Mitigation

- We have well-established systems of measuring and reporting project progress and estimated outturns that take into account contract variations and their impact on programme, cost and quality.
- The strength of our supply chain relationships and preference to work with selected partners reduces the probability of project failure and helps to ensure we deliver predictable outcomes.
- Where legal action is necessary, we notify the Board, take appropriate advice and make suitable provision for costs.
- Formal internal peer risk reviews highlight areas of improvement and share best practice and 'lessons learned'.
- Various Perfect Delivery[1] initiatives delivered in Construction and Urban Regeneration focus on improvements in product quality and predictability and client experience.
- Regular formal and informal stakeholder feedback allows us to intervene when required and refine our offering to provide exceptional outcomes.
- We continue to use and enhance our digital project management tools and commercial metrics that highlight areas for focus and provide early warnings, enabling early intervention in the construction cycle.
- Our divisions have worked closely with our supply chain for many years, providing predictable workloads and prompt payment. Maintaining good supply chain relationships has helped us navigate labour and/or materials availability issues.

Change in risk

Responsibility

Executive directors, divisional senior management teams

Strategic priority

1 Perfect Delivery status is granted to Construction, Infrastructure and Fit Out projects that meet all four client service criteria specified by the division.

MANAGING RISK continued
Principal risks

Operational risk

J. Cyber activity and failure to invest in IT

To protect against increasing cyber attacks, we invest in security controls and partners, including liaising with government security advisers.

Risk description

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

It is also essential to avoid a cyber incident that could cause reputational and operational impacts and/or a loss of data or intellectual property that could result in significant fines and/or prosecution.

Criminal activity continues to increase and, while we are confident in our security strategy, it is continually checked and challenged.

Update on risk status

- During the year, we achieved re-certification to ISO 27001 and the government's Cyber Essentials Plus Scheme.
- We continue to enhance our visibility of security events and 'indicators of compromise' (signs of a data breach) using the latest technologies.
- The Board has agreed a five-year security strategy, to be supported by continuous improvements and annual improvement planning. To ensure we keep pace with change, we provide our IT security steering group with additional funding for new cyber tools as needed.
- All our employees have undertaken cyber security training during the year, which includes phishing awareness and testing and focused training for users in key roles.
- We commission an external industry expert to conduct regular cyber risk analysis on every device used in our network. The data collected is independent of our other security systems and acts as an audit of our security controls and their effectiveness.
- Big data, digital construction and analytics are at the forefront of our latest technological developments, and we continue to develop the use of these. Having used leading indicators for some time, we are now trialling predictive tools to help identify issues early in the construction cycle, including programme, technical and commercial issues, and to enhance our current safety practices.

Mitigation

- We have a dedicated Group team focused on providing a stable and resilient IT environment with continued investment in core infrastructure, security and applications. Our divisional IT teams focus on business-specific product support.
- We adopt best practices to secure our people and data. We adhere to the National Institute of Standards and Technology Cybersecurity Framework.
- We engage with industry-leading partners to adopt appropriate technologies to protect the Group.
- Our IT security steering group provides governance and oversight of the Group's cyber strategy and strength, resources and funding.
- We run regular audits using different parties (both technical and non-technical) to confirm that our controls remain effective. Audit reports are shared with the IT security steering group.
- We train all our employees in data protection and information security including awareness and responsibilities.
- Our investment in IT enables all our people to work remotely and securely with minimal inconvenience.
- In 2022, we invested £3.7m in technology and business innovation, £0.6m in cyber security, £1.0m in cloud computing, £1.7m in operational and commercial systems enhancement, £0.4m in customer engagement technologies, and £0.1m in carbon and sustainability management.

Change in risk

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Responsibility

The Board, Group management team, IT security steering group (reporting to the Group finance director)

Strategic priority

MANAGING RISK continued
Principal risks

Strategic and operational risk

K. Climate change

We have been recognised as leaders in our sector for our work in reducing carbon emissions (see page 18). However, there is still much to do as we progress towards our 2030 goal of net zero.

Risk description	Update on risk status	Mitigation	Change in risk
For detailed information on our climate change risks, mitigations and opportunities, see pages 84 and 87 of our Task Force on Climate-related Financial Disclosures. Page 82 sets out our climate change governance, indicating Board oversight and management's responsibilities.			—

Strategic priority

Emerging risks

While our principal risks address shorter-term issues, our strategic planning process includes identifying emerging risks that may affect our ability to deliver our objectives over the medium to longer term.

This is supplemented by reviews of any matters likely to impact strategy that take place as part of our twice-yearly internal risk management process and monthly Board reporting.

The following emerging risks are currently being tracked and monitored by the Board. The Board is satisfied with progress being made in these areas, although it will continue to revisit them as matters develop.

Long-term scarcity of skilled labour in the industry

Issue/risk	Update	Comment/outlook
This is a UK-wide issue and, while the sector works to broaden its appeal as a career option, will require considerable government and sector interaction to resolve. This could impact our ability to deliver long-term growth and/or disrupt project delivery. It could lead to the ultimate resizing of the industry and the Group.	▪ We have witnessed some short-term issues but this has been largely mitigated by our predominant two-stage procurement approach; this enables early engagement of the supply chain, which helps them manage longer-term labour resourcing and planning. ▪ Off-site, modular and new methods of construction are already helping reduce the need for on-site resource and assisting with the skills gap/shortage. ▪ Technology will also play its part in reducing the need for site-based resource and attracting people into the industry but will require some upskilling to be undertaken.	▪ There is ongoing government action, such as incentivisation of school leavers and new education schemes. ▪ We are engaging with schools and local communities to encourage people to join the industry and provide training and work opportunities (see pages 41 to 43). Our diversity and inclusion initiatives (see pages 24 and 25) are designed to increase the talent pool available and make the industry more attractive. ▪ The relationships our divisions have built up with their supply chain help mitigate the effects of labour and/or materials availability issues (see page 35).

Technology's advancing pace

Issue/risk	Update	Comment/outlook
We do not adapt to (or adopt) new ways of working, invest in technology or develop skills and/or supply chain relationships that allow us to compete in the future marketplace. We fail to embrace innovative technologies to increase efficiency for the Group and our clients, resulting in a loss of competitive advantage and a reduced ability to secure repeat business.	▪ Our divisions develop and manage new technological tools and ideas that allow them to remain competitive in their markets. The tools are shared across the Group where appropriate to facilitate continuous improvement. ▪ Our divisions continue to evolve their use of data analytics, business intelligence tools, and their respective operational, procurement, commercial and financial systems (see page 76 for our investment in technology). ▪ Microsoft collaboration tools have provided seamless working, giving employees easy access to systems at home, on site or on the move, and strengthening our cyber security. ▪ We continue to adopt new and sustainable methods of construction, including prefabrication, modular and off-site production techniques (via our supply chain partners). We are remaining cautious, however, to avoid any longer-term defect and/or legacy issues.	▪ Artificial intelligence, machine learning, IoT (Internet of Things), augmented reality, robotics, exoskeletons, 3D printing, and virtual reality are evolving within the sector but are currently considered immature. We have taken some initial steps into these areas and are keeping a close eye on developments as they are set to provide greater efficiencies and safer working environments as they become more established. ▪ To reduce carbon emissions on our projects, we use on-site energy generation and alternative fuels for our vehicle fleet and generators. We have started designing low-carbon buildings and are using more energy-efficient construction methods according to requirements. ▪ We expect to accelerate our uptake of alternative construction technology significantly over the next few years, including using alternative products, plant materials and techniques.

MANAGING RISK continued
Emerging risks

People's changing working patterns

Issue/risk	Update	Comment/outlook
Working patterns are shifting fast due to trends that include: older, more experienced people wanting to work longer; younger people seeking meaningful jobs with more flexibility (by 2030, millennials and Gen Z will make up most of the workforce); people looking for more personally and professionally satisfying work; people wanting to move beyond the traditional 40-hour/48-week employment contract to something more flexible and tailored to their needs and stage of life; and advancing technology that facilitates remote and collaborative working, while also requiring new and different skills. We will need to monitor these trends so that we provide a working environment that attracts the best talent.	▪ Our ethos is to provide a working environment that is stimulating, collaborative, productive, respectful, flexible and safe. ▪ Covid accelerated a change in longstanding working behaviours across the Group towards greater flexibility. We are continuing to monitor changes in our colleagues' working patterns to ensure that we provide an environment in which they can thrive. ▪ We provide tools and technology at least comparable to those of our competitors and are constantly adopting and adapting to meet new demands.	▪ Given the anticipated pace of change, we will need to keep our approach under constant review. ▪ Offering fulfilling work, ongoing opportunities to grow and learn, flexibility and diverse, value-oriented workplaces will be essential. ▪ We need to understand the priorities and values of millennial and Gen Z employees and consider new models of working that work better for them and the business. This includes supporting employees in clarifying what they want their working life to look like in the future and identifying the skills they need to move in the right direction. ▪ Work will increasingly be shared with intelligent machines and robots, with implications for the type of skills and talent we will require. ▪ For the Group to prosper and grow over the medium to long term, we have an opportunity to change the way we work to attract the best talent, improve operational capability and increase efficiency.

CLIMATE REPORTING

Task Force on Climate-related Financial Disclosures (TCFD)

We are committed to the recommendations of TCFD, providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business.

Our strategy focuses on improving our operations as well as the positive impact we can have on our clients, supply chain, and the communities we work in to minimise our carbon footprint and promote more sustainable living.

We have received a climate change 'A' score from CDP for the third year running and further details can be found in our CDP response at cdp.net (requires registration to access).

At the time of publication of this annual report, we have made climate-related financial disclosures consistent with the TCFD's 11 Recommended Disclosures pursuant to Listing Rule 9.8.6 (R) (8). Our complete and entire TCFD responses are included in this report.

The following table summarises our disclosures and notes where further detail on climate-related financial disclosures can be found in this report. Where possible, we have made use of TCFD guidance material including the TCFD technical supplement on the use of scenario analysis, TCFD Guidance on Metrics, Targets, and Transition Plans, and the TCFD Guidance for All Sectors. We will continue to draw upon these resources to further strengthen our disclosures as our TCFD journey progresses. In 2023, we will disclose financial quantification of our climate-related risks and opportunities.

TCFD recommendation	2022 highlights and reporting reference
Governance	
a) Describe the Board's oversight of climate-related risks and opportunities.	▪ The Board monitors the Group's progress against our science-based targets, including revalidation against a 1.5°C scenario. ▪ The Board authorised investments for the Blenheim Estate woodland, Lakeland Fen and Great North Bog peatland restoration projects and increased the internal carbon charge to £70 per tonne CO_2e for 2023. See pages 31 and 32 for more information.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	▪ The decentralised nature of the business means each division sets its own decarbonisation strategy, with monitoring and oversight by the Group management team (GMT). ▪ Climate action group agenda items in 2022 included: net zero strategies, Scope 3 emissions, terms of reference update, Carbon/Ca, CDP review and gap analysis. See pages 30 and 31 for more information.
Strategy	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	▪ We have evaluated 30 climate-related risks and 19 opportunities. These risks and opportunities are summarised in the table on pages 84 to 87. Our definition of short, medium and long term aligns with our strategic business planning practices. See pages 28 to 34 for more information.
b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.	▪ While we have not identified any financially material climate-related risks, we prioritise reducing our carbon as part of our social responsibility to stakeholders. We aim to capitalise on the opportunities associated with a transition to a low-carbon society. ▪ Examples and greater detail on our strategic response to climate-related risks and opportunities can be found on pages 28 to 34. ▪ We continue to invest in high-quality conservation projects (see pages 31 and 33). See pages 83 to 87 for more information.
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	▪ We have conducted a qualitative scenario analysis and made the commitment to undergoing a quantitative analysis in 2023. ▪ Our resilience stems from our position in the market for developing low-carbon solutions for clients, adapting critical infrastructure, and retrofitting existing buildings to be more efficient. See pages 28 to 33 for more information.

CLIMATE REPORTING continued
TCFD

TCFD recommendation	2022 highlights and reporting reference
Risk management	
a) Describe the organisation's process for identifying and assessing climate-related risks.	▪ We have a robust governance system in place to identify and assess all risks, including those relating to climate change. The process consists of a top-down and bottom-up approach with inputs from divisional levels at least twice a year. ▪ The Group has also undergone a specific climate-related risk assessment to categorise the likelihood and impact of 30 climate-related risks. See page 90 for more information.
b) Describe the organisation's processes for managing climate-related risks.	▪ We proactively manage climate-related risks. A description of our mitigation responses is included in the table on pages 84 and 85. Examples and detail can be found on pages 30 to 33. See pages 28 to 34.
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	▪ Over the years, we have evolved our understanding of climate-related risks and fully integrated their consideration into our business operations. See page 67 in our managing risk section. See pages 64 to 67.
Metrics and targets	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	▪ We have climate-related metrics relating to our management of regulatory, reputational and market risks and resource efficiency and resilience opportunities. ▪ The full extent of the KPIs and metrics we use to monitor progress across our Total Commitments can be found in our responsible business data sheet on our website. See page 13 for more information.
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	▪ We disclose our Scope 1, 2 and operational Scope 3 GHG emissions as part of our SECR reporting (see page 92). See page 91 for more information.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	▪ In 2018, we had our targets validated by the SBTi for Scope 1, 2 and operational Scope 3 under a well below 2°C scenario. In 2022, we resubmitted for validation against 1.5°C. We will report against these new targets in 2023. ▪ We continue to pursue our targets relating to our supply chain and the electrification of our vehicle fleet. See page 91 for information on our targets.

Governance of climate-related risks and opportunities

Board oversight

At least once a year, the Board considers the impact of climate change on our stakeholders as part of its strategic review and is responsible for overseeing our performance against climate targets and net zero strategies (through to 2030). Ultimate responsibility for climate-related matters rests with the chief executive. The Board continues to expand its knowledge and expertise on climate-related matters through regular interaction with management teams and third-party engagements with investors, clients and other relevant stakeholders. Climate-related matters are also addressed by the following:

- **The responsible business committee** assists the Board in fulfilling its oversight responsibilities in relation to climate-related matters and makes recommendations to the Board. See pages 131 to 133 for more information.
- **The audit committee** supports the Board in overseeing compliance with climate change reporting and considering climate change risks as part of the biannual review of principal and emerging risks. The audit committee also reviews the Group's TCFD disclosures and has been advised on future focus areas of climate reporting.
- **The remuneration committee** has concluded that ESG (including climate change) is already an integral part of the Group's day-to-day operations and that it does not warrant further incentivisation (see page 136).

Management responsibility

As we are a decentralised organisation, the Board delegates to our divisions the implementation of our net zero carbon strategy and ensuring appropriate actions are taken. The GMT, led on sustainability by the Group finance director, is responsible for agreeing our operational and strategic approach to managing climate change, while the divisions manage climate-related risks and opportunities on a day-to-day basis. This allows for maximum efficiency and specification on how best to manage climate-related risk and capitalise on opportunities. Divisional management is overseen by the executive directors.

Guiding the GMT is the Group director of procurement and sustainability, who the Board has assigned overall responsibility for delivering strategy and communicating with each division on how we should address climate change. The director of procurement and sustainability has developed a high level of sustainability expertise and possesses a variety of skills and experience relating to climate change and environmental management. He shares his expertise across multiple forums set up to address industry challenges. The director of procurement and sustainability chairs the Group's climate action group. He updates the responsible business committee once a year and attends the risk committee, and liaises with the Group's finance director and commercial director, both of whom are members of the GMT. The diagram to the right provides more information on our climate-related governance structure.

Climate governance

Top-down

Group Board
- Has oversight of climate-related matters and approving net zero strategy.
- At least once a year considers climate-related risks and opportunities as part of its annual risk appetite, business plans, annual budgets, and performance against climate objectives.
- Finance director presents the Group's climate performance and plans to investors.

Responsible business committee
- Assists Board in managing climate-related risks and initiatives to meet net zero targets.
- Chief executive attends all meetings.

Audit committee
- Reviews and approves TCFD statement on behalf of Board.
- Considers climate risks as part of the Group's risk register twice a year.

GMT
- Cross-functional team chaired by the chief executive and attended by the Group finance director, Group commercial director, company secretary and divisional managing directors.
- Agrees climate-related targets and objectives, investment requirements and strategic oversight for the divisions.

Group director of procurement and sustainability
- Overall responsibility for delivery of net zero strategy.
- Chairs climate action group and represents Group at external collaborations to further expertise.

Divisional boards
- Responsible for implementing net zero carbon strategy, managing climate-related risks identified at divisional level, and delivering climate-related initiatives.

Climate action group
- Cross-divisional group responsible for sharing information and advising on actions divisions can take to mitigate climate-related risks and deliver net zero strategy.
- Meets at least four times a year to report on progress, share best practice and identify opportunities.

Project teams
- Responsible for identifying climate-related risks on projects and implementing appropriate actions to mitigate them.
- Support net zero strategy by collaborating on projects to reduce operational emissions.

Bottom-up

To support management's responsibility towards reducing our carbon footprint and maximising climate opportunities, we continue to increase climate awareness by educating senior management and all employees (see page 30).

CLIMATE REPORTING continued
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Strategy

Identified climate-related risks and opportunities

In 2021, with the help of our external consultancy experts, the Group underwent a detailed risk assessment to identify a wide range of climate-related risks and opportunities facing each division over the short, medium and long term (see the table below for more information). These risks and opportunities continue to be reviewed as part of our ongoing wider risk management process.

Definition and explanation of timeframes

Short term *0–1 year*	Medium term *1–3 years*	Long term *3+ years*
Twice a year, each division carries out a detailed risk review, recording significant matters in its risk register. This time horizon aligns with our ongoing projects, current operational expectations and challenges, and the bidding process for upcoming projects. We monitor and report on our Total Commitments performance on an annual basis.	To satisfy ourselves that the Group has adequate resources to continue in operation for the foreseeable future, we undertake an annual viability assessment covering a three-year period, which is in line with the Group's budgeting cycle. Most of our projects are short to medium term in nature. Risks and opportunities within this timeframe are therefore captured through our in-depth project risks review.	Our long-term risks and opportunities are assessed in line with our strategic planning, which considers emerging markets and changing client behaviours, technologies, and legal, regulatory and political changes. In assessing these risks and opportunities, we have taken into consideration our obligations and abilities to meet our long-term science-based targets. While our projects are generally short to medium term, we recognise that the projects we build and the developments we put in place will need to be resilient against a changing future.

The assessment considered the materiality of 30 climate-related risks and 19 opportunities, with each division categorising both risks and opportunities against the likelihood of occurrence and their strategic impact on operations. Risks and opportunities were identified through a workshop led by third-party expert consultants with particular consideration for the 11 categories identified by the TCFD and their application to the business. The key risks to the Group were identified by assessing firstly whether that risk was considered significant to one division (it should be noted that no individual risks were identified as significant to two divisions or more). Secondly, the total score provided to that risk across different divisions was considered (with scores above 40 considered to be key). It should also be noted that risks overall were ranked much lower than opportunities, with fewer risks identified as significant across the Group. Further analysis was considered through qualitative scenario analysis that mapped out changes to policy, advances in technology, resource efficiency and increased likelihood of physical climate events.

The outcomes of this exercise are summarised in the table on pages 84 to 87. While we have identified some risks to be 'high', i.e. they have 30% or greater likelihood of materialising over the short or medium term and would create enough impact to the business and supply chain to affect how the business operates, as of now, these risks and opportunities have been identified as relatively immaterial and are not expected to translate into a financially material impact on the business. Their immateriality is due to multiple factors. The short-term nature of our work means that our vulnerability to the physical risks of climate change is minimal. Our business is service-based, we do not own any long-term assets or hold risk, and we secure the terms and conditions of our projects prior to any investments.

CLIMATE REPORTING continued
TCFD

Identified climate-related risks and opportunities

Drivers	Risk description	Potential impact on business	Mitigation/strategic response
Transition risks			
Legal			
Timing of impact Short to medium term **Current ranking** High	▪ Increasing legislation aimed at mitigating climate change and enhancing air quality in the form of a direct carbon tax, congestion charges on vehicles, and/or new building standards ▪ Enhanced Scope 3 emissions reporting that includes raw data from suppliers in place of estimates based on revenue	▪ Increased costs associated with penalties if found in breach of new regulation ▪ Increased operational costs to meet new regulatory requirements ▪ Negative stakeholder perception making it hard to win contracts, impacting revenue	▪ Implemented internal carbon charge in 2021 and increased the charge in 2022 to foster low-carbon decision-making ▪ Auditing emissions to ensure accurate reporting ▪ Hiring new talent focused on ESG and developing employee and leadership skillsets ▪ Participation in trade associations and periodic assessments of emerging regulation ▪ Rolling out Carbon/Ca and goldeni (see page 30)
Regulatory			
Timing of impact Short to medium term **Current ranking** High	▪ Changes to regulations to meet new efficiency standards or the ban of certain materials ▪ Addressing climate adaptation (e.g. cooling or banning construction in certain areas) ▪ Circular economy, waste disposal and recycling results in changes to building process	▪ Increased costs associated with revising design specifications and material requirements that are passed on or reduce margins ▪ Increased operational costs ▪ Increased waste management costs ▪ Longer project timelines or increased likelihood of delays	▪ Prioritising sustainable procurement practices and better decommissioning and recycling practices ▪ Collaborating at the forefront of new building standards; developing expertise in net zero standards and innovative processes to reduce emissions at all stages of construction (see pages 29 and 31 for examples) ▪ Implementing technologies focused on energy efficiency, i.e. Passivhaus
Reputational			
Timing of impact Medium to long term **Current ranking** Low	▪ Carbon commitments are insufficient or do not meet client and investor expectations, leading to reputational damage ▪ Meeting our targets may require additional investments	▪ Increased spend required for climate change mitigation ▪ Failure to win contracts, secure lending or attract investors	▪ One of the first construction companies globally to achieve target validation by the SBTi, with targets submitted for revalidation in 2022 to align with a 1.5º scenario ▪ Having our ESG performance assessed by independent rating agencies, responding to investor demands ▪ The proceeds from an internal carbon charge are invested in projects which assist the Group in our move towards net zero
Technology			
Timing of impact Medium to long term **Current ranking** Low	▪ Too slow to adopt the latest efficiency technologies as clients prioritise less resource-intensive designs ▪ Associated cost with lower-emission technologies ▪ Industry fails to develop low-carbon technology	▪ Failure to win contracts ▪ Increased costs associated with operations that impact margins or are passed on ▪ Limited options for delivering emissions targets	▪ Piloting low-carbon technologies and alternative fuels (see pages 35 to 38) ▪ Decarbonisation plan is not reliant on unproven technologies ▪ Leveraging relationship with supply chain to find cost-effective methods of securing necessary equipment and to be early adopters of technology

CLIMATE REPORTING continued
TCFD

Drivers	Risk description	Potential impact on business	Mitigation/strategic response
Transition risks			
Market			
Timing of impact Long term **Current ranking** Low	▪ Adopting immature products or services (e.g. overheating, drainage issues, failure to meet net zero standards)	▪ Increased costs associated with legal fees and fines. ▪ Tarnished reputation resulting in less work	▪ Engage with insurance, legal and suppliers to prevent legacy defects or inadvertently taking on more risk ▪ Design teams take a precautionary approach to adopting new technologies
Timing of impact Long term **Current ranking** Medium	▪ Demand for low-carbon products resulting in supply chain bottlenecks ▪ Increased costs in raw materials (e.g. increased timber demand putting pressure on sourcing)	▪ Increased operational delays or costs associated with procurement	▪ Potential delays factored into decision-making process. ▪ Secure fixed rates and prices for projects ▪ Preserve our supply chain management practices to gain favourable terms and agile procurement streams (see page 35)
Timing of impact Long term **Current ranking** Low	▪ Market favouring improving existing structures over new builds	▪ Decreased revenue associated with new builds	▪ Cultivate fit out, retrofit and regeneration segments of business. ▪ Provide client solutions (e.g. Carbon*i*Ca and goldeni).
Physical risk			
Chronic and acute			
Timing of impact Long term **Current ranking** Low	▪ Vulnerabilities due to increasing extreme weather events (droughts or prolonged wet seasons) ▪ More unviable land (e.g. flood plains) and reduced building plots ▪ Saturated grounds, inability to access sites, or damage to materials ▪ Increased site run-off and pollution events due to storm surge	▪ Project delays and increased risk of re-work ▪ Increased supply chain disruption ▪ Increased sales prices and reputational damage to joint venture partners making schemes less viable	▪ Due diligence process evaluates the likelihood of risks ▪ Work with insurance providers to understand climate ▪ Operations are not water intensive See above.

CLIMATE REPORTING continued
TCFD

Drivers	Risk description	Potential impact on business	Mitigation/strategic response
Opportunity			
Resource efficiency			
Timing of impact Short to medium term **Current ranking** High	▪ More efficient machinery extends the use of personal protective equipment and has proven to be cost neutral at times ▪ Efficient buildings reduce electricity consumption ▪ Increased demand for use of recycled materials in new designs and circular economy opportunities for supply chain partners	▪ Reduces operational costs from fuel; minimises transportation costs or haulage cost ▪ Decreases costs with waste disposal ▪ Reduced costs of projects	▪ Increased internal carbon charge to incentivise transition. ▪ Engaging in Passivhaus construction and piloting new technology (see pages 29 and 30) ▪ Developing new recycling and decommissioning standards (see pages 33 and 34) ▪ Use of Carbon*i*Ca (see page 30)
Energy sources			
Timing of impact Short term **Current ranking** High	▪ Using low-emission energy such as renewable energy or alternative fuels	▪ Reduces energy costs as fossil fuel cost increases	▪ Already using renewable energy and alternative fuels (see page 31) ▪ Using new technology, e.g. goldeni (see page 30) and Carbon Delta (see page 33) ▪ Engaging with the Supply Chain Sustainability School to promote accessibility of new energy sources
Resilience			
Timing of impact Long term **Current ranking** High	▪ Supportive government incentives to develop low-carbon solutions to meet net zero targets	▪ Tax incentives, deductions ▪ Competitive advantage against peers for public projects	▪ Development of Carbon*i*Ca, goldeni and net zero buildings (see page 30) ▪ 50% of construction projects use Carbon*i*Ca
Timing of impact Long term **Current ranking** Low	▪ Capitalise on lower operational emissions or high-quality offsets	▪ Decreased emission costs ▪ New revenue by selling excess offsets	▪ Detailed decarbonisation strategy for each division to achieve emissions reduction targets through to 2030 ▪ High-quality carbon offset projects (see pages 31 and 33)

CLIMATE REPORTING continued
TCFD

Drivers	Risk description	Potential impact on business	Mitigation/strategic response
Opportunity			
Products and services			
Timing of impact Short to medium term **Current ranking** High	▪ Greater demand for low-carbon builds, or requirement that new construction be net zero ▪ Retrofit demand to adapt to warmer climate	▪ Increased revenue and additional project prospects ▪ Improved reputation, further driving demand for business	▪ Net zero and Passivhaus construction (see pages 29 and 30) ▪ Data gathering project using goldeni (see page 30) ▪ Use of Carbon*i*Ca on all projects valued £10m+ by 2023 ▪ Developing methods and innovative techniques to respond to client demands (see pages 29 to 31 and page 34)
Timing of impact Long term **Current ranking** Medium	▪ Demand for climate-adaptable or resilient assets or for building assets to withstand the physical impacts of climate change (e.g. highway improvements, water capacity and rail extensions) ▪ Incorporating more greenscaping to combat excess flooding	▪ Increase Infrastructure revenue and bidding prospects ▪ Changes to design process to incorporate greenscaping and more natural vegetation	▪ Strategic focus on achieving a BNG for all future projects ▪ Incorporating greenscaping and biophilic designs for clients ▪ For examples of how our projects help decarbonise the UK's infrastructure, see pages 29 and 31

Impact of climate on business, strategy and financial planning

Through our projects, we play a critical role in contributing to a carbon-conscious society. We help clients decarbonise critical infrastructure and enable inhabitants to live more sustainably. We also make existing infrastructure more sustainable. These contributions are particularly important because, according to the UKGBC, the built environment contributes around 25% of the UK's total carbon footprint. Additionally, 80% of buildings that we will be using in 2050 have already been built. While new buildings might be more energy efficient, decarbonising existing properties will have a much bigger impact on reducing carbon emissions. For more information on how our business delivers low-carbon designs and services, see pages 29 to 31.

We continue to implement tools like Carbon*i*Ca and goldeni that provide robust data, help reinforce our strategic operational decision-making process, justify investments, and inform our clients on how to make more sustainable choices. These tools are easy to use and provide useful information on everything from the efficiency of a home after a retrofit project to the carbon embedded in a supply chain product. For more information on how Carbon*i*Ca and goldeni have been used in 2022 and the impact these tools have, see page 30.

We collaborate with sustainability consultants, engineers and research bodies to assess the latest technologies and construction methodologies and are aware of the need to ensure that lengthy research and technology processes are undertaken prior to adopting new technologies. These relationships with industry stakeholders also allow us to produce better projects, standardise best practices and stimulate greater demand for our services. Examples of the new technologies we have piloted in 2022, as well as our role in developing a new decommission standard and pioneering some of the first ever net zero construction accreditations, can be found on pages 29 and 30.

The biggest area of collaboration focuses on our supply chain, as this is a significant source of emissions for the Group. More information on how we are engaging our supply chain on carbon-related matters and the impact we have had in the year can be found on page 37.

Addressing and reducing our carbon footprint aligns with our values and Total Commitments and evidences our commitment to being a responsible business. We therefore make the required investments and strategic decisions to make decarbonisation a top priority for our business, as it is expected of us by our stakeholders (see page 19). At the same time, we are seeing significant opportunity in helping our clients achieve low-carbon construction. This has cultivated our position as industry leaders in climate solutions and expertise.

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TCFD

Scenario analysis and resilience

In 2021, the Group conducted a qualitative analysis of two scenarios, the Intergovernmental Panel on Climate Change's (RCP2.6) aligning with the Paris Agreement and a 4°C scenario (RCP8.6) that represents a 'business as usual' outlook. The contrasting characteristics are detailed in the table below.

Characteristics of qualitative scenario analysis

	Paris aligned	Business as usual
Key attributes of scenario	▪ 1.5°C–2°C warming by the end of the century ▪ High transition risks, i.e. rapid policy and regulatory changes to drive decarbonisation ▪ Widespread adoption of new technologies ▪ Improved resource efficiency ▪ Increased concern around sustainability	▪ 2.4°C–3°C warming by the end of the century ▪ Low investment in technology ▪ Increased resource-use intensity ▪ Degradation of environmental systems ▪ Increase in frequency and intensity of physical climate events
What will our clients look like?	▪ The future-conscious client will demand low resource-intensive products, energy-efficient appliances and environmentally friendly developments that are beneficial for health and wellbeing ▪ The carbon impact of buildings and services will be considered as part of purchasing decisions	▪ Clients will increasingly demand infrastructure which adapts to the changing needs of the future such as flood-resilience projects or retrofit solutions to ensure buildings and developments can withstand the extremes of the future ▪ Clients will increasingly want properties that are not on or near flood plains or will demand properties that are resilient against such climate impacts
What will we need to implement in terms of design and materials?	▪ Electric vehicle charging points will be required, and hydrogen gas or electricity will replace natural gas as the primary method of heating ▪ Materials used for construction will be sustainable, result in the lowest amount of embodied carbon, and have the best thermal properties to reduce energy intensity in use	▪ Design parameters will need to take account of the demands of a warming planet with significant changes to meteorological activities and increased temperature fluctuations ▪ Buildings and infrastructure will be increasingly subject to intense storms and floods and will be required to withstand intense summer temperatures, as well as having the insulation properties of today ▪ Material prices may increase or fluctuate, due to weather-related impacts on the supply chain, or alternatively may result in operational delays to projects as a result of delayed materials sourcing ▪ Water shortages may be commonplace
How will our developments and construction be rolled out?	▪ More areas will be designated air quality zones and our operations will need to operate on low-carbon energy sources ▪ Our plant and fleet vehicles will need to be electric and emit no harmful gases ▪ There will be increased focus on the reuse of materials and minimising waste, with trends towards the improvement of existing structures, rather than full builds	▪ Sites will be subject to more intense levels of rain and flood, and increased summer temperatures will lead to operational delays and potential damage to works in progress

To provide more detail and deep dive into our scenario analysis, the Group has agreed to undergo quantitative scenario analysis for the Group's 'high' category risks and opportunities in early 2023. Our scenario analysis will also expand to include an additional scenario reflecting a 'middle of the road' outlook. We aim to provide more guidance on our methodology and assumptions and report on our initial outcomes in our 2023 TCFD report.

CLIMATE REPORTING continued
TCFD

Resilience of our strategy

Our qualitative scenario analysis and climate-related assessment highlight the resilience of our business strategy to climate-related risks, and we are already positioning ourselves to take advantage of the opportunities associated with a transition to a low-carbon economy. Our designs and developments are frequently delivered to low-carbon accreditations (BREEAM, LEED, SKA) and incorporate green living spaces or eco-building designs, and we are investing in our teams so that they have the necessary skills and expertise to execute future design requirements. Our tools such as Carbon/Ca and goldeni will help us further distinguish ourselves among our competitors and win future work as carbon impact increasingly becomes a more important consideration of purchasing decisions. We are already leveraging our reputation as leaders in low-carbon construction to attract clients who are demanding low resource-intensive products, more energy-efficient appliances and environmentally friendly developments that prioritise health and wellbeing (see pages 29 and 33).

We are expecting increased demand for low-carbon developments and retrofit solutions such as the installation of electric vehicle charging points and replacement gas boilers. Our ability to be agile and adaptable means we are well positioned to offer greener alternatives as and when the market shifts. Moreover, our science-based targets, internal carbon charge and net zero roadmap will shield the Group from any future carbon taxes or increased costs associated with carbon-intensive materials as we are already actively transitioning to lower-carbon substitutes and reducing our carbon footprint.

We have policies and processes in place to reduce our climate impact. We advocate the use of solar and alternative fuels and are transitioning our company cars and commercial fleet to an electric fleet. We are working with our supply chain to secure equipment with low-carbon solutions and are advocating electric plant hire where possible, which is likely to result in operational efficiencies.

Finally, we are actively involved in securing pipeline projects relating to climate change mitigation adaptation (such as flood-resilience projects). Our strong supplier and client relationships safeguard that materials are forward bought where necessary and that the most sustainable materials are incorporated into building specifications during the project design phase where possible. We also aim to minimise resource use by using modular components on our projects where appropriate and to diversify our procurement dependencies to provide resilience in the event that specific resources become more stretched. More information can be found on pages 37 and 38.

Decarbonisation pathway to achieving net zero

In 2020, our Group finance director introduced investors to our decarbonisation plan which outlines how we plan to meet our science-based Scope 1, 2 and operational Scope 3 emissions targets by 2030. Strategic areas include switching to renewable and alternative energy, adopting new technologies, and changing employee behaviours. For more information on the progress made in these areas in 2022, see pages 28 to 33.

We monitor our progress using a net zero tool that is aligned to the SBTi's requirements for net zero decarbonisation trajectories. The tool allows each division to model future emissions and pathways to net zero. The model combines a top-down target approach with a simple bottom-up model of actual and potential carbon reduction projects and initiatives. It therefore provides a roadmap to net zero by activity area and division. The flexibility of this tool allows each of our divisions to customise it to its business and specifications, and each division now has a concrete plan to achieve net zero by 2030 for Scope 1, Scope 2 and operational Scope 3 emissions according to our original science-based targets.

We recognise that we need to influence our clients, suppliers, subcontractors and other partners along the value chain more effectively. We continue to work with our supply chain to encourage and support them in reporting their own emissions so that we have a better understanding of our wider Scope 3 emissions and can introduce meaningful reduction plans. More information on our supply chain relationships and our efforts towards engaging on climate-related matters can be found on page 37.

Further information on our energy transition plan will be included in future reporting as the Group is guided by resources produced by TCFD and the UK Transition Plan Taskforce.

Risk management

Process for identifying and assessing climate-related risks

The managing risk section on pages 64 to 79 sets out our overall risk management process. It highlights the key aspects of our risk management process relating to climate risk from both a top-down and bottom-up approach. Climate-related risk identification and assessment is undertaken at both the Group and divisional levels, representing all Group activities, geographical regions and business areas. Climate-related risks are mapped to a matrix evaluating likelihood and severity in line with our wider divisional risk management assessment approach. As part of the process, emerging risks such as shifts towards more sustainable methods of construction and emerging legal and regulatory frameworks are reviewed and we carry out regular horizon scanning to consider changes in regulation, legislation and policy.

Climate-related risk (both physical and transitional) identification and assessment are a part of our operational processes, beginning at the bidding stage, and factors of consideration for the viability of projects. When projects do commence, further due diligence is conducted. These risk assessments are reviewed and approved as part of our schedule of delegated authorities, which assigns approval of material decisions. In addition to this operational process of risk identification, climate-related risk identification also happens twice a year when our divisions undertake a detailed review of their divisional risk registers. The Group head of audit and assurance follows the same process for identifying and reviewing Group risks, including climate change, and confers with the Group's risk committee. For more information on our approach to risk and sound governance, see pages 64 to 79.

In 2021, we undertook an in-depth climate-risk identification exercise to review 30 risks related to the eight TCFD categories (see page 83). It was found that no single risk was ranked as 'high' for more than one division. It should also be noted that risks overall were ranked much lower than opportunities. A summary of these risks is included in the table on pages 84 to 87.

Moving forward, we will continue to monitor and assess climate-related risks, including efforts to quantify these in a robust manner.

Process for managing climate-related risks

We have ensured that we have robust processes in place for managing climate-related risks. As stated on page 64, each division is responsible for managing risks arising from its individual operations, and a top-down and bottom-up approach is taken across the Group. For example, Construction & Infrastructure applies the COM PRO2 Risk Management Standard, an established process to assess risk at the preconstruction and construction phases of its projects. Risk is assessed at the start of a project, and revisited on commencement of works and regularly during the project. Processes are embedded in each division's quality (ISO 9001), environment (ISO 14001) and health and safety (OHSAS 18001) management systems. Any issues that arise will be dealt with in accordance with the divisional procedures for managing operational matters, and if the matter meets the requirements of the delegated authorities, it will be elevated accordingly. Our in-depth project risk reviews ensure that project-specific environmental risks such as fire and flood are assessed, with each project developing risk management plans to minimise the impact of such risks. Each division is certified to the ISO 14001 Environmental Management System which ensures that we have robust risk assessment and risk management processes in place around environmental incidents and management.

A summary of the specific mitigation activities taken by the Group can be found in the table on pages 84 and 85.

Integrating climate into overall risk management

As we have evolved our understanding of climate-related risks over the years, climate-related risk mitigation has become fully integrated into our overall risk management practices. As our risk governance table on page 82 shows, climate considerations are reviewed by Group forums, the risk committee, divisional boards, our internal audit, the audit committee and the Board. We understand climate-related risks to be multifaceted and indirect, often reinforcing existing principal risks. For example, we recognise that climate change could impact our contract selectivity and add challenges to bidding (see page 74). We believe this to be the most responsible means of incorporating climate considerations into our risk management and will produce the most resilient outcomes for the Group.

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TCFD

Metrics and targets

Scope 1, 2, 3 and climate-related metrics

We measure and manage a wide range of metrics to assess how well we are doing to minimise our carbon footprint, enhance the value of the buildings we construct and develop, and capitalise on climate opportunities (see the table on page 28). We continually review our metrics to ensure that the data we measure aligns with our strategy and is providing the information the business and our stakeholders need to effectively monitor our performance. Our GHG reporting has been assured since 2010, adheres to the GHG Protocol methodology and encompasses all divisions. For more information on these and our other climate-related metrics and historical performance, see our 2022 responsible business data sheet on our website.

Climate-related metrics

Risks	Metric	2022	2021	2020
Political and regulatory	Scope 1, 2 and 3 tonnes CO_2e	See pages 13 and 92	See pages 13 and 92	See pages 13 and 92
	Internal carbon charge (£/tonne CO_2e)	£50	£35	n/a
Reputational	% reduction of Scope 1, Scope 2 and operational Scope 3 emissions since 2019 base year	40%	37%	10%
Market and technology	% of hybrid or electric vehicles in Group fleet	53%	42%	17%
Opportunities	**Metric**	**2022**	**2021**	**2020**
Reputational	Number of products achieving BREEAM/LEED/CEEQUAL/SKA and other industry-relevant sustainability ratings	108	99	85
Market and technology	Number of projects using Carboni*Ca*	142	41	n/a
Resource efficiency	% of electricity purchased from renewable sources	65%	72%	65%
	% of construction waste diverted from landfill	96%	97%	98%
Resilience	Subcontractors (by spend) with accredited science-based targets	£0	£0	£0
	Subcontractors (by spend) requested to report their own carbon emissions	£649m	£589m	£0

Independently validated targets

Accountability to our stakeholders is important to us and we aim to be as transparent as possible in reporting our progress against our targets. In 2019, we were the first in our sector to pursue and get our Scope 1, 2 and operational Scope 3 targets validated by the SBTi against a well below 2°C scenario. In 2022, we resubmitted our targets to align to a 1.5°C world and to include all categories of Scope 3. In the meantime, we have continued to progress against our current targets – see the table on page 28, which also includes our climate targets for our supply chain and vehicle fleet.

Future steps

We understand that appropriately addressing climate-related risks and opportunities and realising the full value of TCFD recommendations requires ongoing work. In our 2023 report, we aim to provide enhanced disclosures as follows:

- a quantitative scenario analysis of the Group's climate-related risks and opportunities;
- more information on our transition plan to show how we aim to achieve emissions reductions up until 2030 and beyond;
- alignment of our TCFD disclosures with other climate frameworks and standards;
- inclusion of total Scope 3 emissions and our 1.5°C scenario targets once validated; and
- our progress on developing a methodology for capturing TCFD's seven cross-industry metrics.

CLIMATE REPORTING continued

Streamlined Energy and Carbon Reporting (SECR)

In 2019, we set an ambitious target to reduce our Scope 1 and 2 and operational Scope 3 GHG emissions by 60% by 2030, and this target was validated by the SBTi. In 2022, we submitted revised targets aligned to a 1.5ºC trajectory for revalidation. We also extended our net zero target to include the full total of Scope 3 emissions by 2045.

This report has been prepared in accordance with the requirements of Toitū's accredited organisational GHG programme: Toitū 'carbonreduce' (formerly CEMARS, the Carbon & Energy Management and Reduction Scheme). This programme is based on and fully incorporates the Greenhouse Gas Protocol's 'A Corporate Accounting and Reporting Standard' (2015) and ISO 14064–1:2018 'Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals'. Where relevant, the inventory is aligned with industry or sector best practice for emissions measurement and reporting. In addition, GHG emissions are externally verified by Achilles. Achilles is a global data validation company that provides assurance services for GHG emissions data. We have had our Group GHG emissions validated for the last 10 years as we have always been committed to robust and transparent reporting.

Emissions reported correspond with our financial year and include all areas for which we have operational control in the UK, excluding joint ventures. The materiality threshold has been set at 5%[1] with all operations estimated to contribute more than 1% of the total emissions included. No material emissions have been omitted.

Our total energy consumption used to calculate our 2022 UK and global emissions was 49,729,963.2kWh (2021: 35,509,298.9kWh[2]). Our UK operations consisted of 49,602,824.2kWh and our offshore emissions were 127,139kWh. This is our first year reporting global emissions outside of the UK.

1 The allowance built into the 'carbonreduce' accreditation permits +/-5% variance in the gross emissions total in case a miscalculation is discovered following a carbon audit.

2 In 2021, we reported 103,892,315kWh, which included plant fuel in the calculations due to an error embedded in the calculation software. This resulted in over-reporting for the purposes of SECR and the 2021 figure has been restated.

GHG emissions (tonnes CO_2e)	2022	2021	2019 baseline
Scope 1 – operation of facilities[1]	**9,528**	11,243	18,124
Scope 2 – indirect emissions (purchased energy)[2]	**2,069**	2,352	2,779
Total Scope 1 and Scope 2 emissions	**11,597**	13,595	20,903
Operational Scope 3 – other indirect emissions (related activities)[3]	**4,814**	3,502	6,339
Total emissions	**16,411**	17,097	27,242

1 Direct emissions from sources owned or controlled by the Group.

2 Indirect emissions generated from purchased energy based on 'location-based' methodology, i.e. the average emission intensity of the UK grid.

3 All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Toitū 'carbonreduce' scheme.

Note: 2022 figures include BakerHicks DACH operations.

Carbon intensity (based on £ revenue)	2022	2021	2019 baseline
Total Scope 1 and Scope 2 emissions (tonnes CO_2e)	**11,597**	13,595	20,903
Total Scope 1, Scope 2 and operational Scope 3 emissions (tonnes CO_2e) (total emissions)	**16,411**	17,097	27,242
Revenue	**£3,612m**	£3,213m	£3,071m
Carbon intensity for Scope 1 and Scope 2 emissions	**3.2**	4.2	6.8
Carbon intensity for total emissions	**4.5**	5.3	8.9

We will submit our third report for the Group under the Energy Savings Opportunity Scheme (ESOS) in December 2023.

More information on how the Group has reduced its emissions during the year can be found on pages 28 to 33, but a few of our energy-efficiency improvements are highlighted below:

- We increased our use of alternative fuels and plant electrification, including the switch to HVO, the purchase of lithium lighting towers and electric telehandlers and cars.
- We adopted solar-driven generators to replace diesel generators.
- We encouraged our employees to reduce their carbon footprint via a Group carbon pledge. In 2022, 1,211 employees created or renewed their pledge.

CLIMATE REPORTING continued

Our strategy in action

Green financing in the north of England for the climate and people

The Group has signed a two-year agreement to fund conservation and restoration of peatland, being delivered by the North Pennines AONB Partnership and the Yorkshire Peat Partnership. Our investment will enable the restoration of over 300 hectares of blanket bog in the Northern Pennines AONB and UNESCO Global Geopark, and in the Yorkshire Dales National Park and surrounding uplands. It is the first large-scale, private sector green financing project under the Great North Bog initiative and will match the UK government's investment through the Nature for Climate Fund.

The Great North Bog restoration represents a significant part of the UK's efforts to tackle climate change. An estimated 80% of peatlands are now damaged and emit over 20m tonnes of carbon a year. The initiative will in time cut UK peatland carbon emissions by c3.7m tonnes per year, a reduction of nearly 20%. Ecological benefits will include slowing the flow of water to help mitigate flooding in towns and cities downstream, reducing sediment in rivers to provide clean drinking water for millions, and supporting a range of wildlife.

The rewetting of the first

11 sites

is already underway.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

We aim to comply with the non-financial reporting regulations contained in sections 414CA and 414CB of the Companies Act 2006. Our divisions communicate Group and divisional policies to their employees and supply chains. Our due diligence with regard to 'environmental matters', 'employees' and 'social matters' is driven by our Total Commitments, which are a strategic priority for the Group (see page 18).

	Policies	Annual report page references
Environmental matters	▪ For our climate-related financial disclosures, see TCFD, pages 80 to 91. ▪ Code of Conduct, published on our website: commits to caring for the environment. ▪ Sustainable procurement policy: commits to being socially and environmentally conscientious in our procurement. ▪ Supplemental timber policy: requires procurement from sustainable sources. ▪ Sustainable water policy: commits to building to the highest standards as those detailed within the RIBA Climate Challenge 2030 water usage; retrofitting water-efficient kit; avoiding procuring materials or equipment which require intensive water use in their manufacture, installation or use; procuring water-efficient products; incorporating SuDS (sustainable drainage systems); and advising on saving water.	Due diligence, pages 28 to 34. Impacts, pages 28 to 34 and page 92. Minimising our environmental impact increases our ability to win work and attract talented employees. Principal risks, page 77.
Employees	▪ Code of Conduct: commits to conducting business in an open and ethical way in line with our Core Values and Total Commitments. ▪ Group health, safety and wellbeing management policy framework: incorporates the Group occupational health and safety policy which commits to providing a safe and healthy working environment for our employees and others involved in or affected by our works. ▪ Divisional occupational health and safety policies: cover all employees and extend to our subcontractors and suppliers working on our projects.	Due diligence, pages 15, 16, 20, 27, 70, 71, 112 to 114, 117, 131 and 132. Impacts, pages 15, 20 to 27 and 117. A diverse and qualified team of people helps us win in our target markets and in pursuing innovative solutions for our clients. Principal risks, pages 70 and 71.
Social matters	▪ We are committed to providing a better built environment for all, and our services include urban regeneration, social housing and critical infrastructure. A large proportion of our work is for the public sector and therefore falls under the Public Services (Social Value) Act 2012. ▪ Sustainable procurement policy: commits to being socially and environmentally conscientious in our procurement.	Due diligence, pages 39 to 43. Our divisions monitor their suppliers' adherence to our procurement policy, giving feedback or taking appropriate action as required. Impacts, pages 39 to 43. We have developed a social value bank that monetises activities that add value to local communities on our projects (page 43). Social matters are not regarded as a principal risk. However, each division carries out regular risk assessments to identify those areas of its business and markets that may be susceptible to risk, and embeds appropriate procedures in its day-to-day operations.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT continued

	Policies	Annual report page references
Human rights	▪ Human rights policy: approved by the Board in August 2022 and applies to the Group, our subsidiaries and the entities in which we hold a majority interest. It states our support of the UN Guiding Principles on Business and Human Rights and the Universal Declaration of Human Rights and our commitment to the following human rights principles: diversity, non-discrimination and non-harassment; prevention of human trafficking, forced labour and child labour; workplace health and safety; freedom of association; the adherence of our supply chain to the same human rights principles; and engagement with our stakeholders and consideration of their views. ▪ Code of Conduct: states our commitment to the Universal Declaration on Human Rights, providing equal opportunities, creating a diverse and inclusive workplace, and preventing modern slavery in our operations and supply chain. It prohibits employing people either directly or through third parties who we believe to be subject to forced labour and engaging in any activities involving people or countries subject to UN, US, EU or UK sanctions. The Code prohibits bullying, harassment and discrimination on the basis of sex, pregnancy or maternity, gender reassignment, sexual orientation, religion or belief, marriage and civil partnership, age, race or disability; it requires fair and objective employment decisions based on merit. ▪ Modern slavery policy: states the Group's and its suppliers' obligations with regard to human trafficking, forced labour, recruitment fees, document retention, contracts of employment, deposits, humane treatment, workplace equality, wages and benefits, working hours, freedom of movement and personal freedom and the use of employment agencies. ▪ Modern slavery statement: published on our website. ▪ Whistleblowing policy and procedure.	Due diligence, pages 23, 112, 114 and 117. Our employees undertake in-depth e-learning modules on our Code of Conduct and modern slavery. New joiners are required to complete these modules as part of their induction and existing employees take periodic refresher courses. Our site inductions include 'toolbox talks' to raise awareness of modern slavery of our employees and site operatives employed in our supply chain. Adherence to our human rights policy, Code of Conduct and other related policies is regularly monitored and reviewed, with the Board audit committee and Group general counsel having ultimate oversight. The Board is notified of any reports of non-compliance via the raising concerns (whistleblowing) service, while divisional HR leads and managers deal direct with individual cases as appropriate. Our divisions are responsible for their employees' and suppliers' compliance with these policies, with support from the Group director of sustainability and procurement, the Group commercial director, the general counsel, company secretary and the Group head of audit and assurance. Impacts, pages 23 and 117. See also our modern slavery statement on our website. Human rights breaches are not considered a principal risk to the Group, although there is a risk of breach by an overseas supplier and of people working on our sites without the legal right to work in the UK. We require all suppliers to comply with legislation and to carry out checks on rights to work, and we expect that they require the same of their own suppliers.
Anti-corruption and anti-bribery	▪ Code of Conduct: states that we will not tolerate any form of bribery or corruption. ▪ Bribery Act guidance note: provides guidance on the Bribery Act 2010 and how it is relevant to the Group. ▪ Group-wide dealing policy: clarifies to all employees regulations relating to the misuse of inside information. ▪ Dealing code: states directors' and others' obligations to comply with market abuse regulation. ▪ Competition law compliance policy: clarifies requirements under the Competition Act 1998 and Enterprise Act 2002. Each division provides its employees with guidelines tailored to the division's activities.	Due diligence, pages 117 and 129. Employees are given e-learning training on bribery and corruption, our Code of Conduct, market abuse regulation and competition law, and in 2022 we introduced an e-learning course on financial integrity. We conduct regular internal audits which would uncover any instances of non-compliance such as anti-competitive behaviour, bribery or corruption. Impacts, pages 117 and 130. There was no evidence of any systemic bribery or corrupt activity in 2022. We do not regard corruption and bribery as a principal risk to the Group.

Copies of our policies can be obtained from the Group's company secretary on request. Our business model is set out on page 9 and non-financial KPIs on pages 12 and 13.

GOING CONCERN AND VIABILITY STATEMENT

Going concern

The Group's business activities, together with the factors likely to affect our future development, performance and position, are set out in this strategic report.

As at 31 December 2022, the Group had net cash of £354.6m and committed banking facilities of £180m which are in place for more than one year. The directors have reviewed the Group's forecasts and projections, which show that we will have a sufficient level of headroom within facility limits and covenants over the period of assessment, which the directors have defined as the date of approval of the 31 December 2022 financial statements through to 29 February 2024. After making enquiries, including the review of sensitivities for plausible downside scenarios to the forecasts, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to prepare the annual financial statements on the going concern basis. See page 188 for the going concern basis of preparation in the consolidated financial statements.

Viability

As required by provision 31 of the UK Corporate Governance Code, the directors have assessed the prospects and financial viability of the Group and have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment.

The assessment took account of the Group's current position and the potential financial and reputational impact of the principal risks (as set out on pages 67 to 77) on the Group's ability to deliver the Group's business plan. This assessment describes and tests the significant solvency and liquidity risks involved in delivering the strategic objectives within our business model.

The assessment has been made using a period of three years commencing on 1 January 2023 which is in line with the Group's budgeting cycle. This gives good visibility of future work as the majority of the Group's workload falls within three years and enables more specific forecasting as the Group's contracts follow a life cycle of three years or less. There is inherently less visibility over the expected workload beyond three years, and increased uncertainty around the forecasted costs to deliver. Consequently, it is deemed most appropriate to perform its medium-term planning over a three-year period.

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

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

The base case business plan includes the Group maintaining positive daily average net cash for the entirety of the period reviewed, with no drawings under its loan facilities. The Group has £180m of committed revolving credit facilities, undrawn at 31 December 2022, of which £15m is committed until March 2024 and £165m is committed until the final quarter of 2025. For the purposes of testing viability, it is assumed that equivalent facilities are available past these maturities.

The impact of a number of plausible downside scenarios on the Group's funding headroom (including financial covenants within committed bank facilities) has been modelled with consideration of the Group's principal risks that could have a direct impact on operational cash flows.

GOING CONCERN AND VIABILITY STATEMENT continued

The table below gives an overview of the scenarios modelled and the mapping to the relevant Group's principal risks.

Scenario	Principal risk mapping
Reduced revenue and margins in the construction businesses The cash performance of the construction businesses is correlated to the levels of revenue and margin achieved by each division. We have modelled a scenario of reduced revenue that could be caused by changes in the UK economic conditions or the insolvency of a key client/partner. In addition to this we have modelled reduced profit margins which may result from increased inflation, inefficiencies that could be a result of poor project selection, poor project delivery, resourcing issues, health and safety issues and the impact of disruption that could be caused by cyber activity or climate change.	▪ Economic change and uncertainty ▪ Partner insolvency or adverse change of behaviour ▪ Poor contract selectivity ▪ Poor project delivery ▪ Health and safety incident ▪ Talent retention and attraction ▪ Cyber activity/failure to invest in IT ▪ Climate change
Working capital deterioration in the construction businesses We have modelled a scenario including a deterioration of working capital in the construction businesses that could be caused by delays in receiving payments from customers and also having to pay suppliers earlier.	▪ Mismanagement of working capital and investments ▪ Partner insolvency or adverse change of behaviour
Reduction in open market sales values and sales pace in Partnership Housing We have modelled a scenario where there is a further reduction in the open market housing sales values and a slowdown in the sales pace caused by changes and uncertainty in the UK economic conditions, exposure to the UK residential market or poor project delivery.	▪ Economic change and uncertainty ▪ Exposure to UK residential market ▪ Poor project delivery
Project delays or viability concerns, and cost increases in Urban Regeneration We have modelled a scenario where there were project delays or cancellations in respect of Urban Regeneration and also reduced margins. This scenario could be the result of changes and uncertainty in UK economic conditions, including changes in the UK residential market, and also inefficiencies that could be a result of poor project delivery, resourcing issues, health and safety issues, or the impact of disruption that could be caused by cyber activity or climate change.	▪ Economic change and uncertainty ▪ Exposure to UK residential market ▪ Partner insolvency or adverse behavioural change ▪ Poor project delivery ▪ Health and safety incident ▪ Talent retention and attraction ▪ Cyber activity/failure to invest in IT ▪ Climate change
Building safety expenses We have modelled a scenario where we incur higher than expected expenses in respect to our obligations in regard to the Pledge, but these costs are not fully recovered through contractual remedies.	▪ Poor project delivery ▪ Health and safety incident ▪ Mismanagement of working capital and investments
Severe downside case We have modelled a scenario where all of the scenarios above combined at the same time, to represent a severe downside scenario.	▪ All of the above

GOING CONCERN AND VIABILITY STATEMENT continued

There are no individual scenarios which are considered to materially impact the Group's viability, and our assessment included modelling the financial impact on the business plan of the severe downside scenario where the impact of a reasonably plausible combination of the divisional risks was applied in aggregate.

In the event of this severe collection of scenarios occurring, there is still a reasonable expectation that the Group will be able to continue in operation and meet its liabilities.

In addition, the Board has considered a range of potential mitigating actions that may be available if this worst-case collection of scenarios arose. These primarily include a reduction in investment in working capital and a reduction in the dividend.

As part of the sensitivity analysis, the directors also modelled a scenario that stress tests the Group's forecasts and projects, to determine the scenario under which funding requirements would exceed the committed bank facilities. The model showed that the Group's operating profit would need to deteriorate substantially for funding requirements to exceed the committed facilities. The directors consider there is no plausible scenario where cash inflows would deteriorate this significantly.

Based on the results of its review and analysis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of its assessment until 31 December 2025.

Assessing the Group's prospects beyond the review period, the directors consider that demand will remain strong across all divisions. The Group has maintained a well-capitalised balance sheet, has a strong order book and operates a resilient business model.

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

John Morgan
Chief Executive
22 February 2023

Governance

In this section

Applying the Code's Principles across the business

As a UK premium-listed company, we have adopted a governance structure based on the Principles of the UK Corporate Governance Code published in July 2018 ('the Code'), which is available on the Financial Reporting Council's (FRC's) website at frc.org.uk. The Company has applied all the Principles, and complied with all Provisions of the Code, save for the following Provisions: Provision 3 – further explanation on shareholder engagement is provided on page 15; Provision 38 – the executive directors' pension contributions will be aligned with the majority of employees from 1 January 2023 as set out on page 161; and Provision 41 – further explanation of wider workforce engagement on executive remuneration which will be carried out in 2023 as set out on page 137. In line with the Companies Act 2006 Regulations, further information on how the directors have performed their duties under section 172 of the Companies Act 2006 is also contained in the strategic report.

CHAIR'S STATEMENT

"We are proud that we have an inclusive culture where people feel welcome to seek employment with us regardless of their educational and social background."

Michael Findlay
Chair

The quick read...

- We have closely reviewed the Group's performance against our responsible business strategy
- We have approved changes to the Board diversity policy, which sets the tone for a fully inclusive culture
- We have consulted with shareholders on changes to our remuneration policy
- We have made changes to the membership of our committees to maximise their effectiveness

Embedding our unique culture across all our businesses

I have pleasure in presenting the 2022 corporate governance report which describes our governance framework and how the Board and its committees have discharged their responsibilities during the year.

2022 has been a busy year for the Group and thanks to the great people across our business, we have delivered another set of good results that show the continued focus on our strategy and responsible business commitments.

Board activities

An overview of how the Board spent its year is provided on pages 112 to 117. Here are some of the highlights:

Purpose, values, strategy and culture

We agreed with our executive directors' recommendation to simplify our purpose, both for clarity and to emphasise the importance of our talented teams in not only meeting but exceeding our stakeholders' expectations. The challenges we have all faced over the last few years have shown the importance of having a strong, effective and agile culture.

Our decentralised philosophy remains integral to achieving our purpose, as it empowers our divisions to make the right decisions, at pace, for their businesses and their stakeholders. During the year, the Board ensured that our purpose and long-established Core Values that underpin our culture remain embedded across the Group.

In its strategy review, the Board kept the economic environment under close scrutiny to ensure our divisions have the resilience and resources to respond to the challenges presented by the continuing uncertainty. We took into account macroenvironmental changes such as the rise in inflation, interest rates and cost of labour, and the impacts of these on our stakeholders. At the same time, we ensured that the Group continued to maintain a strong financial position through disciplined contract selectivity, improved quality of earnings and operational delivery, and achieving organic growth over the medium and longer term.

At the time of writing, uncertainties will continue to have an impact on our customers and wider stakeholders. The Board will closely monitor the key metrics we use to measure progress against our strategic priorities and will undertake rolling reviews of our principal and emerging risks. However, despite these uncertainties, we are confident in the resilience of our diverse business and our teams and their ability to continue to generate value over the longer term.

Responsible business strategy

We are proud of our continuing leadership in addressing climate change and have achieved a CDP 'A' score for the third year running.

Reviewing the Group's activities to support our responsible business strategy has also continued to be a key focus area for the Board.

In February 2022, we approved new terms of reference for the responsible business committee (previously the health, safety and environment committee). The committee oversees the Group's responsible business strategy and monitors performance against our Total Commitments, including our progress towards net zero carbon emissions (see pages 28 to 33).

I have continued to attend all the responsible business committee meetings and review the work we are doing across the Group to address the issues that our stakeholders have identified as being material to the business. This work is described in more detail in the responsible business committee report and on pages 18 to 43 of the strategic report.

CHAIR'S STATEMENT continued

Diversity and inclusion

The Board approved changes to its Board diversity policy which applies to the Board, its committees, the Group management team (GMT) and their direct reports. The policy sets the tone for ensuring a fully inclusive culture in its broadest sense Group-wide, an ethos reflected in our Code of Conduct and related policies. Further information on Board and Group diversity can be found on pages 120 and 121 of the nomination committee report and pages 24 to 26 of the strategic report.

We recognise that we are on a journey to increase both gender and ethnic diversity across the Group. Each of our divisions is working on initiatives to improve diversity and monitoring progress.

In terms of wider diversity, we are proud that we have an inclusive culture where people feel welcome to seek employment with us regardless of their educational and social background. We remain focused on improving our performance in our commitment to 'Developing people', recruiting from all social backgrounds and investing in training and nurturing our employees so that every individual can reach their career potential.

Remuneration

The remuneration committee is focused on ensuring our remuneration practices are fair and that we continue to attract and retain the talent we need to grow the business.

We conducted consultations with our major shareholders and institutions on suggested changes to our remuneration policy ahead of proposing the new policy for shareholder vote at our 2023 AGM. Our discussions with shareholders included exploring any further concerns that lay behind the votes against our remuneration report at our 2022 AGM. Further information can be found in our remuneration committee report on page 135.

See pages 102 and pages 112 to 117 for detail on the Board's key activities in the year and pages 134 to 137 for the committees' activities.

Committee changes

In early 2022, the Board approved changes to the composition of our committees in order to maximise their effectiveness, following recommendations by the nomination committee. As a result, Kathy Quashie was appointed to the nomination and remuneration committees, while Malcolm Cooper stepped down from the remuneration committee and Tracey Killen stepped down from the audit committee. See page 118 for further information.

Board evaluation

An internal evaluation of the Board and committees was carried out during the year (see page 122). The outcome was that the Board continues to work well with the right issues being discussed and appropriate Board involvement in key decisions. It was agreed that the following five areas identified in the 2021 review remain key: succession planning; maintaining culture; increasing diversity and inclusion; ensuring Partnership Housing delivers its potential; and communicating our performance against our Total Commitments effectively.

An externally facilitated Board performance evaluation will be carried out in 2023.

AGM

Our AGM will be held on 4 May 2023 (see page 164 and the AGM circular for further details). We are satisfied that each director continues to make an effective contribution, and they will each offer themselves for re-election, in accordance with the Code.

Michael Findlay
Chair
22 February 2023

BOARD AT A GLANCE

A *committed* leadership team delivering value for our stakeholders

Board meeting agendas combine regular reviews of performance against the Group's values and strategic priorities with 'deep dives' into specialised topics and presentations from divisional teams.

See our schedule of matters reserved for the Board on our website.

An overview of how the Board spent the year

Meetings are planned throughout the year to ensure the Board has sufficient time to discharge its responsibilities effectively.

Standing items addressed throughout the year

- Health and safety
- Executive reports covering implementation of strategy as well as commercial and financial performance
- Financial structure and position
- Divisional performance including KPIs
- Commercial, governance and verbal updates from the company secretary and chairs of each Board committee

February 2022

- Results for the year ended 31 December 2021
- Final dividend for the year ended 31 December 2021
- Approval of updated terms of reference for the responsible business committee
- Divisional payment practice review

May 2022

- Information security update and management of cyber risks
- Review of emerging technology and adoption across the business
- Review of investor feedback from the 'meet the management event'
- 2022 AGM

June 2022

- Purpose, strategy and culture review
- Modern slavery statement approval
- Review of insurance renewal strategy

August 2022

- Results for the half year ended 31 December 2022
- 2022 interim dividend
- Whistleblowing review
- Responsible business performance update
- Divisional meeting with Partnership Housing
- Approval of human rights policy and updated Board diversity policy

October 2022

- Group strategy and culture review
- Urban Regeneration presentation of strategy
- Risk appetite review

December 2022

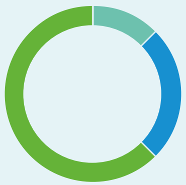
- Group budget approval
- IT strategy, risk and security update
- Board and committee evaluation
- Responsible business performance and materiality review
- Whistleblowing review and review of employee engagement activities
- Divisional meeting with Urban Regeneration

BOARD AT A GLANCE continued

Board diversity

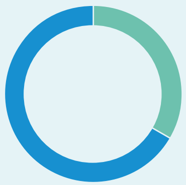
More information on Board and senior leadership diversity can be found on page 120.

Role



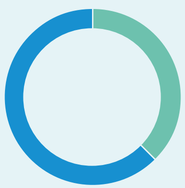
Chair	1
Executive	2
Non-executive	5

Chair and non-executive director tenure



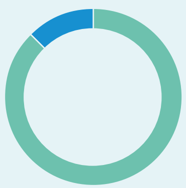
0–3 years	2
4–7 years	4

Gender diversity



Female	3
Male	5

Ethnic diversity



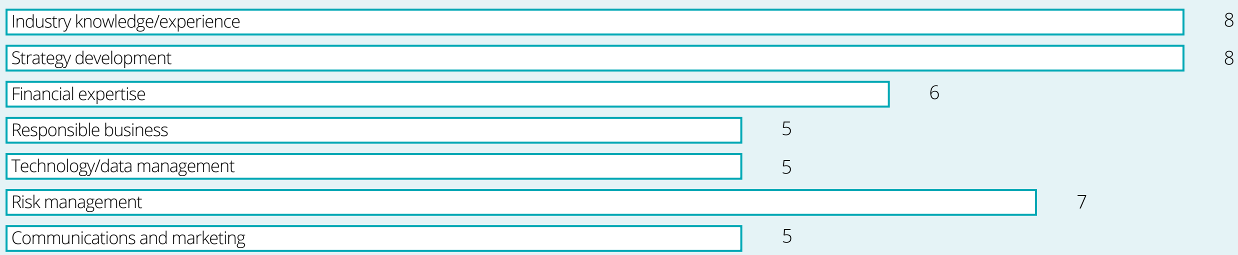
White	7
Ethnically diverse	1

Board attendance

	Board	Audit	Responsible business	Nomination	Remuneration
Total in 2022	**8**	**3**	**3**	**2**	**5**
Michael Findlay[1]	8	3[2]	3[2]	2	5[2]
John Morgan	8		3[2]	2[2]	3[2]
Steve Crummett	8	3[2]	1[2]	2[2]	
Malcolm Cooper	8	3	3	2	1[3]
Tracey Killen	8	1[5]	3	2	5
David Lowden	8	3		2	5
Jen Tippin	7[4]	3		2	5
Kathy Quashie	7[4]			2[6]	4[6]

1 Michael Findlay attended all Board and nomination committee meetings during the year and was also present at all meetings of the audit, responsible business and remuneration committees.
2 Attended by invitation.
3 Malcolm Cooper attended the first remuneration committee meeting of the year before stepping down as a member.
4 Jen Tippin and Kathy Quashie were unable to attend the Board call in November 2022 in relation to the trading update due to alternative commitments in their executive responsibilities that could not be changed.
5 Tracey Killen attended the first audit committee meeting of the year before stepping down as a member.
6 Kathy Quashie was appointed to both the nomination and remuneration committees in February 2022. She attended the first nomination committee meeting by invitation and all other meetings of both committees from that date.

The Board's experience



The chart above shows the number of directors with each type of experience.

BOARD OF DIRECTORS

An *experienced* Board, delivering our purpose

Throughout 2022, and as at the date of this report, the Board consists of the chair, two executive directors and five non-executive directors, each bringing a range of skills, experience, knowledge and background to Board discussions.

Each Board member has considerable experience in strategy development and implementation, corporate governance, and regulatory requirements which enables them to discharge their Board responsibilities and promote the long-term sustainable success of the Group.

The non-executive directors are responsible for constructively challenging the executive directors and monitoring delivery of the Group's strategy within the risk and control framework set by the Board.

All of the non-executive directors, including the chair, are considered by the Board to be independent in character and judgement and, as at the date of this report, no cross-directorships exist between any of the directors. We are aware of the potential link between David Lowden and Kathy Quashie since David became chair of Capita and Kathy joined Capita's executive committee as chief growth officer. We recognise that this perception of linkage may call into question their independence, but do not believe that this is the case (see page 109 for further information).

Board committees

- A Audit committee
- N Nomination committee
- R Remuneration committee
- RB Responsible business committee
- Committee chair

Michael Findlay N

Chair

Appointed: October 2016
Independent on appointment: Yes

Skills and experience: Michael has spent his career in investment banking and advised the boards of many leading UK public companies on a wide range of strategic, finance and governance matters. He was previously co-head of investment banking for UK and Ireland at Bank of America and senior independent director at UK Mail Group PLC.

Contribution to long-term success: The Board benefits from Michael's extensive experience in business and corporate finance together with his expertise in property, risk management and communications. His contribution assists the Group in pursuing its strategy, maximising the value of the business, and delivering long-term, sustainable value for all our stakeholders. Michael's leadership of the Board encourages a collaborative approach and open debate by all Board members.

Current external roles: Michael is non-executive chair of London Stock Exchange plc, chair of the FCA's (Financial Conduct Authority's) markets practitioner panel, non-executive director and audit and risk committee chair of Royal Mail plc and non-executive director of Jarrold & Sons Limited.

John Morgan

Chief Executive

Appointed: October 1994
Independent: No

Executive responsibilities: Leading the Group, developing and implementing the strategy and policies approved by the Board, embedding values and culture, and driving diversity and inclusion throughout the business. John leads the GMT.

Skills and experience: John co-founded Morgan Lovell in 1977 which merged with William Sindall plc in 1994 to form Morgan Sindall Group plc. He instituted and champions the Group's decentralised business model that empowers the divisions to challenge the status quo and keep innovating and winning in their respective markets.

Contribution to long-term success: The Board benefits from John's in-depth knowledge and experience of both the construction and regeneration sectors. His significant leadership and people management skills continue to drive forward the Group's strategy to ensure quality of earnings and grow the business organically for the benefit of all our stakeholders. John is responsible for ensuring that career opportunities within the Group are accessible to people from a variety of backgrounds so that we can recruit the best people from a wide pool of talent.

Current external roles: John does not currently hold any external appointments.

Steve Crummett

Finance Director

Appointed: February 2013
Independent: No

Executive responsibilities: Leads the Group's financial strategy and has overall responsibility for corporate reporting, finance, treasury, taxation and IT. Steve contributes to the development and implementation of the strategy and policies approved by the Board. He is chair of the Group's risk committee.

Skills and experience: Steve is a chartered accountant and has wide-ranging financial, accounting and UK public company experience through prior executive, non-executive and senior finance roles with a number of listed companies.

Contribution to long-term success: The Board benefits from Steve's considerable experience in finance, audit, treasury, risk management and IT and security. His expertise has contributed towards the Group's financial resilience and strong balance sheet, which enables us to make the right decisions for the long term. Steve is responsible for the ongoing smooth-running of the Group's financial operations and for driving our strategy to achieve net zero carbon emissions by 2030.

Current external roles: Steve does not currently hold any external appointments.

BOARD OF DIRECTORS continued

Malcolm Cooper A RB N
Non-executive Director

Appointed: November 2015
Independent: Yes

Skills and experience: Malcolm is a qualified accountant and treasurer. He has an extensive background in corporate finance and wide experience in infrastructure, property and construction. Malcolm's previous roles include managing director of National Grid Property, global tax and treasury director of National Grid, senior independent director and audit committee chair at CLS Holdings plc, president of the Association of Corporate Treasurers and member of the Financial Conduct Authority's Listing Authority Advisory Panel.

Contribution to long-term success: In his roles as chair of the responsible business and audit committees, the Board benefits from Malcolm's wide knowledge of government policy and direction, health and safety and the impacts of climate change as well as in finance, audit, treasury and risk management.

Current external roles: Malcolm is senior independent director and credit committee chair of MORhomes plc, non-executive director and audit committee chair at Southern Water Services Limited and non-executive director and audit and risk committee chair at Local Pensions Partnership Investments Ltd.
He was appointed a non-executive director of Custodian Property Income REIT plc on 6 June 2022.

Tracey Killen R RB N
Non-executive Director

Appointed: May 2017
Independent: Yes

Skills and experience: Tracey has wide-ranging expertise in the retail sector including the development of strategy, business planning and corporate governance gained through her prior role as executive director for people for the John Lewis Partnership. Tracey's corporate and main board experience includes roles on nomination, remuneration and corporate responsibility board sub-committees.

Contribution to long-term success: The Board benefits from Tracey's extensive commercial, corporate responsibility, and people management experience. Her depth of knowledge and understanding of remuneration and related corporate governance issues enable her as chair of the remuneration committee to lead on the Group's remuneration philosophy to ensure that we motivate and retain executive directors of the calibre required to deliver our strategy.

Current external roles: Tracey is a Fellow of Be the Business, a not-for-profit organisation that helps firms across the UK to improve their performance, and a trustee for Dorset and Somerset Air Ambulance.

David Lowden A N R
Senior Independent Director

Appointed: September 2018
Independent: Yes

Skills and experience: David is a highly experienced non-executive director and chair of UK-listed companies in several sectors. He has experience in both financial and general management through his prior executive roles of finance director and chief executive at Taylor Nelson Sofres plc, where he supported growth and profitability through the efficient design of business operations and appropriate use of systems and processes. David's public board experience includes prior roles as chair of Page Group plc, chair of Huntsworth plc, chair of the audit and risk committee at William Hill plc, and chair of the audit committee at Cable & Wireless Worldwide plc.

Contribution to long-term success: David's strong strategic understanding and financial, marketing and commercial skills, gained through his many years' experience working in international businesses, are invaluable to the Board as the Group pursues its strategy for growth.

Current external roles: David is currently chair of the board of Diploma plc and chair at Capita plc having previously been the senior independent director.

Jen Tippin A N R
Non-executive Director

Appointed: March 2020
Independent: Yes

Skills and experience: Jen has extensive strategic and commercial experience developed through her career in financial services and in the engineering and airline sectors. She has wide experience in business leadership and transformation, human resources, efficiency, sourcing, supply chain management and property, together with a deep understanding of customer experience. Jen has sat on the boards of Lloyds Bank Corporate Markets and Kent Community NHS Foundation Trust.

Contribution to long-term success: The Board benefits from Jen's strengths in consumer-facing markets, and her insights into IT, people and complex supply chain management are relevant to the Group's strategy to deliver long-term sustainable value to our stakeholders.

Current external roles: Jen is the group chief people and transformation officer for NatWest and sits on the NatWest Group and NatWest Holdings' executive committees. She is also a member of the council and chair of the remuneration committee of City University, University of London and a board member of the Financial Services Skills Commission. She was appointed a non-executive director of HMRC in January 2023.

Kathy Quashie N R
Non-executive Director

Appointed: June 2021
Independent: Yes

Skills and experience: Kathy has extensive strategic, commercial, sales and digital transformation experience developed through her career in the telecommunications sector. She has also been a key advocate for building a diverse and inclusive culture. She was previously a non-executive director of the Enterprise Board of Transport for London Museum and recognised in Empower Top Executive Role Model Lists 2021 to 2022, also recently showcased on the Black Powerlist for 2023.

Contribution to long-term success: Kathy's experience further broadens the expertise on the Board. Her wealth of digital and sales experience in particular adds valuable knowledge and insight into Board discussions and helps ensure that the Group's continued investment in digital capability meets the current and future needs of the business in terms of both innovation and security. In addition, Kathy's insight and knowledge of driving positive and sustainable growth through inclusion is an asset to the Group as we continue to progress our diversity and inclusion programme.

Current external roles: Kathy is the chief growth officer and executive committee member at Capita plc where she is responsible for the group functional unit of sales and marketing, ensuring the company has the right competencies, systems and strategies to deliver on its organic growth objectives. She is also the executive sponsor for the Embrace employee network, representing equality and inclusion.

GROUP MANAGEMENT TEAM

Supporting the executive directors

The GMT supports the executive directors in implementing the strategy and policies approved by the Board.

Meetings are chaired by the chief executive and focus on strategic and operational matters affecting the Group as a whole. The team also supports the directors in embedding our culture and Core Values across the decentralised business, driving our responsible business strategy, and ensuring that we are acting consistently across the Group to promote diversity and inclusion.

On 15 February 2023, Kate Bowyer stepped down as managing director of Urban Regeneration. The division will continue to be led by its strong regional leadership, assisted by chief executive, John Morgan.

John Morgan

Chief Executive

See page 104 for biography

Steve Crummett

Finance Director

See page 104 for biography

Chris Booth

Managing Director,
Fit Out

Role: Chris has overall responsibility for the Fit Out division, which includes the Overbury and Morgan Lovell brands. He is responsible for driving the strategy of excellence in operational delivery and exceptional customer experience in the division's office fit out, refurbishment, design and build, higher education and life sciences projects.

Skills and experience: Chris has over 35 years' experience in the fit out sector having joined Overbury in 1994, progressing through divisional management to become managing director of Overbury's Major Projects team in 2003. He was appointed to the Fit Out divisional board as chief operating officer in 2010, before being appointed as overall managing director in 2013.

Pat Boyle

Managing Director,
Construction

Role: Pat leads the Construction business within Construction & Infrastructure. He is responsible for delivering sustainable growth, promoting a safe and inclusive culture and creating inspiring communities where we all live, work, learn and play. He is a trustee of the Pagabo Foundation, which raises awareness of mental health and wellbeing for those working in construction.

Skills and experience: Pat has over 30 years' experience in the construction industry. He joined the Group in 2014 from Lend Lease, where he was head of its public sector construction division. Prior to this, Pat held various wide-ranging senior level roles within Laing O'Rourke, including regional director, group HR director and managing director of Select Plant Hire.

Steve Coleby

Managing Director,
Partnership Housing

Role: Steve leads our Partnership Housing business, people and ventures. The division provides innovative residential construction and regeneration developments from decentralised regional offices across the UK. He ensures it places responsible business and trusting partnerships at the heart of all its decision-making.

Skills and experience: Steve joined the Group in 2018, bringing a wealth of knowledge and experience in construction. Previously, he spent 25 years at Laing O'Rourke, including as commercial director of its European hub, managing director of UK infrastructure, and managing director of its UK construction business. Steve holds a RICS fellowship.

Alan Hayward

Managing Director,
Property Services

Role: Alan is in charge of our Property Services division which provides responsive repairs and planned maintenance services to more than 200,000 homes and public buildings nationwide, for both the public and private sectors. He is responsible for the division's strategic direction, building on the service to deliver value-added activities that better support social housing residents and ensuring a sustainable and innovative business for all clients and other stakeholders.

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

GROUP MANAGEMENT TEAM continued

Martin Lubieniecki
Managing Director, Design

Role: Martin is responsible for our BakerHicks business, based out of the UK and Switzerland and offering design, engineering and project delivery. BakerHicks specialises in multi-sector complex infrastructure, process and built environments across the full project life cycle. Martin is responsible for developing and implementing BakerHicks' strategic plan, building a team of exceptional individuals and managing overall performance.

Skills and experience: Martin is a qualified chartered accountant and has over 20 years' property professional services experience. He joined the Group in 2015 from Colliers International where he was the UK chief operating officer. Prior to this he had been the EMEA chief operating officer for CBRE. Martin's career started at PricewaterhouseCoopers and McKinsey before taking senior roles at Sears Group and Hilton International.

Andy Saul
Group Commercial Director

Role: Andy supports the divisions in developing and implementing effective commercial strategies at preconstruction stage and in key operational activities. He also offers advice and assistance, acting as a critical friend to the divisions throughout the life cycle of a project. Andy is a member of the Group's risk committee and the Group health and safety forum where he oversees the implementation and monitoring of the Group's health, safety and wellbeing framework.

Skills and experience: Andy joined the Group in 2014 from Bullock Construction where he was managing director. Prior to that, Andy's career included 20 years with Kier Group, culminating in the role of commercial director at Kier's construction division where he had overall responsibility for the commercial and procurement functions.

Clare Sheridan
Company Secretary

Role: Clare is responsible for ensuring sound information flows to the Board and between senior management and non-executive directors and advising the Board on corporate governance matters. In addition to her governance responsibilities, Clare manages the Group secretariat function, the insurance programme, long-term incentive schemes, pension arrangements, Group-wide employee benefits and Group reporting on our responsible business strategy and performance. She is a member of the Group's risk committee and our social value panel; director of the captive insurance company; and trustee of the pension scheme.

Skills and experience: Clare is a member of the Chartered Governance Institute UK & Ireland. She has been with the Group for more than 20 years, and was appointed as company secretary in 2014, having previously been deputy company secretary.

Simon Smith
Managing Director, Infrastructure

Role: Simon leads the Infrastructure business within Construction & Infrastructure which focuses on the rail, highways, aviation, nuclear, energy and water sectors. In addition, he oversees our in-house plant and engineering businesses. Simon is responsible for delivering long-term, sustainable growth in Infrastructure's key sectors and ensuring a safe and inclusive working environment.

Skills and experience: Simon is a chartered quantity surveyor with 30 years' multi-sector experience. Having joined the Group in 2011, he was appointed as managing director of Infrastructure in 2017.

Governance framework

We have a framework in place that ensures there is supervision at appropriate levels of the organisation to drive performance and manage risks and opportunities.

The Board

The Board, assisted by its committees, is responsible for:

- determining overall strategy and long-term objectives to align with our purpose;
- ensuring that the divisions have appropriate strategies and resources in place and a culture that drives the right behaviours;
- monitoring KPIs;
- overseeing material social and environmental risks and opportunities;
- approving the annual business plan and budget;
- determining risk appetite and principal risks;
- overall corporate governance arrangements, including a framework of prudent and effective controls that enable risk to be assessed and managed;
- approving the financial results statements, annual report and accounts and other statutory announcements; and
- considering all policy matters relating to the Company's activities, including any major changes of policy.

Role of the chair

The chair is responsible for the overall effectiveness of the Board and for promoting a culture of openness and debate at meetings which support well-informed and transparent decision-making through constructive dialogue. To ensure accountability and oversight, there is a clear division of responsibilities between the chair, chief executive and senior independent director, set out in writing, approved by the Board and summarised on our website at morgansindall.com.

Board committees

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

Audit committee

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

See page 123.

Nomination committee

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

See page 118.

Responsible business committee

Oversees the Group's responsible business strategy, targets and performance and monitors progress against our Total Commitments.

See page 131.

Remuneration committee

Responsible for recommending overall remuneration policy and setting remuneration for our executive directors and members of the GMT.

See page 134.

Chief executive

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

Group management team

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

See page 106.

Divisions

Each division operates autonomously with its own management board that includes the Group chief executive and Group finance director.

See page 7.

Risk committee

Meets twice a year to assist the Board and audit committee in monitoring risk management, including climate risk, and overseeing the internal control framework.

See page 64.

Cross-divisional health and safety, HR and commercial directors' forums, IT security steering group, climate action group, and supply chain and social value panels.

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

Responsibilities of the divisional boards

Our governance framework supports our philosophy of decentralisation, which gives autonomy to the divisions and enables them to operate in a way that most efficiently serves their respective stakeholders and respond quickly and effectively to any changes in their markets. We believe this approach is fundamental to the businesses delivering their strategy and contributing to the long-term success of the Group.

There is a clear division of responsibilities between the running of the Board and the running of the business, set out in writing as follows:

- matters reserved solely for the Board's decision-making and the terms of reference of each of the Board's committees which were reviewed in December and can be found on our website;
- a schedule of delegated authorities highlighting significant operational decisions that the divisions must refer to the Board for approval;
- directors' duties under the Companies Act 2006 and other legislation, which are communicated via induction packs and e-learning modules; and
- a Code of Conduct for all of our employees on the Group's expected standards to prevent misconduct and breach of ethical practices. The Code of Conduct and other supporting policies are published on each division's intranet and supplementary training is provided (see page 23).

The divisions are responsible for setting their own five-year strategic plans and annual budgets, for sign-off by the Board, for their operational performance and for managing relationships with their stakeholders (see pages 15 to 17). The schedule of delegated authorities clearly defines all key business issues and levels of accountability, stating which decisions are significant to the Group and therefore need to be referred for approval to: divisional managing directors; designated officers of the Group; the executive directors; or the Board as a whole. Each division sets its own detailed procedures with regard to day-to-day operational matters to ensure that decisions are taken at the right level. The executive directors, together with the Group head of audit and assurance, who reports to the audit committee, are responsible for monitoring the divisions' compliance with the schedule of delegated authorities.

The executive directors meet with the divisional management boards each month to review performance against their medium-term targets and strategic plan. In preparation for these meetings, the divisions prepare a monthly board pack detailing performance against their KPIs and any issues pertaining to their stakeholders. In turn, the Board receives an executive summary of the divisional board packs as part of each set of Board meeting and interim papers. This ensures that the Board is kept fully apprised of each division's performance and any material issues arising with their stakeholders.

Independence

On pages 104 to 105, the Board has set out which directors are considered independent in accordance with Provision 10 of the Code.

As at 31 December 2022, 63% of our Board (excluding the chair) are considered independent. When our chair was appointed to the Board in October 2016, he was considered to be independent when assessed against the circumstances set out in Provision 10.

The Board has reviewed the potential link between David Lowden's role as chair of Capita plc and Kathy Quashie's executive role at the same company. However, as Kathy's role at Capita is below board level, we do not consider there to be a significant enough link for their independence to be impaired.

The tenure of our non-executive directors is regularly reviewed as part of our succession planning (see page 119) to maintain independence and ensure regular refreshment of the Board. The Board allocated time at the end of each of the six scheduled meetings held during the year for the chair to meet with the senior independent director and non-executive directors without the executive directors present. No material issues were raised in the year at any of these meetings.

External commitments and conflicts of interest

Prior to their appointment, new directors are asked to disclose any significant commitments they have, together with an indication of the time involved, so that the Board can take these external demands on their time into account and assess any potential conflicts of interest. Directors' current external appointments are disclosed on pages 104 and 105. All existing directors must seek Board approval prior to accepting an external appointment. In accordance with this process, during the year, the Board approved Malcolm Cooper's appointment as a non-executive director of Custodian Property Income REIT plc and Jen Tippin's appointment as a non-executive director of HMRC.

The Board has an agreed approach for dealing with directors' conflicts of interest duties under the Companies Act 2006, whereby a director is restricted from voting on any matter in which they might have a personal interest unless the Board unanimously decides otherwise. Responsibility for authorising conflicts of interest in accordance with the Company's articles of association is a matter reserved for the Board. Following its annual review in December, the Board was satisfied that the external commitments of the non-executive directors do not conflict with their duties as directors of the Company other than those that may arise from other directorships or employment as disclosed on pages 104 and 105.

Board resources

With support from the company secretary, the Board ensures that it has an appropriate governance framework, policies and processes in place, and the chair ensures that the Board is provided with accurate and timely information in order to function effectively.

David Lowden has held the position of senior independent director since 2019 to support the chair and be available to the other directors and to shareholders where necessary. He also leads the annual appraisal of the chair's performance (see page 122).

The agendas for scheduled Board meetings are developed by the chair, chief executive and company secretary who consider the Board's responsibilities, the current status of projects, strategic workstreams and operational matters arising to ensure that the Board monitors and reviews all significant aspects of the Group's activities (see page 102). Senior management, employees and external advisers are regularly invited to attend Board and committee meetings to give presentations and in-depth insights into key subject matters.

Board and committee papers are distributed electronically in advance of each meeting to provide quick and secure access, and minutes are circulated to all directors after each meeting. Board agendas and papers are reviewed regularly to ensure they remain focused and allow sufficient time for consideration and constructive contribution by all directors to each agenda item. Interim reports are circulated between the scheduled meetings.

If any director has any concerns about the operation of the Board or the management of the business, they are encouraged to raise them for discussion so that any unresolved concerns can be recorded in the minutes. No such concerns were raised during 2022.

All directors have access to the advice and services of the company secretary and there are agreed procedures by which directors can take independent professional advice, at the expense of the Company, on matters relating to their duties. No such independent advice was sought by any director during the year.

Our Board in action

Seeking a variety of perspectives

Each year, the wider management teams of two divisions get the chance to meet the Board in a less formal setting.

The divisions who took part in 2022 were Partnership Housing and Urban Regeneration. Each session began with an introduction from the division's managing director, followed by conversations in small groups or one to one.

These gatherings provide the opportunity for the directors, particularly the non-executives, to hear from employees who they don't normally meet, and whose ideas and points of view help inform Board discussions and decision-making.

Board effectiveness

The Board provides effective leadership by setting a strategy to deliver our purpose, overseeing the Group's performance and ensuring our governance controls and processes are adhered to. It considers the impact of our activities on the environment, and monitors the value we generate for our shareholders and our contribution to wider society (see page 9).

The Board uses the support of its four committees to manage its time effectively. At each Board meeting, following a Board committee meeting, the committee chair informs the Board of their committee's key discussions, recommendations and decisions.

All of our scheduled Board and committee meetings are held in person, with additional ad-hoc meetings as needed. In 2022, the Board held two additional meetings, primarily to discuss and review the Group's performance and approve stock market announcements. The remuneration committee held two additional meetings to discuss the remuneration policy being put to shareholders at this year's AGM (see page 134).

The highlights of the Board's activities during the year are set out on page 102 with further detail of Board and committee actions and outcomes throughout this report. The agenda topics for Board and committee meetings are planned throughout the year to ensure that the Board monitors the Group's progress against our strategic priorities, assesses the continued appropriateness of our business model, ensures that the resources integral to our business model are maintained, and satisfies itself that the needs of our stakeholders are being continuously monitored. For a description of our business model, strategy and how we create long-term value, see pages 9 and 10.

The nomination committee regularly reviews the Board's composition and the performance and contribution of individual directors, to confirm there is an appropriate balance of skills, experience and backgrounds for effective discussions and decision-making (see page 118).

The nomination committee is also responsible for the annual evaluation process (see page 121). As a result of this review, the committee is satisfied that the Board remains effective in delivering against our strategy and generating value for all our stakeholders in both the short and long term.

Our Board in action

Information security and managing cyber risk – a deep dive

In 2022, the Board received two briefings from our information security team. The briefings focused on our business risks, security strategy, emerging technology, opportunities and risks and what this all means for our future strategy and the sustainability of the Group.

Information security updates like these are included in the Board's agenda every six months. The aim is to increase the directors' understanding of new cyber threats and the controls we have in place to protect our data, such as educating our employees and engaging with our suppliers.

The audit committee assists the Board in overseeing cyber security risk and data protection. After its review of the Group's information security in 2022, the Board was satisfied that our controls are adequate and our ongoing investment in technology is sufficient to allow us to continue to meet our strategic priorities and pursue the opportunities that technology brings (see page 76).

Our cyber risk management strategy is led by the Group finance director, supported by our information security team and a security steering group whose members include the Group's general counsel, head of internal audit and assurance, and IT director.

The Group has not experienced any major cyber incidents in the reporting period.

See page 76 for further detail on how we manage and mitigate cyber risk.

Purpose, values, strategy and culture

Our Group purpose, values and culture are set out on page 10. In 2022, the executive directors recommended a restatement of our purpose for Board approval, so that it focuses on inspiring our divisions to keep exceeding their stakeholders' expectations. A strong culture with our decentralised philosophy at its core remains integral to our business model and critical in delivering our purpose and strategy. Our deeply held Core Values ensure that we not only attract but also retain the talent we need to conduct our business with integrity and maintain the long-term relationships we have built with many of our clients, supply chain and other stakeholders. Our culture is reinforced by our Code of Conduct, available on our website, which provides a framework for how we engage with clients, colleagues, business partners, suppliers and the communities in which we work, and sets out what our stakeholders can expect from us.

Our executive directors and senior managers promote our Core Values, strategic priorities and Total Commitments to being a responsible business, and ensure they are embedded throughout the Group. The Core Values and Total Commitments are explained to everyone who joins the Group as part of their induction, and are reinforced through Group policies, Group-wide e-learning programmes and at staff conferences. Our chief executive runs sessions on the Core Values as part of our Group-wide leadership development programme.

The Board as a whole is responsible for monitoring our culture to ensure it is maintained and continues to align to our purpose and strategy. To assess our culture comprehensively the directors meet with a wide range of employees as part of the strategy review process (see page 115).

The Board monitors our culture using our Core Values as a framework. The tables that follow set out this process in detail.

The Board agreed in 2022 that our culture remains strongly embedded: our behaviours are aligned with our values and the empowerment and agility of our divisions continue to play a vital role in achieving our strategy and creating value for our stakeholders.

As an outcome of the Board evaluation review (see page 122), the Board agreed that ensuring we maintain our culture would remain a key strategic area of focus.

We operate a decentralised philosophy

Description

We empower our teams to deliver exceptional results for all our stakeholders.

Strategic priorities

What the Board monitors

- Compliance with Company policies including our arrangements for employees and others working on our projects to raise concerns confidentially.
- The appropriateness of matters reserved for the Board and our delegated authorities schedule to ensure that the right approvals are in place and employees can make decisions appropriate to their experience and competence.
- Divisional performance against strategy and KPIs.
- Our risk management process, including processes for identifying emerging risks.
- Our internal statement of risk appetite to ensure that our risk management is aligned.

Board action in 2022

- Reviewed our whistleblowing procedures and biannual reports of the number and nature of concerns raised during the period.
- Reviewed the work that the internal audit team has undertaken to check whether they have uncovered any breaches of our Code of Conduct and related policies or any behaviours out of line with our culture.
- Reviewed and confirmed proposed updates to the matters reserved for the Board to ensure they remain clear.
- Held regular meetings, deep dive sessions and strategy reviews with divisional management and senior employees to facilitate discussions and decision-making.
- Reviewed the divisional risk registers and ensured they aligned to the Group risk register and risk appetite.
- Carried out a robust assessment of the principal and emerging risks facing the Group, and reviewed the effectiveness of the Group's systems of internal controls and risk management prior to reviewing risk appetite.

Links to

Strategic report
Audit committee report

DIRECTORS' AND CORPORATE GOVERNANCE REPORT continued

The customer comes first

Description

We take a broad view of who our customers are, ranging from the organisations that commission us for projects, to our people, our supply chain, our shareholders and local communities where we work. See pages 16 and 17 for how the Board monitors our stakeholder engagement.

Strategic priorities

What the Board monitors

- Divisional customer satisfaction surveys, client ratings such as Perfect Delivery[1] statistics.
- Information about key clients and the performance of contracts including timetables and completion dates[2].
- Surveys with clients and other stakeholders on responsible business material issues.
- The divisions' engagement with their employees, supply chain and communities and how they respond to feedback from these groups.
- The divisions' contribution to our Total Commitments KPIs and targets which are focused on our stakeholders and the environment.

1 Perfect Delivery status is granted to projects that meet all four customer service criteria specified by Construction, Infrastructure and Fit Out.

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

Board action in 2022

- Regularly reviewed divisional board summaries and discussed any matters of significance with the executive directors.
- Continued to monitor the resilience of the supply chain, including the availability of materials and resources.
- The responsible business committee discussed and reviewed performance under our Total Commitments and discussed with management key focus areas for 2023 which include continuing actions to combat climate change, enhance social value and reduce waste.

Links to

(+) Strategic report (+) Responsible business committee report

Consistent achievement is key to our future

Description

Ensuring we get things right first time is a necessity and not an option.

Strategic priorities

What the Board monitors

- Financial performance of the Group and each division.
- Perfect Delivery and other success measures such as customer satisfaction surveys and net promoter scores.
- Supplier relationships and payments.
- Average daily net cash.
- The executive directors monitor divisional performance on a monthly basis at divisional board meetings and Group management team meetings and provide regular updates to the Board.

Board action in 2022

- Continually reviewed Group and divisional performance against strategy and medium-term targets.
- Conducted an in-depth review of strategic plans to ensure each division had the resources in place to meet its objectives and that opportunities and risks were being appropriately addressed.
- Ensured our actions to combat climate change remained a key focus area of the Group.
- Reviewed payment practices reporting and divisional actions to maintain or improve on average payment days.
- Reviewed and approved the going concern and long-term viability statements.
- Approved full-year and half-year results announcements, and approved final and interim dividend payments with consideration to our capital allocation framework and formal dividend policy.

Links to

(+) Strategic report (+) Audit committee report

DIRECTORS' AND CORPORATE GOVERNANCE REPORT continued

Talented people are key to our success

Description

We recruit, develop and retain those who can contribute most, both today and in the future. We ensure we have an attractive and inclusive culture and healthy working environment, and reward employees fairly, respect their rights and invest in developing their talent.

Strategic priorities

What the Board monitors

- Health and safety policies, practices and performance.
- Voluntary staff turnover.
- Number of apprentices and new graduates.
- Average training days per employee.
- E-learning responses.
- Lost time incidents.
- Absence days due to sickness per person per year.
- Succession planning and talent pipelines.
- Results from employee engagement surveys and resulting actions taken.
- Diversity of our employees, including gender pay gap information.

Board action in 2022

- Reviewed health and safety performance: a priority for the Board and responsible business committee, and the first agenda item at every meeting.
- The responsible business committee received an update on ongoing mental health awareness and wellbeing activities being carried out across the divisions.
- At its December meeting, the Board reviewed the feedback received by directors from their engagement with employees during the year. The Board also reviewed each division's key engagement and inclusion activities and response to employee feedback, and was pleased to note the high response rates to surveys as well as the breadth of activities being carried out to improve wellbeing and develop a consistent approach to adaptable or agile working (see pages 21, 22 and 117).
- Reviewed and approved our 2021 gender pay gap report, which is available on our website. Our 2022 gender pay gap report will be reviewed by the Board in the first quarter of 2023.
- Reviewed the divisions' activities in managing employee development and increasing diversity and inclusion.
- Reviewed Group succession planning, including reports on how the divisions are managing employee development and addressing diversity and inclusion in the context of succession planning.
- Approved our modern slavery statement for publication on our website.
- Considered wider pay and benefits across the Group to ensure it aligns with strategy and is appropriate to attract and retain the right talent.

Links to

- Strategic report
- Responsible business committee report
- Nomination committee report
- Directors' remuneration report

We must challenge the status quo

Description

There is always a better way of doing things.

Strategic priorities

What the Board monitors

The Board receives information on various initiatives being trialled and adopted across the divisions to support our Total Commitments as well as updates on the carbon offset projects we invest in (see pages 31 to 33). In addition, the Board is updated regularly on the use of technology across the Group including improvements being made to existing systems as well as the identification of emerging technology that is relevant to our sector.

Board action in 2022

- Monitored our progress in the year against our responsible business strategy centred around our Total Commitments targets, performance and action plans (environmental, social and governance framework) for achieving our KPIs, including carbon reduction.
- Reviewed updates from the IT team on the divisions' use of technology to develop new ways of working as well as improving efficiency. For example, the development of technology assists in:
  - the early identification and remediation of health and safety and waste management issues; and
  - combating climate change, such as the continued roll-out of Carbon*i*Ca and goldeni and the launch of the Carbon Zero software programme (see page 30).

Links to

- Strategic report
- Responsible business committee report

Board decision-making

The Board's key activities during 2022 are set out on page 102. The Board ensures we have the necessary resources in place to implement our strategic priorities and that we measure our performance against them. The Board has also established a framework of controls for risk management which enables risks to be assessed and managed (see page 128). The Group's risk committee manages risk and establishes and monitors the controls in place (see page 64). The audit committee supports the Board in its oversight of risk and internal controls and their effectiveness to enable the Board to set the Group risk appetite (see pages 128 to 130).

In line with our governance framework and decentralised approach, our Board normally makes a limited number of principal decisions during the year that are material to the Group as a whole. The Board uses the Group's purpose and strategic priorities as its framework for robust decision-making and to ensure the long-term success of the business, recognising that each decision will not necessarily result in a positive outcome for every stakeholder group. There were no material contracts in 2022 that required referral to the Board under the schedule of matters reserved solely for the Board, although each division required approval from the executive directors on certain contracts over thresholds set out in our schedule of delegated authorities.

An overview of the Board's principal decisions during the year follows, including how the Board factored stakeholders into its decisions to promote the long-term success of the Company.

Strategy review

Purpose

The Board is committed to the delivery of the Group's strategy and purpose and ensuring that we keep pace with trends in our industry. Each year, the Board conducts an in-depth, formal review of our strategy and five-year strategic plan, and ensures that each division has: an appropriate strategy in place that supports the Group's strategy; the resources they need to meet their objectives; and a culture that drives the right behaviours so that we remain aligned with our purpose.

Factors considered

The Group's success depends on ensuring we maintain good relations with our employees, clients and supply chain. In approving strategy, the Board recognises its duties and responsibilities to shareholders and other stakeholders, including the communities where we work, and ensures that their views and interests are considered (see page 117).

Action taken

- Comprehensively reviewed progress against strategy, tracking performance against agreed KPIs.
- Reviewed divisional medium-term targets including each division's contribution to the overall Group strategy and long-term strategic plan.
- Monitored market trends and the macroeconomic environment, referring to comparative data and client insight.
- Attended presentations from each divisional managing director on their strategic plan including meetings with employees and visits to some of their projects.
- Reviewed each division's contribution to the Total Commitments and monitored the Group's progress towards our responsible business strategy and targets.
- Reviewed the Group's long-term financial outlook and assessed and prioritised growth opportunities.

The strategy review process follows a similar format each year. The non-executive directors are allocated either one or two divisions to review. The divisions are allocated a different non-executive each year so that the Board as a whole gets an in-depth understanding of the key concerns and issues of each of our divisions' stakeholders.

The non-executive directors hold pre-meetings with their allocated divisions to help facilitate their assessment of the division's contribution to the long-term sustainable success of the Group and impact and outcomes for their key stakeholders.

These pre-meetings include:

- a review of recent operational and financial performance including risk management and safety performance;
- an overview of the division's market and pipeline of opportunities;
- a review of the adequacy of resources to deliver on the division's strategic priorities;
- meeting with employees without management present;
- a review of the results of employee engagement surveys conducted;
- a review of the division's outlook and medium-term targets;
- visiting one or two live projects and meeting with a variety of people, including employees, subcontractors and suppliers; and
- reviewing the division's initiatives to reduce the impact of its operations on the environment and to deliver added social value to the communities in which it works.

Following the pre-meetings, detailed review meetings are held with each division, attended by the chair, chief executive, allocated non-executive director and the divisional managing director. At these meetings, the non-executive director provides feedback on the division's strategic plan, including how the division's stakeholders have been taken into consideration.

The Board then collectively holds a strategy review day in October where an overview of each division's strategic plan and priorities are undertaken by the whole Board. The non-executive directors provide the Board with a summary of their observations and opinions on the divisional plans so that the overall Group strategy can be approved.

Outcome

As a result of the 2022 strategy review process, the Board agreed that our strategy will remain focused on organic growth across the divisions. The Board will continue to monitor some of the nearer-term economic challenges, ensuring we maintain our balance sheet strength and continue to address the impact of climate change and deliver social value which helps to differentiate the Group. It was agreed that management needs to continue to review how the Group can better address diversity and inclusion and its 'Developing people' Total Commitment. Overall it was confirmed that our strategy remains fit for the future and our business model is sustainable, taking into consideration future risks and opportunities.

Determining the Group's risk appetite

Purpose

Each year, following review by the audit committee of the Group's risk register (see page 124), the Board reviews the nature and extent of risk we are prepared to accept in the pursuit of our purpose and strategy, taking into account the potential consequences of its decisions in the short, medium and long term. Our risk appetite is taken into consideration when setting strategy and targets, making decisions, and allocating resources, and is compared to current risk levels to determine whether our mitigations are sufficient.

Factors considered

In deciding risk appetite, the Board recognises that a prudent and robust approach to mitigation must be carefully balanced with a degree of flexibility so that our decentralised culture is not inhibited. In approving the risk appetite, the Board considers the impact on our employees, suppliers, clients, shareholders and wider stakeholders, in particular those identified in the principal risks section on pages 67 to 77.

Action taken

- Confirmed that through the activities of the audit committee, a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance and solvency, had been carried out and the effectiveness of the Group's systems of internal control and risk management had been reviewed.
- Considered any changes that had been made to the Group's principal risks and emerging risks that could impact our long-term strategic plans.
- Considered the balance and breadth of the Group's activities to ensure we have a reasonable level of protection against risks arising from uncertainties in the macroeconomic environment.
- Reviewed general market conditions and key trends to identify and assess future risks and opportunities.
- Conducted an in-depth review of the risks associated with IT, including cyber security.

In reviewing and setting the risk appetite, we accept in certain circumstances that risks may result in some limited exposure, but we will not pursue these unless returns are reasonably probable and predictable (for example, open market sales risks in our residential developments). So that we can achieve organic growth while maintaining predictable outcomes, the Board has continued to set low-to-moderate exposure in the delivery of operational targets, including those from both construction and development programmes (see page 67).

In its discussions, the Board reviews the economic environment in which we operate and in particular the impact of its decisions on our employees and our ability to continue to attract and retain the talent we need to grow the business (see page 71). In addition, the Board considers the current profile of our construction projects and development schemes, the Group's financial standing, the significance to our business of environmental, social and governance matters, and our ability to maintain a secure IT platform. The Board as a whole is responsible for reviewing the risks associated with IT security and receives updates twice a year from the IT team, overseen by the Group finance director (see page 111). There were no material IT security issues identified in 2022).

Health and safety risk mitigation and the protection of our wider workforce remain high priorities, together with ensuring that our 'Protecting people' Total Commitment target (see page 20) is met and improved on year on year. The Board seeks to drive down health and safety risk to as close as possible to zero (see page 67).

Outcome

The Board's risk appetite review in October 2022 concluded that, while overall the risks faced by the Group have not changed, several changes were required to the net risks as a result of the macroeconomic environment being far more challenging and uncertain than it was at the time of last year's report. The Board agreed that the Group risk appetite and the risk management framework remained appropriate to provide medium- to long-term resilience for the business and that specific limits and guidelines for risk-taking remain adequately reflected in our governance framework, structures and policies (for example, the delegated authorities process). It was agreed that the Board would undertake a rolling review of risk and its appetite over the coming months due to the increased uncertainty in the macroeconomic environment.

Setting the Group budget

Purpose

Each December we review our budget to ensure we are managing our finances and have the resources to deliver against our strategy.

Factors considered

In approving the budget, the Board considers the impact on our employees, suppliers, clients, shareholders and wider stakeholders.

Action taken

Tracked performance of the Group budget against agreed KPIs.

Reviewed Group and divisional budgets which form the basis for setting the overall Group budget.

Reviewed market conditions, in particular the current economic uncertainty, and key trends that support the Group's future growth (see pages 8 and 9).

Reviewed the levels of contingency in the budget to mitigate the ongoing uncertainty in the macro environment.

Reviewed the contribution that the budget will make to delivery of the Group's five-year strategic plan.

Assessed the capital allocation framework and formal dividend policy in terms of the needs of the business and optimum balance sheet structure and the needs and interests of all stakeholders before recommending dividend payments.

Outcome

Approved the Group budget, ensuring that the Group has sufficient resources to deliver the budget and it is suitably stretching but achievable to contribute to the Group's long-term growth. The Board will review the budget regularly in 2023 due to the increased uncertainty in the economic environment.

Engagement with stakeholders

Our stakeholders' views and how they are impacted are important considerations in the Board's decision-making. Effective engagement with our stakeholders is critical to the long-term resilience of the business.

Throughout 2022, the Board engaged directly with our employees and shareholders and was kept fully informed of any material issues or feedback from other stakeholder groups through the executive directors, divisional management reports and the Board's monitoring of our culture. Pages 15 to 17 set out how the Board and the Group engaged with stakeholders during the year, and the feedback received.

The Board continues to adopt an alternative method to the three options for employee engagement suggested by the Code. Given the structure and culture of our business and the size of our Board, we consider that the Board can engage most effectively with the largest number of employees if the responsibility is shared across all our non-executive directors.

Each year, during our strategy review process, the non-executive directors meet a wide range of employees during site visits and at divisional employee conferences. In addition, the Board reviews the employee engagement activities undertaken by the divisions, including the results of employee surveys and the actions the divisions are taking in response. These activities give the Board an understanding of how people feel about their division and the wider Group, and whether behaviours are aligned with our Core Values and culture.

In 2022, the non-executive directors gave feedback to the Board on the impressions they had received from directly engaging with employees and their review of the divisions' engagement activities. They confirmed that:

- the Group has a strong positive culture: employees genuinely feel empowered and are very positive and engaged;
- they have gained a better understanding of the points of view of employees and subcontractors working on our projects;
- there were no additional issues that needed to be addressed or considered in decision-making that are not currently addressed by the Board or by the divisions themselves; and
- the employee engagement process that we use remains appropriate and allows the non-executive directors to meet the broadest selection of employees, given our decentralised business.

Oversight of workplace policies and practices

We have a framework of Group policies in place to ensure integrity, ethicality and honesty in our activities and openness and transparency in our communications. These policies set out our minimum standards which each division is free to develop further to suit the particular needs of their business.

The Board reviews and approves key Group policies, including our Code of Conduct, to ensure they align with our purpose, values and strategy. In 2022, the Board reviewed and approved our human rights policy, changes to our Board diversity policy and, on the recommendation of the remuneration committee, changes to our remuneration policy.

The Board annually reviews the approach and progress of work taken by management and the divisions to identify areas where there is any risk of human trafficking and modern slavery in our business, prior to approving the Group's modern slavery statement. Our 2021 statement was approved by the Board in early 2022 and is available on our website. Our 2022 statement will be approved in June 2023 and uploaded to our website. See pages 94 and 95 for more information on our policies.

Raising concerns

Our internal audit programme monitors compliance with our policies. In addition, we have a whistleblowing process in place which encourages anyone who works with us, whether they are employed by us, are a part of our supply chain or a member of the public, to speak out if they have any concerns or witness any wrongdoing or conduct that falls short of our expectations or the standards set out in our Code of Conduct. We use a third-party confidential service, Safecall, to receive reports of any concerns anonymously and in confidence by phone, email or the service's website. The service is available 24 hours a day, 365 days of the year. Our whistleblowing procedures are explained to all our employees and subcontractors on induction, repeated in every e-learning course and published on our intranets and on office and site notice boards. Our intranets contain a direct link to the whistleblowing reporting page. The Group's general counsel, assisted by the company secretary and head of internal audit and assurance, oversees the hotline.

Twice a year, the Board reviews our arrangements for raising concerns to ensure they are suitably robust. We received 38 reports in 2022 (2021: 39), of which 19 came via our raising concerns service. We received one report per 186 employees which compares favourably to one report per 400 employees which Safecall's other construction clients report on average. This indicates that our employees have a high level of awareness of ethical issues and are willing to speak up. No specific complaints were escalated for Board attention outside its normal review, and the Board was satisfied that all the reports made in 2022 were correctly investigated and resolved in an appropriate way. The top three issues raised related to concerns over health and safety, HR issues such as bullying or unfair treatment, and allegations of theft or fraud. The Board satisfied itself that none of the issues raised were systemic across the Group and that they were isolated to individuals or specific circumstances.

Tax governance

The Board has overall responsibility for our tax strategy, risk assessment and tax compliance, and ensuring that we meet all our tax obligations. We have an open and transparent relationship with HMRC, preferring to anticipate any tax risks at an early stage and clarify areas of uncertainty with HMRC as they become evident. We keep HMRC informed of how our business is structured and respond to its questions or requests promptly. Our tax strategy was approved by the Board in December 2022 and is available on our website.

Nomination committee report

Michael Findlay
Chair

Key responsibilities:

- Board and committee composition
- Identifying potential skills and experience gaps
- Leading the Board appointment process
- Reviewing succession planning for the Board and Group management team
- Reviewing wider senior leadership and divisional succession planning
- Overseeing the Board evaluation process
- Monitoring activities to increase diversity and inclusion throughout the Group

The committee's full role and responsibilities are set out in its terms of reference, reviewed and approved by the committee in February 2023 and available on our website.

The quick read...

- Reviewed the composition of the Board and its committees and following changes made to the membership of each committee, confirmed that the composition of each remained suitable
- Reviewed succession planning for the Board, giving consideration to the updated Board diversity policy
- Reviewed talent planning and succession for the Group management team and wider senior leadership positions and recommendations for further development programmes
- Managed the internal evaluation of the effectiveness of the Board, its committees and individual directors

I am pleased to present to you the report from the nomination committee for 2022.

Committee composition and performance evaluation

The committee's membership during the year is shown in the table below. At the committee's request, the executive directors, members of the senior management team and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

Members[1]	Member since	Attended/ scheduled
Michael Findlay[2] (chair)	**2016**	2/2
Malcolm Cooper	**2015**	2/2
Tracey Killen	**2017**	2/2
David Lowden	**2018**	2/2
Kathy Quashie	**2022**	2/2
Jen Tippin	**2020**	2/2

1 Biographies of members are set out on pages 104 and 105.

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

As part of the annual evaluation of the Board, an evaluation of the committee was conducted. This concluded that the committee was continuing to work well with a good open discussion, including in relation to senior management succession.

It was agreed that the key focus areas going forward will remain succession planning, for non-executive directors and at all levels, and ensuring our culture remains inclusive to support increasing diversity throughout the Group.

Board composition and length of tenure

Annually, the committee reviews the Board's composition and the skills, knowledge and experience needed to deliver our strategy, both in the short and longer term. This includes reviewing the size and structure of the Board and its committees, the range of expertise required, any gaps in skills and knowledge, diversity in its broadest sense, any feedback received from the annual Board evaluation, and the tenure of existing Board members.

Following its review of the composition of the Board and committees, the nomination committee recommended to the Board that Kathy Quashie be appointed to the nomination and remuneration committees. In addition, the committee recommended that the renamed responsible business committee's membership would be constituted solely of non-executive directors with members of management invited to attend when appropriate. Following these changes, Malcolm Cooper stepped down as a member of the remuneration committee and Tracey Killen as a member of the audit committee. The changes were made as Kathy was not previously a member of any of the Board committees to give her the opportunity to gain an in-depth understanding of the business in her first year as a non-executive and to ensure that each of the committees remains appropriately composed to be effective.

The committee did not identify any material skills gaps on the Board or its committees and concluded that there was a good mix of experience on the Board. It agreed that there continued to be a good level of open dialogue at Board and committee meetings, enabling the non-executives to participate in discussions on a broad range of topics, including social and environmental matters, and to offer an appropriate balance of support and challenge to the executives.

Appointments to the Board and succession planning

In its succession planning, the committee takes into consideration the length of tenure of each non-executive director and the skills required for each committee chair. The committee uses a skills matrix to monitor the balance of skills, expertise and experience on the Board and to identify key succession planning priorities.

The standard term for non-executive directors is three years. Non-executive directors normally serve for a maximum of nine years, through three terms, each of three years' duration (see page 147 for further information). All directors are subject to annual re-election by shareholders at our AGM. Prior to recommending them for reappointment, each director is subject to a formal review in relation to the performance of their duties under section 172 of the Companies Act 2006 (see page 14). The Board has set out on pages 104 and 105 the specific reasons why each director's contribution is, and continues to be, important to the Group's long-term success. Further information on the 2023 AGM can be found in the Notice of Meeting to shareholders accompanying this annual report or on our website.

During the year, the committee reviewed, without Michael Findlay present, the renewal of his term for a further three years. The committee is satisfied with Michael's performance and commitment as the Board continues to benefit from his considerable experience in chairing and leading Board discussions. The committee therefore recommended that his appointment be extended for a further three-year term.

Malcolm Cooper's final three-year term ends in November 2024. Succession planning for his replacement as chair of the audit and responsible business committees will be considered during 2023, including a review of essential and desirable skills required from the future appointee for each position.

The committee is mindful of the forthcoming amendments to the Listing Rules and to the Disclosure Guidance and Transparency Rules in relation to diversity and inclusion on company boards and executive management. While these amendments will be effective for accounting periods starting on or after 1 April 2022 which will apply to the Company for its 2023 financial year, we have included the data on a voluntary basis this year on page 120. The Board revised its diversity policy in 2022 (see page 120); however, we do not expect to be able to meet the target of at least one senior board position being held by a woman until such time as the current incumbents need to be replaced.

The committee has a clear process for recruiting new non-executive directors, which includes reviewing and approving an outline brief and clear role specification. The committee selects and appoints an independent professional search agency to help identify potential candidates and prepare a shortlist for interview.

Any new director is appointed by the Board. In accordance with the Company's articles of association, all directors retire from office and offer themselves for reappointment by shareholders at every AGM. Full details of the recruitment process are disclosed in the annual report that follows the new director's appointment.

Induction and training

New non-executive directors receive an induction programme tailored to suit their background and experience. It includes meetings with the chair, executive directors, divisional managing directors, company secretary and other senior management in order to gain an understanding of the Group's governance and each of the divisions.

To maintain the non-executive directors' understanding of the business, GMT members and other senior executives are invited from time to time, as appropriate, to present to the Board and committees on their areas of responsibility. The non-executive directors are also encouraged to meet with the divisional teams and visit their projects during the year and outside of Board meetings; in addition, the annual strategy review includes meetings with divisional teams and site visits.

All non-executive directors undertake external training and/or attend seminars relevant to their duties. They also sit e-learning modules and refresher training courses on a range of topics, issued periodically by the Company.

Executive directors, GMT, wider senior leadership and divisional succession planning

In 2022, the committee carried out a formal review of succession planning for the executive directors and GMT. Our chief executive manages the formation of succession plans for the GMT which are reviewed by the committee. The committee's review took account of the opportunities and challenges facing the Group and the skills and expertise needed for the future.

The objective with our succession planning is to identify appropriate opportunities for people who are key to delivering our strategy and any areas needing further development. Where we have not been able to identify an immediate successor for a role, we ensure there is short-term contingency cover in place. The committee monitors the external market for potential successors while internally, those identified as successors in the medium to longer term are provided relevant training and development. Our Group-led leadership development programme which runs every year provides core and consistent leadership training for senior employees across the Group.

The committee's review of succession planning included a review of each division's own succession plan, to enable the committee to understand how the divisions are developing their own talent pools. As a committee we seek to ensure that we continue to develop and retain a talented team throughout the Group and maintain a pipeline of successors. To facilitate their review, the committee asked each divisional managing director to provide details of what actions they are taking to develop potential successors in their teams as well as developing people more widely.

DIRECTORS' AND CORPORATE GOVERNANCE REPORT continued

Nomination committee report

Each division uses succession and development planning tools appropriate to the size and requirements of its business. These tools enable the divisions to review performance and potential talent, drive coaching conversations, and identify individuals' abilities and career aspirations. As with succession plans for the executive directors and GMT, the divisional succession plans are structured around planning for the short, medium and longer term.

Each division runs its own technical and business training programmes to develop the skills its business and employees need. These include management training, mentoring, apprenticeships, graduate training, specific site skills training and supporting employees with their continued learning through to gaining recognised qualifications (see page 26 for more detail).

The divisions consider their current employees for all new roles and development opportunities and, in 2022, 883 employees across the Group were promoted internally.

The committee is satisfied that succession planning and development programmes used throughout the Group remain appropriate.

Diversity and inclusion

The chair leads the Board diversity agenda, with the aim to continuously improve the diversity of the Board. We believe that a diverse Board, reflecting a broad mix of skills, backgrounds, perspectives and experience, is critical for innovation and will enable us to benefit from a wider range of ideas and expertise. We consider diversity in the broadest sense, including in terms of age, gender, ethnicity, culture, socio-economic background, disability and sexuality.

The committee ensures that selection processes for directors provide access to a diverse range of candidates and will only use executive search firms who have signed up to the UK Standard Voluntary Code of Conduct on Gender Diversity.

Our Board diversity policy, which sets out our ambition to remain exemplary in our industry, was reviewed and updated by the Board in 2022 and can be found in the Governance section of our website (see the panel for our current progress against the objectives under our policy).

Future Board appointments will be made based on merit and objective criteria such as the skills and experience needed, but with due regard for the objectives set out in the Board diversity policy.

With our strategy focused on growing the business organically and generating long-term value, it is important that we drive changes to ensure that we have diversity, not only at Board level, but at all levels of the business. The chief executive is responsible, on behalf of the Board, for improving diversity and inclusion across the Group and ensuring we have a fully inclusive culture.

While our Board diversity policy applies to the Board, its committees, the GMT and its direct reports, it sets the tone Group-wide. Our broader commitment to inclusion and diversity is reflected in our Code of Conduct and human rights policy, as well as in the divisions' succession plans, to ensure that there is a diverse pipeline of candidates being recruited, retained and developed throughout the Group. Our Code of Conduct states our commitment to maintaining a respectful and inclusive workplace based on trust and mutual respect where we value the fresh ideas and perspectives that people from different backgrounds bring to our business.

In accordance with LR 9.8.6 (9), for the reporting period ended 31 December 2022, the Company did not meet the targets of 40% women on the Board or one of the senior positions being held by a woman. However, the Company did meet the target under LR 9.8.6 (9) (iii) that one person on the Board is from an ethnic minority background. During the reporting period, women made up 37.5% of the Board and the Board will take steps as part of future succession to meet the 40% target with at least one senior Board position being held by a woman.

In accordance with LR 9.8.6 (10), the tables below set out the diversity of the Board and the Group management team (executive management or GMT).

Gender diversity of the Board and executive management at 31 December 2022

	Number of Board members	Percentage of the Board	Number of senior positions on the Board[1]	Number in executive management[2]	Percentage of executive management[2]
Men	5	62.5%	4	9	81.8%
Women	3	37.5%	0	2	18.2%[3]

Ethnic diversity of the Board and executive management at 31 December 2022

	Number of Board members	Percentage of the Board	Number of senior positions on the Board[1]	Number in executive management[2]	Percentage of executive management[2]
White British or other White (including minority-White groups)	7	87.5%	0	11	100.0%
Mixed/multiple ethnic groups	1	12.5%	0	0	0.0%
Asian/Asian British	0	0.0%	0	0	0.0%
Black/African/Caribbean/Black British	0	0.0%	0	0	0.0%
Other ethnic group, including Arab	0	0.0%	0	0	0.0%
Not specified/prefer not to say	0	0.0%	0	0	0.0%

1 Chief executive, finance director, senior independent director and chair.
2 Group management team. John Morgan and Steve Crummett are included in both Board and executive management.
3 Following Kate Bowyer's resignation on 15 February 2023, female representation on the GMT is 10%.

In compiling the data for the above tables, we asked our Board and GMT to self-report their ethnicity based on the categories above. We based the Board's and GMT's gender diversity on our knowledge of the individuals.

See pages 24 to 26 in the strategic report for detail on Group-wide diversity and information on how our divisions have promoted diversity and inclusion.

We believe every employee must be given the opportunity to use their abilities, skills and experience to the full, and that improving diversity and inclusion across all levels of the Group is critical to delivering on our purpose and strategy.

The committee and the Board are kept apprised on each division's progress and initiatives to improve diversity and inclusion against their diversity roadmaps. We recognise that historically our industry has not been attractive to a wide pool of candidates, particularly female. However, while this remains a challenge, we are pleased that the situation is gradually changing and our divisions' initiatives are starting to show results (see page 25).

+ Responsible business strategy and performance – developing people

+ Understanding our stakeholders' priorities

Board evaluation

The Board has undertaken internal evaluations of its performance for the last couple of years which comprised a detailed questionnaire and individual reviews with each director to assess the effectiveness of the Board and committees, together with reviews of each director's performance and their contribution to the Board's decision-making. An external evaluation of the Board and its committees will be commissioned in 2023.

The table to the right sets out details of actions undertaken in 2022 against the agreed focus areas identified as a result of the 2021 Board evaluation process.

2021 Board evaluation – actions taken in 2022

2021 agreed actions	Actions taken in 2022
Continued focus on succession planning	▪ Updated the Board diversity policy. ▪ Defined the skills and attributes needed in future leaders to facilitate succession planning priorities and discussions. ▪ Sought greater clarity from management on internal succession candidates for both the GMT and other senior leadership positions. ▪ Reviewed executive and non-executive succession plans. ▪ Reviewed divisional processes for internal succession planning. ▪ Monitored divisions' progress to further diversity and inclusion within their business and how they are measuring the impact of their initiatives.
Ensuring that our culture remains aligned with our purpose and values	▪ Approved an update to the Group's purpose to ensure it remains relevant (see page 10). ▪ The directors monitored culture on an ongoing basis through their engagement with the divisions as part of the strategic review process; their monitoring of various cultural indicators; and through the assessment made of culture by the internal audit function as part of their internal audit programme (see page 112).
Ensuring Partnership Housing delivers its potential in accordance with its five-year strategic plan	▪ Met with senior members of the Partnership Housing team in August (see page 110). The division's five-year strategy was also reviewed as part of the October Board strategy day.
Continuing to deliver on our Total Commitments and ensuring our performance against our Commitments and social impact is communicated clearly	▪ Renamed the health, safety and environment committee the responsible business committee with a wider remit to cover all of our Total Commitments. ▪ Performance reviews were carried out by the responsible business committee in June and December (see page 131). ▪ The responsible business committee met during the year with the director of procurement and sustainability and, following their appointments, the director of sustainability and the ESG reporting manager for an overview of the Group's performance and an update on ESG current and future reporting requirements.

2022 Board evaluation

The 2022 evaluation questionnaire was circulated to all directors and sought feedback from the Board on the actions taken and progress made on the key areas identified as strategic challenges from the 2021 evaluation. The responses were collated and analysed by the chair and company secretary and at the Board evaluation review meeting in December, the chair presented the key themes for Board discussion.

It was agreed that the Board and its committees had continued to address each of the key areas appropriately and would continue its focus on these priority areas during 2023. The main conclusions for each topic and the agreed proposed actions are set out in the table to the right.

Overall, the Board concluded that the Board and each of its committees is working well, with the right issues being discussed and appropriate Board involvement in key discussions. We will report on the further actions taken against these areas of focus in our 2023 annual report.

The chair also held meetings with each director individually to formally review their performance and the senior independent director led the Board appraisal of the chair's performance. The review takes into consideration the training that each director has undertaken in relation to their duties and continuing professional development. Following the individual meetings with each director, the committee agreed that each of the non-executive directors remains independent, is able to discharge their duties and responsibilities for the coming year and continues to be an effective member of the Board.

Looking ahead

In 2023, the committee will continue to focus on:

- succession planning for the Board and GMT;
- reviewing succession planning in the divisional management teams; and
- reviewing progress to further improve diversity and inclusion across the Group.

Michael Findlay
Chair of the nomination committee
22 February 2023

2022 Board evaluation – conclusions and actions agreed

2022 conclusions: key focus areas	2023 actions
Continued focus on succession planning	Continue to review succession plans to support our strategy and Board diversity policy as well as continued development and strengthening of the executive succession planning programme across senior management.
Maintaining our Group culture	With the support of the executive directors, consider further ways to ensure our culture remains embedded throughout the Group and understood by employees and key stakeholders. Ensure a continued focus on technology adoption including consideration of opportunities and risks.
Increasing diversity and inclusion	Drive further progress surrounding inclusion and diversity, and review initiatives, plans and ambitions.
Ensuring Partnership Housing delivers its potential in accordance with its five-year strategic plan	Continue to regularly interact with the senior management team and closely monitor the business' performance against our long-term strategic and commercial KPIs.
Continuing to build on the progress made in communicating our performance against our Total Commitments including the social value we create	Ensure we remain focused on the matters our stakeholders have identified as being material to the business, including social value matters.

Audit committee report

Malcolm Cooper
Chair

Key responsibilities:

- Monitoring the integrity of the Company's financial results and reviewing significant financial reporting judgements
- Reviewing the external audit process and making recommendations to the Board with regard to appointing, reappointing or removing the external auditor
- Reviewing the Company's internal financial controls and internal control and risk management systems
- Monitoring and reviewing the effectiveness of the Company's internal audit function

The committee's full role and responsibilities are set out in its terms of reference, which were last updated in February 2023 and are available on our website.

The quick read...

- Focused on the integrity of the 2022 financial statements and provided appropriate challenge of management's assumptions and key judgements
- Ensured the independence and effectiveness of the internal audit function
- Reviewed and confirmed the independence and effectiveness of the external audit process
- Reviewed the effectiveness of the Company's internal financial controls and internal control and risk management systems
- Carried out a robust assessment of the Company's emerging and principal risks to facilitate the Board's risk appetite review

On behalf of the Board, I am pleased to present the committee's report for the year ended 31 December 2022.

Committee composition and performance evaluation

The committee's membership during the year is shown in the table below. At the committee's request, meetings are regularly attended by: the chair of the Board; finance director; Group financial controller; Group head of audit and assurance; and representatives from the external auditor.

Members[1]	Member since	Attended/ scheduled
Malcolm Cooper[2] (chair)	**2015**	3/3
Tracey Killen[3]	**2017**	1/1
David Lowden	**2018**	3/3
Jen Tippin	**2020**	3/3

1 Biographies of members are set out on page 105.

2 Malcolm Cooper is a qualified accountant and experienced FTSE 250 audit committee chair. He has competence in accounting and financial experience that is recent and relevant for the audit committee of a company in the construction and regeneration sectors, as required by the Disclosure and Transparency Rules (DTRs) and the Code.

3 Tracey Killen attended the first meeting of 2022 before stepping down as a member.

In compliance with the DTRs and the Code, all committee members are independent non-executive directors, and the committee as a whole has competence and a range of skills and experience relevant to the sector.

Our internally facilitated Board evaluation in 2022 included an evaluation of the audit committee (see page 122 for further details of the process). Overall, the review confirmed that the committee continues to operate effectively and recommended that it continue to conduct deep dives into key risk areas at each meeting and hold an annual meeting with one of the subsidiary lead auditors.

Key activities during the year

The committee follows a formal agenda at each meeting to ensure that all elements of its remit are covered, and meetings are scheduled in line with the Company's financial reporting timetable. The committee's key activities during the year are set out in the following table, and further information on its work, including full descriptions of the risk management and internal control processes, is set out on the following pages.

DIRECTORS' AND CORPORATE GOVERNANCE REPORT continued
Audit committee report

	Actions taken	Outcomes
Financial reporting	▪ Undertook fair, balanced and understandable review of the 2021 annual report. ▪ Reviewed significant accounting judgements for the 2021 audit. ▪ Reviewed the 2021 viability assessments and management's process and assumptions for assessing viability. ▪ Reviewed the 2021 going concern statement and management's forecasts and projections for 2022. ▪ Requested management undertake an independent review of the prior-year adjustment to determine how the error arose and if any cultural issues needed to be addressed. ▪ Reviewed a letter from the FRC, following its review of the 2021 annual report, which queried whether the disclosures provided in relation to 'critical accounting estimates' complied with IAS reporting standards. ▪ Reviewed the half-year and full-year financial and narrative statements and trading updates, including the alternative performance measures presented. ▪ Considered the accounting policies and practices applied, including in respect of any exceptional transactions during the year, for example the estimate of the costs of applying the Building Safety Act and the Pledge across Partnership Housing and Urban Regeneration. ▪ Conducted a review of the half-year 2022 going concern assessment and an initial review of the 2022 full-year going concern and viability assessments. ▪ Reviewed the TCFD statement and the Group's approach to TCFD.	▪ Advised the Board in relation to the fair, balanced and understandable assessment of the Company's position and prospects. ▪ Following an independent review of the prior-year adjustment by an external audit firm, the committee confirmed it was satisfied with the review's findings that the correct adjustment was made, related internal controls were improved, and no further similar incidences have been found in the Group. ▪ Reviewed management's response to the FRC and concluded that further detail will be provided in respect of material movements in line items in the consolidated statement of financial position, where relevant, in future annual reports and accounts. ▪ Confirmed to the Board that the committee was satisfied with the clarity and accuracy of the half-year and full-year financial statements. ▪ Confirmed to the Board the appropriateness of the going concern and viability assessments. ▪ Approved the Group's draft 2022 TCFD statement including details of the Group's risks and opportunities in relation to climate change and scenario analysis.
External auditor	▪ Reviewed and monitored the independence and objectivity of the external auditor. ▪ Evaluated the performance of the auditor during the 2021 audit and the effectiveness of the external audit process. ▪ Monitored compliance with our Group policy on the engagement of the external auditor to supply non-audit services.	▪ Recommended the appointment of EY as external auditor for the financial year ended 2022. ▪ Approved the audit fee for the year ended 2022. ▪ Confirmed compliance with the Group policy on non-audit fees and no risk to independence of the external auditor. ▪ Recommended the reappointment of EY for the year ended 2023.
Risk management and internal controls	▪ Formally reviewed the effectiveness of the risk identification process and Group and divisional risk registers and the approach taken by the Group to address climate-related financial risk. ▪ Conducted deep dives into key risk areas. ▪ Reviewed the effectiveness of the Group's internal financial controls and internal control and risk management systems. ▪ Monitored and reviewed the effectiveness and performance of the Group head of internal audit and assurance in connection with the 2022 agreed internal audit plan. ▪ Considered the work being undertaken in preparation for the changes proposed by the government's consultation on 'Restoring trust in audit and corporate governance'. ▪ Reviewed the appropriateness of the 2023 proposed internal audit plan.	▪ Advised the Board in relation to the outcome of its risk management reviews, including its oversight of the risk identification process, to facilitate the Board's assessment of the Group's emerging and principal risks and risk appetite review. ▪ Considered the risk management and internal control systems to be effective. ▪ Approved the 2023 internal audit plan.

Financial reporting

The directors are responsible for preparing the annual report and accounts. The committee is responsible for reviewing and reporting to the Board on the clarity and accuracy of the half-year and full-year financial statements. The key activities table on the previous page sets out the actions and outcomes of the reviews the committee conducted during the year to ensure that the financial statements present a 'true and fair' view. To facilitate its reviews, the committee receives regular reports from the finance director, the Group's financial controller and the external auditor, who regularly attend meetings of the committee.

In February 2022, the committee reviewed the external auditor's findings following the reported £9.9m correction made in the 2021 financial statements. Following this, the committee requested that a further independent review of the controls and processes which led to the adjustment be carried out to identify whether any further issues needed to be addressed (see page 128).

The committee's consideration of the 2022 annual report, including the preliminary results announcement, and its detailed review of the year-end position by reference to the year-end accounts, assisted the Board in making the going concern statement on page 96. In addition, the committee reviewed the significant accounting judgements for the 2022 financial statements (see table on page 126) and confirmed it was happy with management's process of assessing the Group's long-term viability, that the assumptions included were reasonable and that further mitigating actions that the Group could take were appropriate. This year, the key assumptions in the viability statement included modelling a series of separate downside scenarios against the budget for 2023–2025, with consideration to the Group's principal risks. The modelling demonstrated that, even in the case of an extreme downside scenario aggregating all of the individual downside assumptions, the Group had substantial headroom against the expected borrowing facilities for the three years ended 31 December 2025 (see page 98 for further information). The committee did not ask the external auditor to look at any specific areas during the course of conducting its audit.

Fair, balanced and understandable assessment

One of the key provisions of the Code is for the Board to confirm that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for users to assess the Company's position, performance, business model and strategy (see the strategic report from the inside front cover to page 98).

To enable the Board to make this declaration, a formal review is embedded in the year-end process to ensure the committee and the Board as a whole have access to all relevant information and, in particular, management's papers on significant issues faced by the Group. The committee receives a paper from the company secretary detailing the governance and approach taken in drafting, developing and reviewing the contents of the annual report, including review and input from senior executives and the Company's advisers.

The committee and the Board as a whole receive drafts of the annual report in sufficient time to facilitate their review and enable them to challenge the disclosures where necessary. On this basis, the committee is able to advise the Board that it can make the required statement that the annual report is fair, balanced and understandable.

Application of accounting policies, judgements and estimates

In carrying out its duties, the committee is required to assess whether suitable accounting policies have been adopted and to challenge the robustness of significant judgements and estimates reflected in the financial results.

This process involves reviewing relevant papers prepared by the finance team in support of the policies adopted and judgements and estimates made and confirming that they remain appropriate for the Group. The papers are discussed with the finance director, the external auditor and, where appropriate, the Group head of audit and assurance. In addition, the committee reviews the external auditor's year-end report to the audit committee on the work it performed and findings from the annual audit.

Financial Reporting Council review

The Company's annual report and accounts 2021 were subject to a review by the FRC in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures. The FRC raised several queries which were responded to by the Company, and noted several areas where improvements could be made to existing disclosures. The Company has included improvements to disclosures as suggested in its annual report and accounts 2022, and continues to develop its reporting in line with the latest developments and good practice. The FRC's review provides no assurance that the report and accounts are correct in all material respects; the FRC's role is not to verify information provided but to consider compliance with reporting requirements.

DIRECTORS' AND CORPORATE GOVERNANCE REPORT continued
Audit committee report

Significant matters considered in relation to the financial statements

The following table shows what we consider to be the key accounting matters which required the exercise of judgement during the year. The first three items are considered to be recurring matters, and the item 'Exceptional items in respect of building safety' is a new item in 2022.

Issue	Basis of assurance	Conclusion
Contract revenue, margin, receivables and payables The recognition of revenue and margin on long-term contracts in the financial statements, and the associated contract receivables and payables require management to make judgements and estimates.	In addition to receiving updates on the key contract issues at Board meetings, where management identify any significant differences in contract valuations with either clients or suppliers, the committee reviewed the status of the issues at each audit committee meeting.	Based on its review and discussions with the management team and external auditor, the committee concluded that the treatment of contract revenue, margin, receivables and payables in the financial statements is appropriate.
Impairment of goodwill The Group is required to test goodwill for impairment annually. This test involves a value-in-use model that includes estimates of future cash forecasts, growth rates and an appropriate weighted average cost of capital.	The value of goodwill is supported by a value-in-use model prepared by the management team. This is based on cash flows extracted from the Group budget and strategic plan, which have both been approved by the Board. The committee reviewed and challenged the management team on the assumptions used in the value-in-use model.	Based on its review and discussion with the management team and the external auditor, the committee was satisfied that the value of goodwill is appropriate.
Viability and going concern assessment The Group prepares a model based on the annual budget processes including a number of assumptions and sensitivities in order to carry out a review of the viability of the business and appropriateness of the going concern basis of preparation.	In order to satisfy itself that the Group has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties in respect of the Group's ability to continue as a going concern, the committee considered the Group's viability statement, cash forecasts, including sensitivities to risks that could reasonably impact the future operating results, and available borrowing facilities.	Based on its review and discussion with the management team and the external auditor, the committee recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the annual report.
Exceptional items in respect of building safety During the year ended 31 December 2022, the Group accepted a future liability related to building safety obligations as a result of the Building Safety Act 2022 and the Department for Levelling Up, Housing and Communities' request that businesses involved in developing buildings requiring building safety remediation sign up to the Pledge.	The committee received regular updates from management in respect of the process to identify building safety liabilities. The expenses recognised in the year were calculated based on estimates of liabilities for which the Group has an obligation, and these expenses were treated as an exceptional item due to their nature and materiality.	Based on its review and discussions with the management team and external auditor, the committee concluded that the expenses recognised and their presentation in the financial statements at 31 December 2022 were appropriate.

As a result of its reviews as detailed above, the committee was pleased to advise the Board that the 2022 annual report and financial statements ('the annual report') is fair, balanced and understandable and provides the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy.

External audit

Independence and effectiveness

The committee oversees the Company's relationship with the external auditor and compliance with the requirements of the Code and the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (CMA Order).

EY was appointed as the Company's auditor from the 2021 financial year following a formal tender process conducted in 2020 (as set out in our 2020 annual report) and Peter McIver became the lead audit partner. Subject to the continuing independence and effectiveness of EY as the external auditor or changes in legislation, the committee does not anticipate putting the audit out for tender until 2030 but will monitor this annually to ensure the timing for the audit tender remains appropriate.

To ensure that the external auditor remains independent of the Company, the committee carries out an annual assessment of the auditor's independence along with an appraisal of its qualifications, expertise and resources. In 2022, to fulfil these obligations, the committee reviewed the external auditor's presentation of its policies and safeguards to ensure its continued independence within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff had not been impaired. These policies and safeguards include: limiting the nature of any non-audit services that the external auditor may undertake; ensuring that key members of the audit team rotate off the Company's audit after a specific period of time; establishing an independent reporting line from the external auditor to the audit committee (the chair of the audit committee and the committee as a whole met with the external audit partner individually at each of the meetings held during the year and the committee met with the lead auditor responsible for the audit of our Construction & Infrastructure and Partnership Housing divisions); and monitoring the proposed changes to legislation and the proposed requirement for managed share audits.

Following the committee's review, the committee confirmed that it was satisfied with EY's continued independence and objectivity.

As part of its responsibility for assessing the ongoing effectiveness and quality of the external audit, the committee discussed the external audit plan at the committee meeting held in August 2022 and reviewed progress against the audit plan at the meeting held in December 2022, noting the scope of work to be undertaken and the key audit matters being addressed by the external auditor at the time. At the meeting prior to the announcement of the full-year results, the committee reviewed the external auditor's fulfilment of the agreed audit plan and the work performed by the auditor to test management's assumptions and estimates in relation to key audit risk as described in the independent auditor's report on pages 170 to 182.

During the external audit, the auditor challenged management while drafting the 2022 annual report in relation to the matters discussed in its audit opinion on pages 175 to 179.

Each year, following completion of the audit process, an internal evaluation of the external audit process is undertaken, having regard to the FRC's Guidance to Audit Committees and with the assistance of the Group head of audit and assurance. The review is conducted in the early part of the year, following the conclusion of the full-year audit, using a detailed questionnaire circulated to senior members of the Company and the divisions' finance teams. The feedback received in 2022, which covered matters including the quality of the process, the adequacy of resources employed by the external auditor, its communication skills and its independence, objectivity and professional scepticism, was reviewed by the committee as part of its assessment of the external auditor's effectiveness. No concerns arose in the course of the review, indicating that there were no issues with the effectiveness of EY as auditor.

Policy on the auditor providing non-audit services

The Company's policy on the engagement of the external auditor for non-audit related services, which applied during the 2022 financial year, complies with the FRC's Revised Ethical Standard. The policy is designed to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity or create a conflict of interest. The policy applies to the Company and all its wholly owned subsidiaries and provides guidance on the type of work that is acceptable or prohibited for the external auditor to undertake, and the process to be followed for approval. The categories of services that are prohibited are in line with legislation and include valuation work and preparing accounting records and financial statements.

For other services not falling within the prohibited services list, the external auditor is eligible for selection by the Company provided that its skills and experience make it competitive and the most appropriate supplier of these services. Permitted services can be carried out by the external auditor subject to the advance approval of the finance director or, if the fees for such services exceed a threshold of £50,000, the advance approval of the audit committee chair. In addition, EY has its own safeguards in place to confirm that non-audit work prohibited by the FRC's Ethical Standard is not provided to the Group.

The committee monitors compliance with the Company's policy throughout the year and confirms that during 2022, EY did not provide any non-audit services that required the approval of the committee nor were there any fees for non-audit services incurred by EY during the year (see note 3 on page 199).

Reappointment of external auditor

Having regard to the considerations referred to above, the committee has satisfied itself that EY, the current external auditor with responsibility for the 2022 financial year end, remains independent and effective. As a result, the committee has recommended to the Board that a resolution proposing the reappointment of EY as external auditor be put to shareholders at the forthcoming AGM. The committee confirms that their recommendation is free from influence by a third party, and no contractual term of the kind mentioned in Article 16(6) of the Audit Regulation has been imposed on the Company.

Risk management and internal controls

The Board is responsible for the Group's risk management framework (see page 64) and risk appetite (see page 67). The Group's risk management process and system of internal controls, which complies with the requirements of the Code, were in place for the full financial year and up to the date of approval of the annual report and are in line with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The committee supports the Board in reviewing the effectiveness of risk management, assessing and reviewing the Company's principal and emerging risks and keeping the internal control system under review.

Risk review

In August and December 2022, the committee carried out a robust assessment on behalf of the Board of the Company's emerging and principal risks. The divisions, IT team and risk committee reviewed their risk registers to enable the committee to conduct a formal appraisal of the Group and divisional risk registers. The registers include the controls and mitigations in place for principal and emerging risks and indicators of any changes in risk level. An overview of the risk management process is described on page 64.

As part of its review, the committee conducts deep dives into key areas to discuss whether risk levels are still aligned with our strategy and risk appetite. In 2022, the deep dives focused on:

- the potential impact of ongoing inflationary pressures (Principal risk A, page 68);
- the potential impact of materials/labour availability (Principal risk A, page 68);
- the potential impact on the Group's partners' finances given the current economic climate (Principal risk E, page 72);
- our latent defect risk, taking into consideration our estimation of the costs of applying the principles of the Building Safety Act and the Pledge across Partnership Housing and Urban Regeneration (Principal risk I, page 75); and
- longer-term residential drivers (Principal risk B, page 69).

The committee also conducted deep dives into the Group's emerging risks, giving consideration to: the long-term scarcity of skilled labour in the industry; the advancing pace of technology; and changes to people's working patterns.

Following its assessment at the year end, the committee noted an increase in risk influenced by instability brought about by UK/geopolitics resulting in: economic headwinds; UK fiscal tightening; inflationary pressures; base rate rises and the impact on consumer confidence; and possible disruption brought about by winter energy capacity and Covid.

The committee concluded that, while there continues to be uncertainty in the macro environment, the Group's risk profile remains stable. This is due primarily to the markets in which the Group operates being predominantly in the public and regulatory sectors, which the committee regards to be structurally secure and includes commitments to areas of critical construction and infrastructure confirmed in the government's Autumn Statement. In addition, the Group's predominant two-stage procurement approach continues to help manage inflationary impacts. The stability of our markets is reflected in the Group's current pipeline and the quality of our order book.

The committee noted our regeneration divisions were expecting some schemes to slow but not stop. Revenue and cost assumptions in some development appraisals were more challenged which could impact the viability of some schemes. However, our development models are very flexible and allow us to work through any issues with our partners, and if necessary, seek additional gap funding and alternative sources of finance with better terms. In addition, the models allow us to flex the commercial versus residential tenure mix and further de-risk by increasing the proportion of contracting work, forming strategic joint ventures and increasing the proportion of forward sold affordable housing. All these measures provide resilience in a difficult market.

Our continued focus on cash and robust working capital management is reflected in our strong cash position and balance sheet, all of which continue to support us in long-term decision-making and selecting projects that match our risk appetite and are right for our business, particularly in any declining markets.

Following its risk review, the committee reports to the Board to facilitate its annual discussion of the risk appetite (see page 116).

+ Managing risk – for more information on the Group's risks

Review of internal controls

The committee reviewed the effectiveness of the Group's system of internal controls which is described briefly in the box on page 129. The review included assessing: the relationship between the internal and external audit function; the results of internal audit work; and the overall effectiveness of the internal audit process.

As disclosed in our 2021 annual report, a historic accounting error had been identified and corrected. Following this correction, the committee instructed management to investigate the root cause of the matter and, where necessary, to rectify the related internal controls. An external party was engaged to carry out an independent and extensive investigation together with management. The investigation concluded that: there were no indicators of any fraud or deliberate wrongdoing; the prior-year adjustment was correct; and no similar issues existed across the Group. In conjunction with management and internal audit, a report was produced for the committee summarising the work carried out in the investigation and including several recommendations which have been adopted.

The committee was informed of additional processes proposed by the executive directors in preparation for new regulations that may follow the government's consultation on 'Restoring trust in audit and corporate governance'. In particular, these processes include more formalised accountability of directors over internal controls and additional disclosures they will need to make. The Group finance team is currently reviewing any changes required to our financial controls in advance of the UK Corporate Reforms including greater use of enhanced digital financial tools and aims to target trials in 2023 to help enable us to comply with the anticipated changes.

Internal controls

Financial

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

Operational

- **Group structure** – divisional boards, with certain key functions such as tax, treasury, internal audit, IT, pensions and insurance retained at Company level; and a system of delegated authorities to ensure that decisions are made at the appropriate level (see governance framework page 64).
- **Tender, project selection and contract controls** – tenders reviewed in detail with approval required at relevant levels and at various stages from the start of the bidding process through to contract award; assessment of the financial standing of clients and key subcontractors; and robust procedures to manage ongoing contract risks, with monthly operational reviews of each contract's performance including a detailed appraisal of related commercial performance via our cost and value process.

Compliance

- **Legal compliance** – monitored by divisional commercial directors and HR managers, and the Group commercial director and general counsel; training provided on health and safety, competition law, anti-bribery and corruption, and the market abuse regulation.
- **ISO accreditation** – includes 9001 (quality), 14001 (environmental), 45001 (occupational health and safety) and 27001 (information security management).
- **Corporate governance framework and Group policies** – written guidance and policies (see pages 94 and 95 for more detail on our policies) at Group and divisional levels.

Internal audit

The internal audit function is managed by the Group's head of audit and assurance, who oversees the divisional heads of internal audit and assists with risk management. The internal audit function conducts its work to align with the Internal Audit Charter, which has been drafted in accordance with the recommendations of the Institute of Internal Auditors.

Each year, an internal audit plan is developed based on principal and key risks identified in the Group and divisional risk registers together with internal audit testing, key project metrics, management requests and input from the committee. The internal audit team uses business intelligence tools and metrics to identify which projects to review for maximum effectiveness. Each individual audit includes a subjective assessment of culture.

The 2022 plan included 62 separate audits, of which c95% focused on operational activities. During the course of 2022, 85 audits were completed; the audits covered:

- **project activities** – operational, commercial, change management and risk (varying in scope but covering all divisions);
- **development activities** – approvals, risk and capital structuring, partner performance, funding, programme, return on capital, profit (Partnership Housing, Urban Regeneration);
- **finance reviews** – cash, debt, payroll, management accounting (selected divisions); and
- **other areas of focus** – including: cyber security; value engineering; anti-bribery; off-payroll working; work winning; compliance; sustainability; payroll process; procurement; and timesheet management (selected divisions or areas).

DIRECTORS' AND CORPORATE GOVERNANCE REPORT continued
Audit committee report

The internal audit function has developed a formal process for assessing the effectiveness of the Group's system of internal controls (see page 129) which involves undertaking a comprehensive evaluation using a three-point scale ranging from 'effective' to 'ineffective'. The internal audit function, based on its audits, concluded that the internal controls system as a whole was effective for maintaining an appropriate control environment. A small number of improvements to the controls were suggested and implemented.

The internal audit function engages with and gains meaningful insight on the Group's performance from its colleagues in the functions of: health, safety and environment; IT and IT security; legal; company secretariat; finance; tax and treasury; business improvement; and HR.

The internal audit process is supplemented by a rolling programme of peer group reviews (overseen by internal audit) in Construction, Infrastructure and Partnership Housing. These reviews support the professional development of the employees who take part while providing an opportunity for sharing ideas and best practice.

At each of its meetings, the committee receives a report from the Group head of internal audit and assurance with details of audits carried out across the Group, including: operational, project and financial reviews; metrics showing progress made against the audit plan; updates on Group and divisional risk registers; a log of any concerns raised; market soundings on macroeconomic and sector conditions; and an update on the internal audit resource. The report includes information on our policies and procedures to prevent bribery and corruption (see page 95) and our internal controls procedures for preventing and detecting fraud in our business practices. While these issues are not considered to be a principal risk to the Group, if any breaches are identified, they are fully investigated, acted upon, and any significant findings brought to both the committee's and Board's attention. There continued to be no evidence of systemic bribery or corrupt activity during 2022.

+ Oversight of workforce policies and practices – whistleblowing review

Independence and effectiveness

The internal audit function is subject to validation by an independent, external organisation every five years. The external assessment was carried out by Blackmores (UK) Limited during 2021, details of which were disclosed in the 2021 annual report.

Each year, the committee assesses the effectiveness of the internal audit function. In its 2022 internal assessment, the committee:

- met with the Group head of internal audit and assurance separately without the executive directors present to discuss the effectiveness of the internal audit function. No new matters or issues were raised that had not already been reported by the executive directors;
- reviewed and assessed the internal audit plan;
- reviewed whether necessary actions were being taken promptly to address any failing or weakness identified by internal control audits;
- reviewed whether the causes of the failing or weakness indicate poor decision-making, a need for more extensive monitoring or a reassessment of the effectiveness of management's ongoing processes; and
- assessed the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and whether the function is able to continue to meet the needs of the Group.

The results of the latest assessment were reviewed by the committee in December 2022, and it was satisfied that: the internal audit and internal controls were operating effectively; the internal audit team was adequately staffed and remained independent; and the risk to the audit team's independence and objectivity was low.

In 2023, the internal audit plan will follow a similar process with reviews on areas the Board considers the most significant in terms of risk and or materiality. It will include 72 separate audits of which c80% involve testing the control environment, with a particular focus on:

- **selected projects** – procurement, margin, programme, risk, contingency, change (Construction, Infrastructure, Fit Out, Partnership Housing);
- **selected developments** – capital expenditure, approvals, viability, risk, structure, funding, schedule, sales, pace, returns (Partnership Housing, Urban Regeneration);
- **key financial controls** – cash, payroll, management accounting, balance sheet (all divisions, varying in scope);
- **work winning** – selectivity, pipeline quality, bidding and bid risk management (selected construction teams); and
- **other** – supply chain, anti-bribery, build quality, customer care, Building Safety Act, cyber security, captive insurance company.

In addition to the activities in the plan set out above, the internal audit team will independently monitor the Group's pipeline and performance and commercial metrics on key live construction projects, including undertaking a significant number of additional site visits. This will provide the team with an understanding of our performance across a broad portfolio of work.

We have increased the size of our internal audit team and will conduct additional testing of financial controls ahead of the proposed reforms following the Department for Business, Energy & Industrial Strategy white paper 'Restoring trust in audit and corporate governance'. This will include assisting the business in preparing for the directors' formal accountability for internal controls and the additional disclosures they will need to make.

Looking ahead

In 2023, the committee will continue its focus on:

- the integrity of the Group's financial reporting;
- monitoring the Group's obligations in respect of building safety and the financial reporting thereof;
- risk management and internal controls; and
- continuing to monitor work undertaken in preparation for the implementation of changes to legislation as a result of the reforms proposed in 'Restoring trust in audit and corporate governance'.

Malcolm Cooper
Chair of the audit committee
22 February 2023

Responsible business committee report

Malcolm Cooper
Chair

Key responsibilities:

- Reviewing the Group's responsible business strategy, targets, risk exposure and performance against our Total Commitments
- Monitoring how our governance, skills and resources are used to ensure compliance with our Group policies and applicable law and regulations
- Receiving regular reports on safety performance and reviewing key issues arising and the impact of our operations on the health and wellbeing of employees
- Monitoring our performance against external responsible business rating standards

The committee's full role and responsibilities are set out in its terms of reference which were last updated in February 2022 and are available on our website.

The quick read...

- Reviewed safety performance and wellbeing support
- Received an update on actions taken by the Group to address modern slavery
- Received presentations on our performance against our Total Commitments targets
- Monitored our progress to net zero carbon by 2030
- Received an update on our social value initiatives

I am pleased to present the report of the responsible business committee for 2022.

Committee composition and performance evaluation

The committee superseded the health, safety and environment committee in February 2022 and was renamed by the Board. Its remit has been extended to assist the Board in its oversight of responsible business governance and the Group's progress against our Total Commitments. This includes developing people, working together with our supply chain and enhancing communities, in addition to protecting people and improving the environment. This change will help ensure we meet our targets to deliver positive social and environmental outcomes for all our stakeholders.

The committee's membership is now made up solely of non-executive directors as shown in the table below. The committee invites the chair, chief executive and company secretary to attend each meeting. Other members of senior management are invited to attend all or part of meetings, as and when appropriate.

Members[1]	Member since[2]	Attended/ scheduled
Malcolm Cooper (chair)	**2017**	3/3
Tracey Killen	**2020**	3/3

1 Biographies of members are set out on page 105.

2 Date appointed to the former health, safety and environment committee.

An evaluation of the committee was conducted in 2022. It concluded that the committee was working effectively, is focused on the right topics and has good engagement with management. The 'Looking ahead' section on page 133 details the agreed areas of focus in 2023.

Key activities during the year

Our Total Commitments provide the framework for the Group's responsible business strategy. We conduct regular materiality surveys with our stakeholders to identify responsible business issues that they consider material to the Group so that we can ensure our Total Commitments remain aligned. The committee has produced a formal schedule of matters for its review to ensure that each of the material issues identified by our stakeholders is being addressed. The next materiality survey is scheduled for the first quarter of 2023 and the committee will be updated on any changes in material issues as a result of the stakeholder feedback received and any actions proposed. An in-depth review of our performance against our Total Commitments can be found on pages 18 to 43.

Safety performance

The safety of our employees, subcontractors and other people who interact with our activities is a key focus area at every committee and Board meeting.

The Group commercial director is invited to attend each committee meeting to give an update on the Group's safety performance together with a summary of any communications from the Health and Safety Executive and follow-up actions being taken by the divisions in response.

DIRECTORS' AND CORPORATE GOVERNANCE REPORT continued
Responsible business committee report

We continue to measure safety performance using the lost time incident rate. In response to an increase in incidents in 2021 compared to the prior year, we launched safety improvement plans which resulted in a reduction in lost time incidents in the second half of 2021. Throughout 2022, the committee reinforced the need to ensure we maintain our focus.

Our lost time incidents and number of RIDDORs reduced in 2022 (see page 20). The divisions remain focused on trips, slips and cuts which remain our top three types of reportable incidents. The committee has continued to challenge the Group's cross-divisional health and safety forum to identify and address any underlying trends contributing to these incidents and ensure that our safety training and audits are focused on these areas. During the year, the divisions took various actions to further address these issues (see pages 20 and 21) and to support our ambition of zero accidents and ensure that everyone gets home safe.

In response to a general increase in our all-accident statistics in 2022, the committee requested that the divisions look further into whether there were any underlying causes that needed to be addressed. At the time of writing, following a detailed review, no patterns have been identified except there has been an increase in minor injuries reported and the health and safety forum is continuing to focus on how we can drive down these injuries. We consider the reporting of all accidents to be an important element in maintaining a positive safety culture and this indicates that our employees and subcontractors continue to feel confident to report accidents and near misses so that our divisions can learn from them and promote further awareness where necessary.

In addition, some of our divisions are monitoring progress on '100% Safe' days (where there have been no serious, lost time, minor or high-potential incidents), to use for further benchmarking and trend analysis to help make our sites safer. This analysis will also raise the profile of those sites that have maintained a good safety performance.

Modern slavery

The committee reviewed the Group's 2021 Modern Slavery and Human Trafficking statement ('2021 statement') on behalf of the Board. As part of its review, the committee considered both the requirements of the Modern Slavery Act 2015 and the Group's actions and future actions to ensure that the risk of modern slavery is being appropriately managed (see page 23). Following its review, the committee was satisfied that modern slavery is not currently a principal risk for the Group. Providing we remain proactive and continue to educate our teams and supply chain partners about modern slavery and human trafficking risks and indicators, it is unlikely to have a material, long-term impact on the business. The committee recommended the 2021 statement for Board approval (see page 114) and will review the 2022 statement ahead of its publication in June 2023.

Mental and physical wellbeing

At its June meeting, the committee reviewed each division's activities to support its employees' mental and physical wellbeing. Given the current economic situation, the committee paid particular attention to how the divisions are supporting people in managing their personal finances.

The committee was pleased to see that, in addition to the Group-wide support offered to our colleagues (see pages 21 and 22), the range and type of resources and additional activities varied as each division tailored its approach to feedback received from its employees. The committee concluded that the divisions were providing a good variety of measures to support their employees, while recommending that they continue to focus their resources on engagement activities that most effectively promote wellbeing.

⊕ Responsible business strategy and performance – protecting people

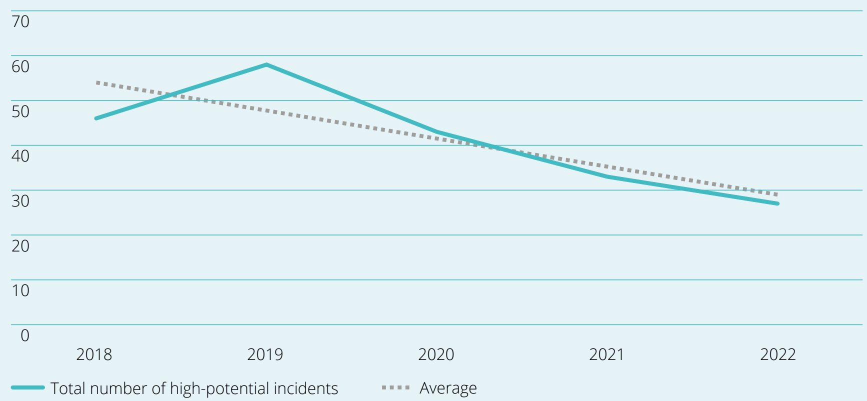
ESG reporting

The committee received an update from the Group's ESG reporting manager (a new role established in 2022) on how various investors and rating agencies view ESG and report on companies' performance in their ESG indices. Going forward, the committee has agreed that we will target our reporting to those indices that are most relevant to the Group to help us to continue to communicate our strong performance to our investors.

We have reported fully against the TCFD on pages 80 to 91 of the strategic report.

High-potential incidents

The graph below illustrates how the number of our high-potential incidents has decreased since 2019. These are accidents that could have had serious consequences but fortunately did not result in harming anyone. By focusing on the potential rather than actual outcome of an incident, we give ourselves the opportunity to adapt our ways of working and provide necessary training in order to improve safety. We have found that sharing lessons learned on these high-potential incidents helps to prevent accidents and reduces our inherent risk.



DIRECTORS' AND CORPORATE GOVERNANCE REPORT continued
Responsible business committee report

Climate change

The Group director of procurement and sustainability attended the committee meetings in June and December to provide an update on the Group's activities to address climate change, improve air quality and increase biodiversity. Detail was provided on:

- the work undertaken by the divisions to ensure we meet our Scope 1, Scope 2 and operational Scope 3 net zero target by 2030 (see page 28 for further details of our performance);
- progress towards achieving revalidation of our science-based targets to align with a 1.5°C scenario. The targets have been extended to include all Scope 3 emissions (previously only included operational Scope 3) which we aim to reduce to net zero by 2045;
- engagement and collaboration with our supply chain including our carbon pledge for subcontractors to help manage our wider Scope 3 emissions;
- how we are preparing for future regulatory requirements to report our BNG;
- initiatives we are involved in to adopt new technology to reduce carbon; and
- the UK projects we have invested in to ensure that any residual carbon is offset transparently.

As a result of its review, the committee is satisfied that through our activities we remain on a trajectory to achieve our 2030 net zero carbon target. In addition, our divisions are already integrating biodiversity factors into their projects ahead of the anticipated regulatory changes which will require all development projects to produce a minimum BNG of 10%.

+ Responsible business strategy and performance – improving the environment

Supply chain

Our supply chain partners are an integral part of our business model and play a key role in the delivery of strategy. During the year, the committee reviewed the work we are doing to maintain the strengths of our supply chain relationships. We have ensured that we continue to pay our suppliers fairly and promptly; monitored their resilience in the current economic climate; and supported them with measuring their own carbon emissions. In 2022, our assessment against ISO 20400 – Sustainable Procurement was completed to ensure we are meeting regulatory requirements when engaging our supply chain. The committee was updated with the outcome of the assessment and on management's plans to address any improvements required. A reassessment is planned for 2024.

Our Code of Conduct, human rights and modern slavery policies extend to our supply chain and, in 2022, we were accredited against the Ethical Labour Sourcing Standard BES 6002 as part of our commitment to eliminating any possibility of trafficking or modern slavery in our supply chain. We will be reassessed in 2024.

+ Responsible business strategy and performance – working together with our supply chain

Social value

Supporting our people, our supply chain and the communities in which we work is embedded in our culture and delivered through our Total Commitments (see pages 18 to 43). Further information on how we monitor the divisions in developing their people can be found on pages 119 and 120 in the nomination committee report.

Our Group director of procurement and sustainability and the director of sustainability (a new role established in 2022) attended committee meetings in October and December to report on the Group's activities to create social, environmental and economic value on our projects for the benefit of the community.

Our decentralised approach supported by our network of offices across the UK means we are located in or near to the communities in which we work. We consider this to be a key differentiator as it allows our divisions to respond quickly and innovatively to our clients' needs for delivering social value and to support the communities in which we operate. See pages 39 to 43 for further detail on our activities and how we measure the value we create.

The committee also reviewed the Group-wide toolkit that has been developed by the social value panel to further support the sharing of best practice and the delivery of activities that benefit our stakeholders across our projects.

The committee will continue to increase its focus on our social value outcomes, ensuring our divisions maintain a strategic approach that is measurable and aligned to the needs of the communities in which we work, and that the divisions' strategic alliances to deliver social value maximise the effectiveness of our projects and collective goals.

+ Responsible business strategy and performance – enhancing communities

Looking ahead

In 2023, the committee will:

- continue to challenge the divisions to seek further reductions in the number of RIDDORs, lost time incidents and all accidents;
- review high-potential incidents;
- recommence a programme of site visits;
- review the divisions' continuing actions to help our employees maintain their health and wellbeing;
- review feedback from our 2023 materiality assessment;
- ensure the Group is prepared to comply with new regulatory and reporting requirements;
- review the Group's environmental performance, including risks and opportunities in relation to climate change;
- review our performance against our Total Commitments, including keeping abreast of the increasing and varied demands from stakeholders in respect of ESG; and
- ensure a continuing improvement in the disclosure of our material responsible business impacts, both in the quality of information disclosed and across stakeholder engagement.

Malcolm Cooper
Chair of the responsible business committee
22 February 2023

Remuneration committee report

Tracey Killen
Chair

Key responsibilities:

- Reviewing and determining the appropriateness of the remuneration policy and consulting with shareholders on proposed changes
- Setting the remuneration of the chair, executive directors and senior management team
- Approving the design of all share incentive plans for approval by the Board and, where required, by shareholders
- Reviewing wider workforce remuneration and policies and the alignment of incentives and awards with culture and taking these into consideration when setting the remuneration policy or determining salary increases

The committee's full role and responsibilities are set out in its terms of reference which were last updated in February 2023 and are available on our website.

The quick read...

- Conducted a full review of the remuneration policy including shareholder consultation
- Monitored remuneration market practices including the appropriateness of including linkages to ESG measures
- Approved the 2022 and 2023 remuneration for the chair, executive directors and senior management team
- Reviewed wider workforce remuneration and the alignment of incentives and awards with culture
- Set targets for the 2023 annual bonus and Long-Term Incentive Plan (LTIP) and reviewed performance against targets for the 2022 annual bonus and 2020 LTIP awards

I am pleased to present our remuneration report for the year ended 31 December 2022. This report sets out how the Group pays its directors, decisions made on their pay and how much they have received in relation to 2022.

Committee composition and performance evaluation

During the year under review, the committee held five formal meetings (2021: four meetings), to review and agree the remuneration policy for shareholder approval at the 2023 AGM.

Members[1]	Member since	Attended/ scheduled
Tracey Killen (chair)	**2017**	5/5
Malcolm Cooper[2]	**2015**	1/1
David Lowden	**2018**	5/5
Jen Tippin	**2020**	5/5
Kathy Quashie[3]	**2022**	4/4

1 Biographies of members are set out on page 105. Michael Findlay, John Morgan and Steve Crummett attended meetings by invitation.

2 Malcolm Cooper attended the first meeting of 2022 before stepping down as a member.

3 Kathy Quashie was appointed to the committee on 1 June 2022 following Malcolm Cooper stepping down and attended the remainder of the 2022 meetings.

As part of the annual evaluation of the Board, an evaluation of the committee was conducted. This concluded that the committee was continuing to work well. It was agreed that the committee would develop further understanding and engagement on wider workforce remuneration and gain deeper insight into people-related risks that could impact the Group such as recruitment and the availability of skilled labour.

Executive remuneration in context

Our remuneration policy is designed to encourage the effective stewardship that is vital to delivering our strategy of creating long-term value for all stakeholders.

We are committed to being open and transparent in our approach to executive remuneration and, as a committee, strive to keep remuneration arrangements clear, consistent and simple, to facilitate effective stakeholder scrutiny. Performance-related components of remuneration form a significant portion of the total remuneration opportunity, with the maximum potential reward available only through the achievement of stretching performance targets based on measures that the committee believes reflect the interests of shareholders.

The extent of their responsibilities means executive directors are well paid, but the policy is designed to, among other things, ensure that they are not overpaid. Reference points such as the ratio of the chief executive's pay to the median pay for all employees and the policy for wider workforce remuneration are important to us, in addition to the use of external benchmark data when considering executive pay levels.

In determining the remuneration of the executive directors and senior managers, we consider the performance of the business during the financial year in question and over the longer term, as well as the experience of our different stakeholder groups.

2022 consultation with shareholders

Last year's remuneration report was approved at our 2022 AGM with an overall vote of 67% in favour. The committee was naturally disappointed with this relatively low result and, in line with the requirements of the UK Corporate Governance Code, reached out to major shareholders to discuss their concerns. These concerns related mainly to our decision to adjust the measurement of earnings per share (EPS) for our in-flight LTIPs from a cumulative to a point-to-point basis. During the year, we consulted with 16 of our largest shareholders (c90% of whom engaged), the Investment Association and ISS (Institutional Shareholder Services), and were pleased to discover that the majority – including nine of the 10 largest shareholders – supported our decision. We took seriously the concerns raised by a significant minority, who objected to the adjustment of in-flight targets as a matter of principle, but understand that they will support the use of point-to-point EPS targets for future awards. Ultimately, we believe that our rationale for making the change was justified (as described in last year's report) and that overall remuneration outcomes for 2021 were aligned with the wider stakeholder experience, but we are grateful to all who engaged with us for their useful and honest feedback.

Given that our remuneration policy is due to expire in 2023, we also used this opportunity to consult shareholders on proposed changes to the remuneration policy and the chief executive's remuneration. Feedback received during this consultation process led to a number of changes to the original proposals and has helped to shape the final policy that the committee is now submitting for approval.

Proposed remuneration policy changes

As part of the policy review process, the committee considered the underlying performance of the Company in recent years and the experience of its stakeholders, as well as the findings of a thorough benchmarking exercise which assessed how competitive the current remuneration arrangements are within the wider market context. This review brought to light the fact that the incentive opportunities currently available to our executives are at the lower end of what is available at peer group companies, having adjusted for the Group's size and complexity.

For this reason, we will be making the following adjustments to future-proof the policy and to build in some additional headroom for occasions in the future when we may need it – for example, to reward significant growth in the business or in the event of a new appointment:

- to increase the maximum annual bonus opportunity in our policy from 125% to 150% of salary; and
- to increase the maximum LTIP opportunity in our policy from 150% to 200% of salary.

The majority of shareholders we consulted were supportive of these changes. As a committee, we have agreed that we will not exceed the current policy limits of 125% of salary for the annual bonus and 150% of salary for the LTIP for the 2023 awards. However, we will look at whether to make awards at the higher policy levels in 2024 and 2025, taking into consideration the Company's performance and wider economic factors at the time, as well as the opinions of shareholders. We will continue to set stretching targets for both the annual bonus and long-term incentive, directly aligning pay and performance and ensuring that remuneration levels increase only if the Company delivers significant, sustainable growth. A resolution to approve an updated set of LTIP Rules will be tabled at the 2023 AGM to facilitate the increased maximum opportunity, with a small number of additional minor changes made to reflect best practice since the rules were last drafted.

Other areas consulted on with shareholders

Chief executive (CEO) remuneration

The market analysis undertaken by the committee revealed that our current pay levels for the CEO are bottom quartile for both our UK-listed size peers and peers operating in our sector, with a significantly below-market base salary being the main contributor.

This below-market pay positioning reflects a number of factors, most notably the strong performance of the Group in recent years but also a reticence by John, as both a significant shareholder and CEO, to accept salary increases above those granted to the broader workforce, despite his strong leadership and the increasing scope and complexity of his role.

Due to John's reticence to accept salary increases above those of the wider workforce, the committee had originally proposed introducing a higher 'notional' salary for the CEO that would be used to calculate his annual bonus and long-term incentive awards rather than his 'actual', lower salary.

During the consultation, many shareholders were supportive of the committee's proposal, emphasising their respect for John and his performance as CEO. Others, while sympathetic to our need to bring the CEO's salary in line with that of his peers, raised concerns about making significant executive salary increases (whether notional or actual) in the current economic climate and provided feedback that the concept of a 'notional' salary risked introducing unwanted complexity.

During the period that the policy review was undertaken, the external environment changed. The cost of living crisis and high rates of inflation in the UK meant that large salary increases for executives felt out of step with our stakeholders and went against John's principles of aligning CEO remuneration increases with that of the wider workforce. In addition, share prices fell across the FTSE, including at the Group, which meant that any significant increases to remuneration levels were likely to be misaligned with the shareholder experience. Reflecting this development and the feedback received from shareholders, the committee has decided not to make any major changes to the CEO's salary at this time. However, we remain mindful that we may need to make a significant uplift in the medium to longer term for future succession. In recognition of their exceptional performance in leading the business successfully through a challenging period, and to prevent John's salary falling any further below market norms than it already has, we will be granting John (and Steve Crummett, the finance director) salary increases for 2023 slightly below those we grant to the wider workforce.

DIRECTORS' REMUNERATION REPORT continued
Remuneration committee report

ESG metrics

As part of the policy review, we discussed the use of ESG measures, noting that this has become an area of particular focus for investors and that market practice to adopt ESG metrics in pay arrangements has accelerated in recent years. As in previous reviews, we have given the matter a great deal of consideration but remain of the opinion that ESG is already such an integral part of the Group's day-to-day operations that it does not warrant further incentivisation or extraordinary reward at this time. As a Group, we continue to hold ourselves to an incredibly high standard on ESG through our ambitious Total Commitments and we remain a leader in our sector on environmental matters (see pages 28 to 34 and pages 80 to 92 for further information).

We are also keen to retain the simplicity of our current remuneration arrangements, as we believe this to be one of their greatest strengths. The majority of shareholders that we consulted were supportive of our approach. We have set ourselves clear criteria for reviewing the decision and will ensure that our policy wording does not preclude us doing so in the future, should we deem it necessary.

2022 remuneration

	2022	2021	2020	2019
Revenue	**£3,612m**	£3,213m	£3,034m	£3,071m
Profit before tax adjusted*	**£136.2m**	£127.7m	£63.9m	£90.4m
Average daily net cash	**£256.3m**	£291.4m	£180.7m	£108.9m
Earnings per share (EPS)*	**237.9p**	226.0p	108.6p	161.2p
Share price (end of year)	**£15.30**	£25.20	£15.32	£16.20

* See note 28 to the consolidated financial statements for alternative performance definitions and reconciliations.

The Group has delivered a robust performance in 2022, delivering EPS growth of 48% since 31 December 2019 (2019 EPS: 161.2p), which reflects the quality of the work we have won and our operational delivery. We have been able to provide further support to some of the vulnerable communities in which we operate and have made long-term investments to address the impact of climate change. The strength of our balance sheet and cash generation have remained high priorities for the Board, enabling us to continue to do the right thing for all stakeholders and ensure that we select the right construction contracts and invest in long-term regeneration schemes that will secure future earnings.

Throughout the year, the directors have continued to focus on ensuring that the business is in the best position financially to withstand economic uncertainty, and able to take advantage of opportunities as and when they arise. Reflecting these positive results, the executive directors will each receive a bonus of 125% of salary, of which 30% will be deferred in shares for three years. LTIP awards granted in 2020, which vest on three-year performance to 31 December 2022 (two thirds on EPS and one third on relative total shareholder return (TSR), will vest at 100%. The committee satisfied itself that this outcome reflects the underlying performance of the business over the relevant period.

The committee considered the vesting value of the 2020 LTIP awards in relation to the guidance from major shareholders around windfall gains and reviewed several perspectives, including share price movements and the Company's strong relative performance, in its deliberations. The 2020 LTIP awards were granted on 2 March 2020 using a share price of £18.57 (prior to the market-wide fall following the onset of Covid). The fourth quarter 2022 average share price used to calculate the single figure of remuneration (see page 152) was £15.30. It was therefore concluded that the executive directors had received no windfall gain and therefore no discretionary adjustment was required. The committee will reassess this position following the actual vest date in March 2023, taking into account the share price at that time.

2023 remuneration

In setting the remuneration for 2023 for the executive directors and the GMT, we considered the proposed changes within the context of the remuneration offered to employees as a whole. We undertook an in-depth review of remuneration structures across the Group in December 2021 and no material changes have been made to these in the year since. We therefore focused our review on the proposed salary increases for the wider workforce and the support that our divisions have provided to their teams to assist with the increased cost of living.

Our divisions pay the real living wage or above and two divisions are accredited Living Wage Foundation employers. The real living wage increases of c10% as set out in September 2022 have been applied across the Group. During 2022, the divisions provided their employees with a range of support to help with the cost of living, including offering one-off cost of living support payments, temporarily increasing fuel allowances, bringing forward annual pay and bonus payments, and enhancing employee benefit packages. Specific actions taken include:

- Two of our divisions gave lower-paid employees in their teams mid-year pay increases or one-off payments to help them with the rising cost of living.
- A number of divisions brought forward the date of their 2023 salary increases by a month to 1 December 2022 and gave employees vouchers to help them with increased costs over the festive season.
- A couple of divisions introduced additional facilities on sites to enable workers to shower and wash their work clothes, as well as providing breakfast.
- We have made sure all employees are aware of the discounts and support available via employee benefits such as our employee assistance programme and financial education service.

DIRECTORS' REMUNERATION REPORT continued
Remuneration committee report

Although we have not engaged directly with employees on the remuneration policy design, I, together with our company secretary, met with our HR forum in 2022 to discuss wider workforce remuneration. Although there were some comments from employees, these related to the cost of running vehicles in the summer, which the divisions have subsequently addressed by temporarily increasing allowances for employees driving on company business. Those divisions which provided mid-year salary increases received positive feedback from their employees. Unrelated to the cost of living crisis, one division reviewed and enhanced its pension arrangements during the year, which resulted in c400 employees increasing their own contributions. All divisions are very aware of the issues that their employees are facing and are mindful of the need to remain competitive to attract the best talent while balancing the long-term impacts of any new measures on the business. The Group's strong performance, culture and broader offerings such as flexible working, career development and a competitive range of benefits help the divisions to retain their talented teams. Feedback from the discussion was shared with the wider committee and was discussed by the committee at the following meeting. We will continue to engage with the HR forum in 2023 to better understand our employees' experiences and expectations around remuneration.

As discussed above, the salaries of both the chief executive and finance director will be increased by 5% with effect from 1 January 2023, just below the average increase awarded across the Group. We are aware of the prevailing investor sentiment that executive salary increases for 2023 should generally be below those of the wider workforce, to reflect the disproportionate impact of the cost of living crisis on lower-paid employees; indeed, it is because of this disproportionate impact that we have awarded tiered salary increases of between 5% and 10% of salary to our lowest-paid employees, with larger increases for those on lower salaries. In this context, and in light of the business's strong performance and the CEO's low pay positioning relative to size and sector peers, we believe that awarding both executives increases just below the average employee increase of 6% for 2023 is fair and the right thing to do. The pension contribution for executive directors will reduce from 10% to 6% of salary from 1 January 2023 to bring them in line with the pension contributions for the majority of employees.

The executive directors will be eligible for an annual bonus of up to 125% of basic salary, of which 30% will be subject to deferral in shares for three years. The bonus targets for 2023 will be based on adjusted profit before tax* (PBTA*) for consistency with full-year 2022 and simplicity. For 2023, as in 2022, the trigger point for the annual bonus will be 90% of budgeted PBTA* and a maximum bonus will require 110% of budgeted PBTA.* Full details of the targets will be disclosed in the 2023 remuneration report.

Finally, executive directors will each receive LTIP awards in 2023 up to 150% of basic salary. Any LTIP shares that vest will be subject to a further two-year holding period post-vesting. For 2023, the committee will use a point-to-point calculation for the EPS metric (two thirds of the award), with a threshold 2025 EPS target of 260p and a stretch target of 308p. This range has been determined through consideration of a number of internal and external reference points, including the strong performance in 2022, the long-run target growth range of 6%–13%, broker forecasts for the next three years and typical growth rates in our sector. In respect of the TSR metric (one third of the award), the performance range will again be median to median plus 10% per year outperformance versus the constituents of the FTSE 250 Index (excluding investment trusts). As a committee, we believe that the stretch targets are broadly equivalent to an upper-quartile level of performance. The committee considered the share price at which the awards would be granted in relation to the prices used to grant previous LTIP awards and was satisfied that the level of award was reasonable, but that committee discretion would be used at the time of vest, if necessary, to take into account any windfall gains which have arisen over the vesting period.

Looking ahead

The committee will continue to monitor corporate governance and market practice developments throughout the 2023 AGM season and will consider the appropriateness of any emerging trends for the Group.

In conclusion, the committee believes that, overall, we have maintained a balanced and considered outcome in respect of remuneration with a clear link between performance and reward. The remuneration outcomes, as outlined throughout the report, clearly reflect the factors detailed in Provision 40 of the UK Corporate Governance Code (see page 151 for further information).

We hope to continue to receive your support at the forthcoming AGM on 4 May 2023.

Tracey Killen
Chair of the remuneration committee
22 February 2023

In this section

Remuneration philosophy

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

- aligns management and shareholder interests;
- is appropriately competitive in the marketplace;
- helps retain and motivate executive directors of the calibre required in order to deliver the Group's strategy; and
- rewards growth in earnings over the long term, thereby driving growth in value to our shareholders and wider stakeholders.

Chief executive remuneration

£2,013,087
single figure 2022
(2021: £2,806,066)
(see page 152)

-28%
change in £ single figure from 2021
(2021: 153%)

3%
change in £ annual bonus received from 2021
(2021: 100%)

100%
of 2020 LTIP award vesting
(2021: 100%)

Gender pay gap reporting

29%
mean gender pay gap
(2021: 30%)

31%
median gender pay gap
(2021: 30%)

59%
mean bonus gap
(2021: 57%)

31%
median bonus gap
(2021: 36%)

For further information on our gender pay gap, see page 26.

Remuneration across the Group

£592,400,000
spend on total pay
(2021: £543,700,000)

87%
of employees received a pay increase
(2021: 87%)

5.1%
average pay increase across the Group in 2022
(2021: 3%)

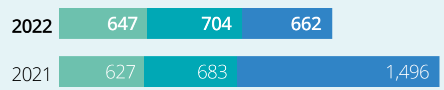
67%
of employees received a bonus
(2021: 71%)

£8,958
average bonus paid
(2021: £9,577)

Summary of 2022 executive remuneration

John Morgan

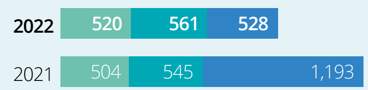
(£000)



Fixed pay	2022	2021
Basic salary	**563**	547
Benefits	**27**	26
Pension allowance	**56**	55
Annual bonus		
Annual cash bonus paid in cash	**493**	478
Annual cash bonus deferred into shares	**211**	205
Value of long-term incentives vested		
Value of long-term incentives vested	**662**	1,496

Steve Crummett

(£000)



Fixed pay	2022	2021
Basic salary	**449**	436
Benefits	**26**	25
Pension allowance	**45**	44
Annual bonus		
Annual cash bonus paid in cash	**393**	382
Annual cash bonus deferred into shares	**168**	163
Value of long-term incentives vested		
Value of long-term incentives vested	**528**	1,193

DIRECTORS' REMUNERATION REPORT continued
Remuneration philosophy

2023 remuneration

The table below shows how we intend to operate the policy in 2023. The table sets out how each element of remuneration links to strategy and the performance and retention periods for each.

	Element	Link to strategy	Maximum	2023	2024	2025	2026	2027	2028
Fixed pay	Salary	Supports the attraction and retention of the best talent.	Any increases are generally in line with those for the workforce as a whole.	Chief executive £591,310 (+5%); finance director £471,610 (+5%).					
	Benefits	Market-competitive and cost-effective benefits support the attraction and retention of talent.	Market-competitive.	Benefits provided.					
	Pension		6% of basic salary.	Pension paid.					
Variable pay	Annual bonus	Incentivises delivery of financial and strategic targets. Focuses on key financial metrics and the individual's contribution to the Group's performance.	125% of salary with 30% of any bonus earned deferred.	Targets for annual bonus set at start of the year.	Cash element of bonus paid (up to 70% of bonus earned).				
					Nil-cost options issued (at least 30% of bonus earned).			Nil-cost options vest (three-year deferral).	
	LTIP	Rewards consistent long-term performance in line with the Group's strategy. Provides focus on delivering superior long-term returns to shareholders.	150% of salary.	LTIP awards granted in March.			LTIP performance conditions tested. Vested shares subject to mandatory holding period.		Mandatory two-year holding period ends.
Additional governance	Recovery and withholding		All incentives.	Malus and clawback: misstatement, serious misconduct, error in calculation, corporate failure.					
	Share ownership requirement	Ensures alignment between the interests of executive directors and shareholders.	200% of salary.						
	Post-employment		LTIP and deferred bonus plan shares.	Holding requirement for LTIP shares and net deferred bonus nil-cost options that have not vested or been exercised. Required to hold equivalent of 200% of salary for year one post-employment, reducing to 100% of salary in year two.					

DIRECTORS' REMUNERATION REPORT continued
Remuneration philosophy

Remuneration policy and practice

The table below illustrates how remuneration policy and practice compare across the different groups of employees.

<table>
<tr><th></th><th>Salary</th><th>Benefits</th><th>Pension</th><th>Short-term incentive</th><th>Long-term incentive</th></tr>
<tr><td>Executive directors</td><td rowspan="3">Basic salary levels take into account market-competitive levels. Any increases are normally in line with those for the wider workforce.</td><td rowspan="3">A range of market-competitive benefits are offered in line with the wider workforce.</td><td rowspan="3">Up to 6% of salary employer contribution to the Morgan Sindall Retirement Savings Plan ('the Retirement Plan'), consistent with the wider workforce rate.</td><td>Annual bonus plan linked 100% to Group performance. 30% of the total award is deferred in nil-cost options.</td><td rowspan="2">The LTIP is a share award with performance linked to three-year EPS and TSR performance.</td></tr>
<tr><td>Group management team</td><td>Annual bonus plan linked 100% to divisional or Group performance.</td></tr>
<tr><td>Senior management</td><td>Divisional or Group annual cash bonus plan linked to both business and personal performance.</td><td>Senior management may be offered share options under the 2014 Share Option Plan ('2014 SOP').</td></tr>
<tr><td>Wider workforce</td><td>Basic salary levels are set in line with market requirements or subject to industry-wide working rule agreements where applicable.

Five of our businesses pay employees the real living wage or above. Construction and Property Services are Living Wage Foundation accredited employers.</td><td>A range of market-competitive benefits are offered. Individual benefits received depend on role and seniority.</td><td>Varies by division. Typical employer contribution of 6% of salary. Monthly paid employees are offered the Retirement Plan and weekly paid employees are offered the opportunity to join the B&CE's People's Pension. Both plans are defined contribution. Weekly paid employees are offered contributions in line with the industry working rule agreements.</td><td>Depending on role, a proportion of employees will participate in their divisional or the Group annual cash bonus plan linked to a mix of business and/or personal performance.</td><td>Depending on role, employees may be invited to participate in the 2014 SOP. All employees are invited to participate in the Savings-Related Share Option Plan.</td></tr>
</table>

Remuneration policy

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

The committee is seeking shareholder approval for a new remuneration policy at the 2023 AGM and, if approved, it is intended that this revised policy will come into effect from that date. A summary of, and rationale for, the principal changes compared to the previously approved policy is provided in the committee chair's statement above, with changes also identified in the relevant sections below.

The policy is designed to be straightforward, and to encourage the effective stewardship that is vital to creating long-term value for all stakeholders. It promotes long-term sustainable performance through significant deferral of remuneration in shares. Executive directors are expected to build and maintain substantial personal shareholdings in the business. The extent of their responsibilities means executive directors are well paid, but the policy is designed to ensure that they are not overpaid.

As set out in the committee chair's statement on page 135, the committee consulted with 16 of its largest shareholders regarding these changes.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Base salary	To provide competitive fixed remuneration. To attract, retain and motivate executive directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term.	Basic salary is typically reviewed annually or, if appropriate, in the event of a change in an individual's position or responsibilities. Salary levels are set with reference to market rates, taking into account individual performance, experience, Company performance and the pay and conditions of other senior management in the Group. The committee will consider the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role.	There is no prescribed maximum annual increase. Increases will generally be in line with those awarded to the wider workforce, although the committee maintains the ability to grant larger increases where appropriate.	Not applicable.

DIRECTORS' REMUNERATION REPORT continued
Remuneration policy

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Benefits	To provide market-competitive levels of benefits, including insured benefits to support the individual and their family during periods of ill health, accidents or in the event of death. Car or travel allowances to facilitate effective travel.	Current benefits include: ▪ travel allowance; ▪ private medical insurance; ▪ annual health screening; ▪ ill health income protection insurance; ▪ life assurance; ▪ holiday and sick pay; ▪ employee assistance programme; ▪ professional advice in connection with their directorship; ▪ relocation expenses and legal fees in the case of a new hire; ▪ travel, fuel, subsistence and accommodation as necessary; and ▪ occasional gifts, for example, appropriate long-service or leaving gifts. Other benefits may be provided where appropriate in line with benefits offered to other employees.	The value of benefits is based on the cost to the Company and is not predetermined.	Not applicable.
Pension	To provide a pension arrangement to contribute towards retirement planning.	The Company will contribute to the defined contribution pension scheme, The Morgan Sindall Retirement Savings Plan ('the Retirement Plan'), or to personal pension arrangements at the request of the individual. The Company may also consider a cash alternative (for example, where a director has reached HMRC's lifetime or annual allowance limit).	Employer contributions for current and new executive directors will be kept aligned with the rate offered to the majority of employees (currently 6% of salary). Directors who are members of the Retirement Plan may elect to exchange part of their salary or bonus award in return for pension contributions, where the Company will enhance the additional contributions by half of the saved employer's National Insurance contribution.	Not applicable.

DIRECTORS' REMUNERATION REPORT continued
Remuneration policy

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Annual bonus	To reward the achievement of demanding annual performance metrics.	Performance measures and targets are generally set annually by the committee. At the end of the year, the committee determines the extent to which targets have been achieved. A maximum of 70% of any bonus earned is payable in cash with the remainder normally deferred for at least three years and satisfied in Company shares. To ensure fairness to both shareholders and participants, the committee has discretion: (i) to override the formulaic outturn of the bonus to determine the appropriate level of bonus payable where it believes the outcome is not truly reflective of performance; and (ii) to adjust performance measures, targets and/or weightings during the performance period under exceptional circumstances. Any additional measures which may be introduced in the future would be aligned to our strategy and we would provide details at the relevant time. Awards under the annual bonus are subject to malus and clawback provisions, further details of which are set out on page 149.	The maximum opportunity is 150% of base salary (an increase on the previous policy level of 125%). Maximum opportunities for executive directors in 2023 will remain unchanged at 125% of salary. Target performance will typically deliver up to 50% of maximum bonus, with threshold performance typically paying up to 15% of maximum bonus. Dividends accrue on deferred bonus shares during the deferral period and may be paid in shares at the time of release.	All or a majority of the bonus will be based on PBTA* set relative to the Group's budget, or such other financial measures as the committee deems appropriate. Financial targets will account for not less than 80% of the annual bonus. A minority of the bonus may be based on non-financial, strategic and/or personal objectives linked to the strategic objectives of the Group to provide a rounded assessment of Group's and management's performance.

DIRECTORS' REMUNERATION REPORT continued
Remuneration policy

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
2023 Long-Term Incentive Plan (LTIP)	To drive sustained long-term performance that supports the creation of shareholder value.	Annual awards of conditional shares or nil (or nominal) cost options are granted with vesting dependent on the achievement of performance conditions over a three-year period. Award levels, performance conditions and targets are generally reviewed before each award cycle to ensure they remain appropriate. Targets take account of internal strategic planning and external market expectations for the Group and are appropriate to the economic outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, while remaining realistic enough to motivate and incentivise management. A proportion of net LTIP shares vesting may, at the discretion of the committee, be subject to a holding period following the end of the vesting period. The committee's current intention is that all awards will be required to be held for an additional two-year period post-vesting, creating a total of five years between the award being granted and the first opportunity to sell. To ensure fairness to both shareholders and participants, the committee has discretion: (i) to override the formulaic outturn of the performance targets to determine the appropriate level of vesting of the LTIP where it believes the outcome is not truly reflective of performance; and (ii) to adjust performance measures, targets and/or weightings during the performance period under exceptional circumstances. Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report. Awards under the LTIP are subject to malus and clawback provisions, further details of which are set out on page 149.	200% of base salary (an increase on our previous policy level of 150%). Award levels for executive directors in 2023 will remain unchanged at 150% of salary.	Vesting of LTIP awards is subject to performance against relevant metrics measured over a period of at least three financial years. The committee will typically select performance measures ahead of each cycle to ensure that they continue to be linked to the delivery of the Company strategy. Awards are subject to performance conditions based on the Company's EPS and on relative TSR compared to a group of UK-listed peers. The committee has discretion to introduce additional performance condition(s) (to complement EPS and TSR) for up to one third of future awards. For every performance measure, no more than 25% of the available award will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.

DIRECTORS' REMUNERATION REPORT continued
Remuneration policy

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

DIRECTORS' REMUNERATION REPORT continued
Remuneration policy

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Share ownership guidelines	To provide close alignment between the experience and longer-term interests of executive directors and shareholders.	Executive directors are expected to build and maintain shareholdings at a minimum specified level (currently 200% of basic salary). Until this threshold is achieved, there is a requirement for executive directors to retain no less than 50% of the net of tax value of vested incentive awards.	Not applicable.	Not applicable.
Post-employment shareholdings	To encourage long-term alignment with shareholders.	The committee requires executive directors to maintain a level of shareholding for two years after stepping down from the Board. The committee has established mechanisms to enforce this requirement. The committee will retain discretion about the application of post-employment shareholding guidelines in individual cases.	Executive directors will maintain the following shareholdings after they have stepped down from the Board: For the first 12 months, the lower of: a) their shareholding at the time of leaving the business (excluding individually purchased shares); and b) 200% of basic salary (this being the current in-post shareholding guideline). For the second 12 months (i.e. between 12 months and 24 months), the lower of: a) their shareholding at the time of leaving the business (excluding individually purchased shares); and b) 100% of basic salary (this being half of the current in-post shareholding guideline).	Not applicable.

Existing arrangements

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

Service agreements

Executive directors

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

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

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

Non-executive directors

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

	Appointment letter date	Month/year initial three-year term was extended	Month/year second three-year term was extended
Michael Findlay	1 October 2016	October 2019	October 2022
Malcolm Cooper	9 November 2015	November 2018	November 2021
Tracey Killen	5 May 2017	May 2020	
David Lowden	10 September 2018	September 2021	
Jen Tippin	1 March 2020		
Kathy Quashie	1 June 2021		

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

Termination provisions

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

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

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

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

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

Leavers would normally retain vested LTIP shares subject to a holding period and these would normally be released at the end of the holding period, with committee discretion to treat otherwise; in the event of death of a participant, any holding period would cease to apply.

In the event of a takeover or other corporate event, the committee will determine the number of LTIP shares in respect of which an award vests based on the extent to which it determines that the performance conditions have been satisfied at the relevant time, taking into account the shortened performance period and such other factors as the committee considers relevant. Awards will be time pro-rated to reflect the earlier vesting, unless the committee determines otherwise.

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

Remuneration on recruitment

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

External appointments

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

Fixed elements	Approach	Maximum annual grant value
Base salary	The base salaries of new executive directors will be determined by reference to relevant market data, the experience and skills of the individual, internal relativities and their current basic salary. In the event that the committee elects to set the initial basic salary of a new appointee below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role. Alternatively, the committee may approve a higher basic annual salary for a newly appointed director than the outgoing director received where it considers it necessary in order to recruit an individual of sufficient calibre for the role and/or where it is known that the outgoing director's remuneration has fallen behind appropriate market levels.	
Pension	New executive directors will receive Company contributions or a cash alternative in line with that offered to the majority of employees.	
Benefits	New executive directors will be eligible to receive benefits which may include (but are not limited to) travel allowances, private medical insurance, ill health income protection insurance, health screening, employee assistance programme, life assurance, holiday and sick pay, professional advice in connection with their directorship, travel, subsistence and accommodation as necessary, occasional gifts, for example, appropriate long-service or leaving gifts, and any necessary relocation and/or incidental expenses. The Company may make an award in cash or shares on recruitment to reflect the value of benefits a new recruit may have received from a former employer.	
Annual bonus	The structure described in the policy table will apply to new executive directors, with the maximum opportunity being pro-rated to reflect the proportion of the financial year served. The committee may set different performance conditions and/or targets for an executive director who has joined part-way through the financial year.	150% of base salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table. The committee may set different performance conditions and/or targets for an executive director who has joined part-way through the financial year.	200% of base salary
SAYE	New appointees will also be eligible to participate in all-employee share schemes.	
Shareholding guidelines	New executive directors will be expected to build up a shareholding equivalent to 200% of basic salary in accordance with the terms set out in the policy table.	
Post-employment shareholding	The structure in the policy table will apply to new executive directors.	

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

The committee will look to replicate the arrangements being forfeited as closely as possible and, in doing so, will take account of relevant factors, including: the value of deferred remuneration; the performance conditions; and the time over which they would have vested or been paid. Any such arrangements would typically have an aggregate fair value no higher than the awards being forfeited. The LTIP will be used as the basis for granting such replacement awards, to the extent possible under its rules; such awards may be granted in excess of the ongoing policy limit outlined in the table on page 144. Awards may be granted outside of the LTIP if necessary, as permitted under the Listing Rules.

Internal promotion

In cases of appointing a new executive director by way of internal promotion, the committee will act in a manner consistent with the policy for external appointees detailed on page 148 and the provisions for existing arrangements, as set out on page 144, will apply.

Shareholders will be informed of the remuneration package and all additional payments to a newly appointed executive director in the annual report following their appointment.

Non-executive directors

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

Overview of remuneration policy for other employees

While our remuneration policy follows the same fundamental principles across the Group, packages offered to employees reflect differences in role and seniority. For example, the remuneration package elements for our Group management team are essentially the same as for the executive directors with some minor differences, such as lower levels of share awards and a lower shareholding requirement. Employees across the Group below Board level may be eligible to participate in an annual bonus arrangement. Long-term incentive awards and/or discretionary share options may be awarded to certain other senior executives and employees, for which the maximum opportunity and the performance conditions may vary by organisational level.

All employees are eligible to participate in the Group's SAYE scheme and to join either the Group's Retirement Plan or the People's Pension. The Group also offers a broad range of benefits that are open to employees with eligibility for the different benefits determined on seniority. Benefits offered include: private medical insurance; digital GP service; income protection; holiday plus scheme (an option to purchase some additional holiday); life insurance provision; employee assistance programme; and access to financial education.

Use of discretion

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

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

Malus and clawback

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

DIRECTORS' REMUNERATION REPORT continued
Remuneration policy

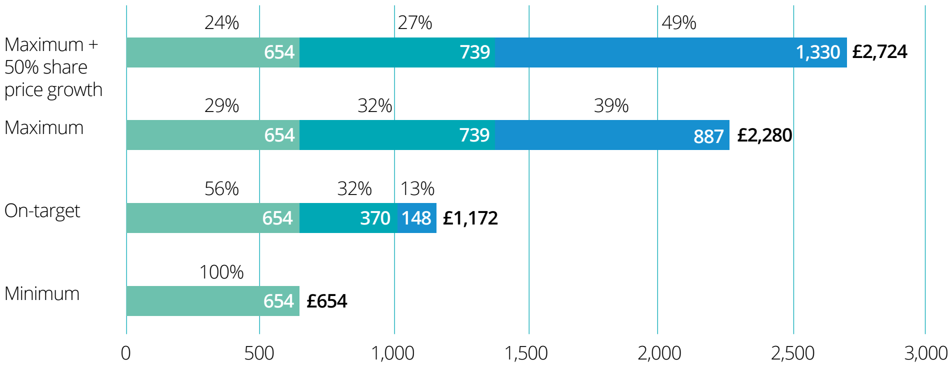
Remuneration scenarios for the executive directors

The charts below provide an indication of the level of remuneration that would be received by each executive director under the proposed 2023 implementation of the policy in the following three assumed performance scenarios:

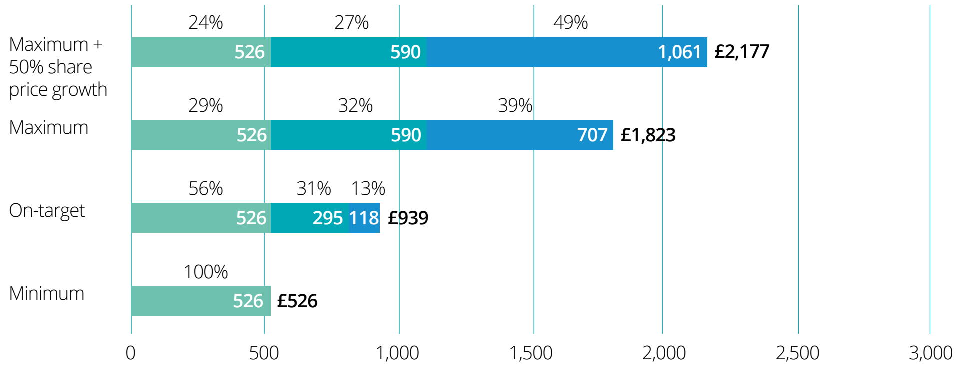
Below threshold performance	Fixed elements of remuneration only – base salary, benefits and pension
On-target performance	Assumes 50% payout under the annual bonus (62.5% of salary) Assumes 16.7% payout under the LTIP (aligned with the weighted average threshold payout across the EPS (12.5%) and TSR (25%) elements)
Maximum performance[1]	Assumes 100% payout under the annual bonus (125% of salary) Assumes 100% payout under the LTIP (150% of salary)

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

John Morgan
Chief Executive
(£000)



Steve Crummett
Finance Director
(£000)



Fixed Annual bonus LTIP

Notes:
- Base salary levels are as at 1 January 2023.
- The value of benefits has been estimated based on amounts received in respect of 2022.
- The value of pension receivable is the equivalent of 6% of base salary.

DIRECTORS' REMUNERATION REPORT continued
Remuneration policy

Ensuring transparency of the remuneration policy

The following table summarises how the remuneration policy fulfils the factors set out in Provision 40 of the 2018 UK Corporate Governance Code.

Criteria	How the Company fulfils the criteria	Example
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The committee is committed to providing open and transparent disclosures to shareholders, employees and other stakeholders with regard to executive remuneration arrangements. The annual bonus plan, deferred bonus plan, 2023 LTIP and 2023 SOP are kept under regular review. The remuneration report sets out the remuneration arrangements for the executive directors in a clear and transparent way. We encourage shareholders to ask questions at the AGM and we consult with shareholders over any proposed changes to the policy. Although the committee does not consult the wider employee population explicitly on remuneration policy, the Board as a whole engages regularly with employees on a range of topics and feedback is reflected in its discussions and decisions.	The annual bonus plan is based entirely on PBTA* which is published in the Group's audited accounts.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our remuneration arrangements for executive directors, as well as those for employees across the Group, are simple in nature and well understood by participants. Remuneration for the executive directors consists of fixed pay (salary, benefits, pension) and variable pay (annual bonus plan and LTIP). No complex structures are used in our variable pay plans.	The annual bonus is based on one metric (PBTA*) which is easy to measure and understand.
Risk Remuneration arrangements should ensure that reputational and other risks arising from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Targets are reviewed annually to ensure they are suitably stretching and do not encourage excessive risk-taking. Malus and clawback provisions also apply to both the annual bonus and long-term incentive plans. Members of the committee are provided with regular briefings on developments and trends in executive remuneration.	The PBTA* and EPS targets are based on several considerations, including the latest budget and market consensus.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the remuneration policy.	The possible reward outcomes can be easily quantified, and these are reviewed by the committee annually. In addition, performance is reviewed regularly so there are no surprises at the end-of-period assessment. The potential value and composition of the executive directors' remuneration packages at below threshold, target and maximum scenarios are provided in the remuneration policy.	The remuneration scenarios on page 150 set out the potential range of remuneration for the executive directors.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear. Outcomes should not reward poor performance.	Annual bonus payments and LTIP awards require robust performance against challenging conditions that are aligned to the Company's strategy. The committee retains discretion to override formulaic outcomes to ensure that payments under the variable incentives are appropriate and reflective of overall performance.	To trigger any element of the annual bonus, 90% of budget must be achieved and that will only trigger, at most, a 15% payment.
Alignment to culture Incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	The variable incentive schemes and performance measures are designed to be consistent with the Group's purpose, values and strategy. At the heart of the policy is a focus on the long-term success of the business. This reflects our culture which is aligned to creating long- term value for all stakeholders.	Our values and unique culture are critical to the Group's long-term success. Remuneration targets will only be achieved if the Group consistently delivers on our commitments to all stakeholders.

Annual report on remuneration

This section provides details of how remuneration policy was implemented during the financial year ended 31 December 2022 and how the new policy will be implemented in 2023. The information provided in this section of the remuneration report which is subject to audit has been highlighted.

Single total figures of remuneration (audited)

Executive directors

	Fixed pay				Variable pay			
	Fees/basic salary £000	Benefits £000	Pension contributions £000	Total fixed pay £000	Annual bonuses £000	Value of long-term incentives £000	Total variable pay £000	Total remuneration £000
John Morgan								
2022	**563**	**27**	**56**	**647**	**704**	**662**	**1,366**	**2,013**
2021	547	26	55	628	683	1,496	2,179	2,806
Steve Crummett								
2022	**449**	**26**	**45**	**520**	**561**	**528**	**1,090**	**1,610**
2021	436	25	44	505	545	1,193	1,738	2,243

Notes:

- Benefits relate to travel allowance, medical benefits, ill health income protection, employee assistance programme and life assurance.
- As the market price on the date of vesting for the 2020 awards is currently unknown, the LTIP value shown is estimated using the average market value over the last quarter of 2022 of £15.30. The 2021 comparative figures for the value of the long-term incentives and total remuneration have been revised from last year's report to reflect the actual share price used for the vesting and the value of dividend equivalent shares awarded. Awards granted in 2019, which vested based on performance to 31 December 2021, are valued using the mid-market closing price on 3 March 2022, the date prior to the date of vesting (4 March 2022), of £22.95. (The mid-market closing share price on 4 March 2022 was £21.85.)

Annual cash bonus outturn (audited)

Annual bonus figures represent the full amount earned for 2022. Of this amount, 30% will be deferred in nil-cost share options for three years. The table below shows performance against PBTA* targets for 2022 representing 100% of the annual bonus potential:

	Threshold £m (15% payout)	Target £m (50% payout)	Maximum £m (100% payout)	Actual performance £m	Payout, percentage of maximum %
Group PBTA* full-year 2022	108.0	120.0	132.0	136.2	**100**

DIRECTORS' REMUNERATION REPORT continued
Annual report on remuneration

2014 LTIP – 2020 award outturn (audited)

LTIP awards granted in 2020 are due to vest on 2 March 2023. As set out in the table below, 100% of the 2020–2023 awards are expected to vest:

Performance condition	Weighting	Threshold (EPS: 12.5% vest, TSR: 25% vest)	Stretch (100% vest)	Actual performance	Percentage vesting
Adjusted* EPS in FY22	66.67%	192p	232.6p	237.9p	100%
Relative TSR (vs FTSE 250 excluding investment trusts)	33.33%	Median	10% per year outperformance of median	12.7% per year outperformance of median	100%
Total vesting					**100%**

As the market price on the date of vesting is currently unknown, the values shown in the single-figure table are based on the average market value over the last quarter of 2022 of £15.30, a 14.4% decrease on the share price at the date of grant of £17.88. Accordingly, none of the 'value of long-term incentives' figures shown in the single-figure table on page 152 is a result of share price appreciation. As disclosed in the 2021 annual report and accounts, the committee amended the basis of calculation for the cumulative EPS performance condition to point-to-point for the 2020 LTIP awards. The committee has not exercised any additional discretion in respect of the achieved outcomes. The value of 2022 long-term incentives in the single-figure table on page 152 does not include the value of any dividend equivalent shares that may be due for the 2020 awards on the date of vesting.

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

Non-executive directors (audited)

	Fees £000		Taxable benefits[1] £000		Total £000	
	2022	2021	2022	2021	2022	2021
Michael Findlay	189	184	–	–	189	184
Malcolm Cooper	71	70	–	–	71	70
Tracey Killen	61	60	–	–	61	60
David Lowden	61	60	–	–	61	60
Jen Tippin	51	50	–	–	51	50
Kathy Quashie[2]	51	29	–	–	51	29

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

2 Kathy Quashie joined the Board on 1 June 2021.

The aggregate remuneration for executive and non-executive directors in 2022 was £2.9m (2021: £2.8m). Aggregate remuneration comprises salary, fees, benefits, pension contributions and bonus payments.

Share awards granted during the year (audited)

2014 LTIP

On 7 March 2022, LTIP awards were made to the executive directors, which will vest subject to performance over the three financial years to 31 December 2024. Of these awards, 67% are subject to an EPS performance condition and 33% are subject to a TSR performance condition, full details of which are included in last year's annual report on remuneration.

	Date of grant	Percentage of salary awarded	Five-day average share price at date of grant	No. of shares over which award was granted	Face value of award	Percentage of awards vesting at threshold	Performance period
John Morgan	7 March 2022	150%	£22.94	36,823	£844,720	16.7% (12.5% for EPS element, 25% for TSR element)	Three financial years to 31 December 2024
Steve Crummett	7 March 2022	150%	£22.94	29,369	£673,725	16.7% (12.5% for EPS element, 25% for TSR element)	Three financial years to 31 December 2024

The share price used to calculate the awards at the date of grant was based on the average share price for the five dealing days preceding the date of grant. The closing share price on 7 March 2022 was £20.45.

Deferred bonus share options

Of the annual bonus earned in 2021, 30% was deferred into nil-cost share options that will become exercisable three years from the date of grant.

	Date of grant	Percentage of bonus earned which was deferred	Five-day average share price at date of grant	No. of shares over which award was granted	Face value of award	Date from which options are exercisable
John Morgan	7 March 2022	30%	£22.94	8,937	£205,015	7 March 2025
Steve Crummett	7 March 2022	30%	£22.94	7,126	£163,470	7 March 2025

Outstanding interests under share schemes (audited)

Details of the executive directors' interests in long-term incentive awards as at 31 December 2022 and movements during the year are as follows:

Performance shares

	Date of award	No. of shares outstanding as at 1 January 2022	No. of shares awarded	No. of shares vested	No. of dividend equivalent shares awarded	Total no. of shares vested	No. of shares lapsed	No. of awards outstanding as at 31 December 2022	End of performance period	Date awards vest
John Morgan										
	4.3.2019	61,272	–	61,272	3,897	65,169	–	–	31.12.2021	4.3.2022
	2.3.2020	43,297	–	–	–	–	–	43,297	31.12.2022	2.3.2023
	5.3.2021	47,764	–	–	–	–	–	47,764	31.12.2023	5.3.2024
	7.3.2022	–	36,823	–	–	–	–	36,823	31.12.2024	7.3.2025
Total		**152,333**	**36,823**	**61,272**	**3,897**	**65,169**	**–**	**127,884**		
Steve Crummett										
	4.3.2019	48,857	–	48,857	3,108	51,965	–	–	31.12.2021	4.3.2022
	2.3.2020	34,524	–	–	–	–	–	34,524	31.12.2022	2.3.2023
	5.3.2021	38,086	–	–	–	–	–	38,086	31.12.2023	5.3.2024
	7.3.2022	–	29,369	–	–	–	–	29,369	31.12.2024	7.3.2025
Total		**121,467**	**29,369**	**48,857**	**3,108**	**51,965**	**–**	**101,979**		

Notes:

- 100% of the awards granted in 2019 vested as a result of the EPS and TSR targets being achieved in full. The Group's 2021 EPS was 226.0p, which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 29.4% per year, which exceeded the median of the comparator group by 22.8% per year and resulted in 100% of the TSR element of the award vesting.
- Of the awards granted in 2020,100% vested due to the EPS and TSR targets being achieved. The Group's 2022 EPS was 237.9p, which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 7.5% per year, which exceeded the median of the comparator group by 12.7% per year and resulted in 100% of the TSR element of the award vesting. The net awards received (after the deduction of tax and National Insurance) will be subject to a two-year holding period in which the director will not be able to sell the shares but will be entitled to receive dividends and vote on the shares. The shares will be released to the director at the end of the holding period.
- The awards of performance shares over 150% of salary granted in 2021 and 2022 are subject to a point-to-point EPS growth target and a TSR performance condition.

DIRECTORS' REMUNERATION REPORT continued
Annual report on remuneration

Deferred bonus plan nil-cost options

	Date of grant	No. of options outstanding as at 1 January 2022	No. of options granted	No. of dividend equivalent shares awarded	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2022	Date from which exercisable
John Morgan								
	4.3.2019	14,872	–	946	15,818	–	–	4.3.2022
	2.3.2020	9,758	–	–	–	–	9,758	2.3.2023
	7.3.2022	–	8,937	–	–	–	8,937	7.3.2025
Total		**24,630**	**8,937**	**946**	**15,818**	**–**	**18,695**	
Steve Crummett								
	4.3.2019	11,858	–	754	12,612	–	–	4.3.2022
	2.3.2020	7,781	–	–	–	–	7,781	2.3.2023
	7.3.2022	–	7,126	–	–	–	7,126	7.3.2025
Total		**19,639**	**7,126**	**754**	**12,612**	**–**	**14,907**	

Notes:

- The mid-market price of a share on 31 December 2022 was £15.30 and the range during the year was £13.92 to £25.30.
- No bonus was earned by the executive directors in respect of the 2020 financial year and, accordingly, no options were awarded under the deferred bonus plan in 2021.
- The deferred bonus plan nil-cost share options granted on 4 March 2019 became exercisable on 4 March 2022 and on vesting, each nil-cost option granted carried a right to receive an amount linked to dividends paid. The dividend equivalent was settled in ordinary shares of the Company and was added to the original award. The share price used to determine the number of dividend equivalent shares was the closing middle market quotation on 3 March 2022 which was £22.95. The options and dividend equivalent shares are exercisable until the tenth anniversary of their grant date.
- Steve Crummett exercised his options granted on 4 March 2019 and the associated dividend equivalent shares on 17 March 2022 at a sale price of £23.30 per share.
- John Morgan exercised his options granted on 4 March 2019 and the associated dividend equivalent shares on 15 March 2022 at a sale price of £22.70 per share.

Other disclosures

Remuneration committee meetings

The committee met on five occasions during the year. Malcolm Cooper stepped down as a member of the committee following the meeting held in February 2022 and Kathy Quashie was appointed to the committee with effect from February 2022 and attended the following four meetings. The chair of the Board attended all meetings of the committee, the chief executive attended three meetings of the committee, and the company secretary acted as secretary to the committee. The finance director attended none of the committee meetings. No person was present during any discussion relating to their own remuneration.

Over the course of the year, the committee received advice on remuneration matters from remuneration advisers Ellason LLP ('Ellason'), who were appointed by the committee in 2021 following a competitive tender process. The committee has also relied on information and advice provided by the company secretary and has consulted the chief executive (albeit not in relation to his own remuneration). Ellason are signatories of the Code of Conduct for Remuneration Consultants, details of which can be found at remunerationconsultantsgroup.com, and the committee is satisfied that the advice it receives from Ellason is independent and objective. The fees paid by the Company to Ellason during the financial year were £100,455 (2021: £23,630 from the date of their appointment). Ellason also provided advice to the Company on accounting for share awards but provided no other material services to the Company or the Group.

Shareholder voting

At last year's AGM held on 5 May 2022, the remuneration report (excluding the remuneration policy) for the year ended 31 December 2021 was approved by shareholders. The following table shows the results of the advisory vote on the 2021 annual remuneration report as well as the results of the binding vote on the remuneration policy, which was last approved by shareholders at the 2020 AGM:

	Voting for		Voting against			
	Number of shares	Percentage	Number of shares	Percentage	Total votes cast	Votes withheld[1]
Annual remuneration report	25,984,774	67.36%	12,589,770	32.64%	38,574,544	42,814
Remuneration policy	34,252,837	97.41%	911,648	2.59%	35,164,485	191,258

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

In line with Provision 4 of the Corporate Governance Code, the Company consulted with several of our larger shareholders to understand the reasons for their vote and to understand their views on proposed changes to our remuneration policy implementation. Further details can be found on page 135.

Dilution and share usage under employee share plans

Shares required for the 2007 Employee Share Option Plan are satisfied by shares purchased in the market via The Morgan Sindall Employee Benefit Trust ('the Trust') and shares for the Company's other share plans may be satisfied using either new issue shares or market-purchased shares. Our present intention is to use market-purchased shares to satisfy these awards; however, we retain the ability to use new issue shares and may decide to do so up to the dilution limits recommended by the Investment Association (10% of issued ordinary share capital for all-employee share plans over a 10-year period and, within this limit, no more than 5% of issued ordinary share capital for executive or discretionary share plans). The outstanding level of dilution against these limits equates to 7.17% (2021: 8.52%) of the current issued ordinary share capital under all-employee share plans, of which 0% relates to discretionary share plans.

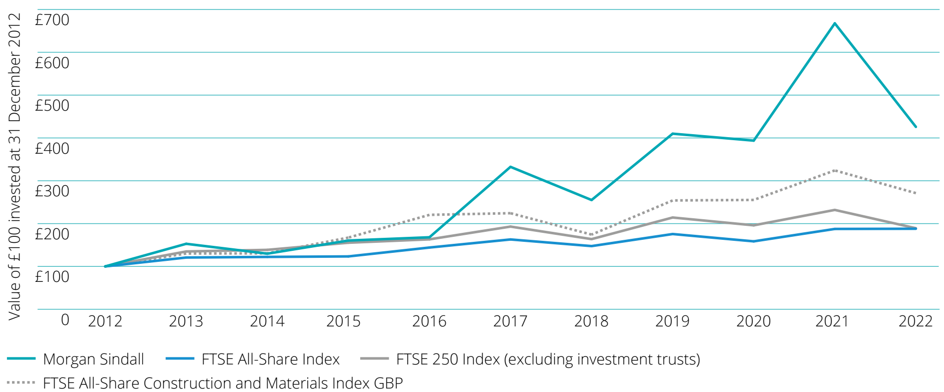
As at 31 December 2022, the Trust held 1,135,131 shares (2021: 1,051,664), which may be used to satisfy awards.

DIRECTORS' REMUNERATION REPORT continued
Other disclosures

Chief executive remuneration and performance graph

Historical TSR performance

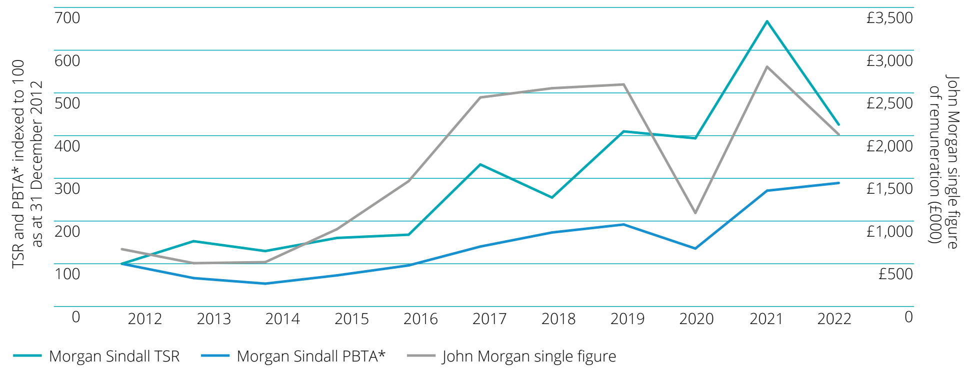
The graph below shows the value to 31 December 2022 of £100 invested in the Company on 1 January 2013 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE All-Share Construction & Materials Index, these being indices of which the Company has been a constituent over the period shown. The graph also shows the value of £100 invested in the FTSE 250 Index (excluding investment trusts), the constituents of which are used for the purposes of the TSR element of the LTIP. In all cases, the other points plotted are the values at intervening financial year ends.



Historical pay vs performance

The graph below shows the TSR and PBTA* for the Company over the last 10 financial years.

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



	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
	John Morgan									
Total remuneration £000	507	519	905	1,467	2,447	2,555	2,599	1,095	2,806	**2,013**
Annual bonus percentage of maximum	–	–	80	100	100	100	93	–	100	**100**
Long-term incentive award vesting percentage of maximum share awards	n/a	–	–	62	100	100	100	43	100	**100**
Long-term incentive award vesting percentage of maximum share options	–	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**

Notes:
- The 2021 total remuneration has been revised from last year's report to reflect the actual share price used for the vesting and the value of dividend equivalent shares awarded under the 2014 LTIP (see page 152) for further information).
- John Morgan waived his bonus entitlement in 2013.

DIRECTORS' REMUNERATION REPORT continued
Other disclosures

Chief executive pay ratio

	Chief executive pay ratio			
Financial year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2022	B	47:1	34:1	20:1
2021	B	60:1	53:1	32:1
2020	B	30:1	22:1	15:1
2019	B	58:1	43:1	27:1

The lower-, median- and upper-quartile employees were determined based on the hourly rate data as at 5 April 2022, collected for the Group's reporting under the gender pay gap legislation (Option B). The gender pay gap data reviews the pay of all UK employees. This calculation methodology was chosen as the data was readily available from our work in determining the gender pay gap. Furthermore, with our decentralised business model and significant UK workforce, calculating the single figure of remuneration for each employee (Option A) would be prohibitively time-consuming and expensive.

The committee has considered the pay data for the three individuals identified and believes that it fairly reflects pay at the relevant quartiles among our UK workforce. The three individuals identified were full-time employees during the year. No adjustments or assumptions were made by the committee, with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the chief executive for the 2022 financial year. The table below sets out the remuneration details for the individuals identified:

Salary	Chief executive	P25	P50	P75
Basic salary, £k	563	40	50	79
Total annual pay[1] £k	1,351	43	59	99
Total pay[2] £k	2,013	43	59	99

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

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

The ratio of 34:1 is 36% lower than the median ratio of 53:1 in 2021. In 2022, the chief executive received a maximum annual bonus and 100% of the long-term incentive awards vested. In 2021, the chief executive received a maximum annual bonus and 100% of the long-term incentive award vested, together with the long-term incentive award benefiting from significant share price growth over its vesting period.

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

Ratio	P25	P50	P75
Basic salary	14:1	11:1	7:1
Total annual pay[1]	32:1	23:1	14:1
Total pay[2]	47:1	34:1	20:1

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

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

Relative importance of spend on pay

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

	2022	2021	Change
Employee remuneration	**£592.4m**	£543.7m	9%
Basic earnings per share (adjusted*)	**237.9p**	226.0p	5%
Dividends paid during the year	**£43.5m**	£32.3m	35%
Employee headcount[1]	**7,203**	6,666	8%

1 Employee headcount is the monthly average number of employees on a full-time equivalent basis. More detail is set out in note 2 to the consolidated financial statements.

Shareholding guidelines (audited)

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

DIRECTORS' REMUNERATION REPORT continued
Other disclosures

	Percentage of salary required under shareholding guidelines	Percentage of salary held at 31 December 2022
John Morgan	200	**9,574**
Steve Crummett	200	**549**

The share price used to value the shares as at 31 December 2022 was £15.30.

Percentage change in remuneration levels

The table below shows details of the percentage change in base salary, benefits and annual bonus for the chair, the executive and non-executive directors over the last three financial years, compared to the average percentage change for other employees of the Group over the same periods.

	Percentage change in base salary			Percentage change in benefits			Percentage change in bonus		
	2021–22	2020–21	2019–20	2021–22	2020–21	2019–20	2021–22	2020–21	2019–20
Chair	2.8%	7.4%	-2.3%	n/a	n/a	n/a	n/a	n/a	n/a
Chief executive	3.0%	7.4%	-2.1%	4.8%	2.4%	2.6%	3.1%	100%	-100%
Finance director	3.0%	7.4%	-2.2%	4.3%	3.2%	-0.2%	3.0%	100%	-100%
Audit and responsible business committee chair (M Cooper)	2.2%	6.8%	-3.7%	n/a	n/a	n/a	n/a	n/a	n/a
Remuneration committee chair (T Killen)	2.5%	7.0%	-3.4%	n/a	n/a	n/a	n/a	n/a	n/a
Senior independent director (D Lowden)	2.5%	7.0%	-3.4%	n/a	n/a	n/a	n/a	n/a	n/a
J Tippin[1]	3.0%	8.5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
K Quashie[2]	3.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
All employees	1.5%	2.6%	4.8%	-2.8%	1.5%	8.0%	-5.9%	50.6%	-9.1%

1 Jen Tippin joined the Group on 1 March 2020 and a full-time equivalent salary has been used for the 2020–2021 comparison.

2 Kathy Quashie joined the Group on 1 June 2021 and a full-time equivalent salary has been used for comparison purposes.

Directors' interests (audited)

The figures below set out the shareholdings beneficially owned by directors and their family interests at 31 December 2022.

	31 December 2022 No. of shares	31 December 2021 No. of shares
Michael Findlay	**4,173**	4,173
John Morgan	**3,524,060**	3,479,537
Steve Crummett	**161,307**	127,098
Malcolm Cooper	**10,000**	10,000
Tracey Killen	**611**	611
David Lowden	**4,000**	4,000
Jen Tippin	**1,000**	1,000
Kathy Quashie	**450**	–

There have been no changes in the interests of the directors between 31 December 2022 and 22 February 2023.

External appointments

At the discretion of the Board, executive directors are allowed to act as non-executive directors of other companies and retain any fees relating to those posts. Neither of the executive directors currently hold external appointments for which they are remunerated.

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

No payments were made during the year.

Implementation of the remuneration policy for 2023

Base salaries

In setting the 2023 base salaries, the committee considered the budgeted level of increases in base salary for senior executives below Board level and the workforce generally, which averaged 6%. The committee determined that the base salaries for John Morgan and Steve Crummett should increase by 5% with effect from 1 January 2023. In confirming the salary increases, the committee took account of the performance of each executive director and their respective responsibilities and the positioning of their current salaries relative to market competitors, as detailed in the chair's statement above.

	From 1 January 2023 £	From 1 January 2022 £	Increase
John Morgan	**591,310**	563,150	5%
Steve Crummett	**471,610**	449,150	5%

Pension

The Company contributes up to 6% of base salary to a personal pension plan and/or as a cash supplement. This is in line with the maximum pension contribution for the employee population. Consistent with all employees participating in the Retirement Plan, relevant executive directors may exchange part of their gross salary and bonus awards in return for pension contributions. Where additional pension contributions are made through the salary exchange process, the Company enhances the contributions by half of the saved employer's National Insurance contribution.

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

The pension contributions for existing directors will be aligned with those of the majority of employees from 1 January 2023.

Annual bonus

The maximum annual bonus potential for 2023 will be 125% of base salary with 70% of any bonus earned paid in cash and the remaining 30% deferred in nil-cost share options for three years. To ensure that management is focused on the Group's financial performance in 2022, 100% of the bonus will continue to be based on a PBTA* target range set in relation to the Group budget. The annual bonus, including the deferred shares, will be subject to malus and clawback provisions.

The targets for the forthcoming year are set in relation to the Group budget, which is considered commercially sensitive. For 2023, the bonus trigger point for the annual bonus will be 90% and the maximum trigger point will be 110% of budgeted PBTA.* Retrospective disclosure of the targets and performance against them will be disclosed in next year's remuneration report.

Long-term incentives

The committee intends to make awards to the executive directors under the 2014 LTIP in March 2023.

The awards to be granted in 2023 will be up to 150% of base salary. Two thirds of awards (100% of salary) will be based on an EPS performance target with the remaining one third of awards (50% of salary) based on the Company's TSR performance. Further details on these performance conditions are set out below.

Net shares vesting under LTIP awards granted in 2023 will be subject to a mandatory two-year holding period at the end of the vesting period. All awards are subject to malus and clawback provisions.

DIRECTORS' REMUNERATION REPORT continued
Implementation of the remuneration policy for 2023

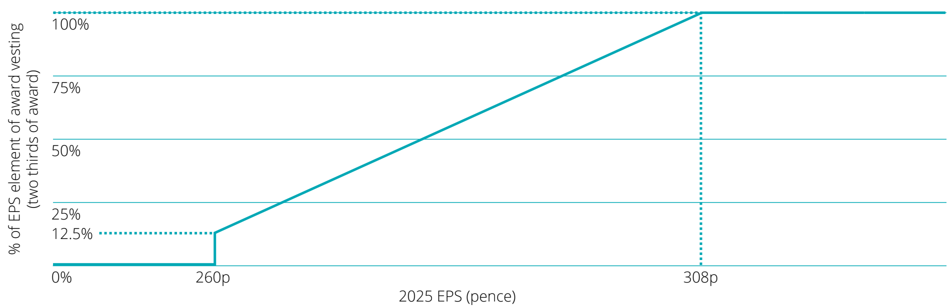
EPS performance condition (two thirds of award)

In order to set appropriate EPS targets for the 2023 cycle, the committee considered a number of internal and external reference points, broker forecasts for the Company and sector peers over the next two to three years, and typical growth rates in our sector. For the awards granted in 2023, EPS targets will be based on a point-to-point assessment, with a threshold target of 2025 EPS of 260p and a stretch target of 308p. The committee is satisfied this range is appropriately stretching given forecasts for the sector, and is broadly consistent with the long-term target range of 6%–13% p.a. taking into account the recent volatility in EPS.

Vesting of the EPS component will be based on achievement against this range in 2025, and will also be subject to review by the remuneration committee to ensure vesting is commensurate with underlying Company performance, taking into account, for example, imposed tax changes.

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

EPS performance condition



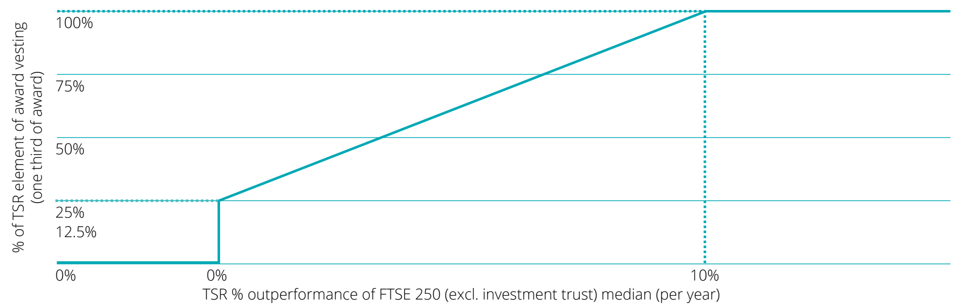
TSR performance condition (one third of award)

TSR targets for 2023 awards will be expressed as an outperformance of median as per the last three cycles.

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

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

TSR performance condition



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

DIRECTORS' REMUNERATION REPORT continued
Implementation of the remuneration policy for 2023

Fees for the non-executive directors

The committee determined that the chair's fee for 2023 be increased by 5%, and the Board deemed that the base fee for non-executive directors should also be increased by 5% in line with the increase for wider employees across the Group. The committee chair and senior independent director fees were not increased in 2022; however, following a review, the Board agreed that these fees would also be increased in 2023 by 5% which the Board deemed appropriate to reflect the increasing complexity and time commitment required of these roles.

Accordingly, the annual fees from 1 January 2023 are as follows:

	2023 £	2022 £	Increase %
Chair	**198,570**	189,110	5%
Non-executive directors			
Base fee	**54,025**	51,450	5%
Additional fees:			
Audit committee chair	**10,500**	10,000	5%
Responsible business committee chair	**10,500**	10,000	5%
Remuneration committee chair	**10,500**	10,000	5%
Senior independent director	**10,500**	10,000	5%

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

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

Tracey Killen
Chair of the remuneration committee
22 February 2023

OTHER STATUTORY INFORMATION

The directors have pleasure in submitting the Group's annual report, together with the consolidated financial statements of the Group for the year ended 31 December 2022.

The strategic report is presented on the inside front cover to page 98 (inclusive). The directors' report required under the Companies Act 2006 ('the Act') comprises this report (pages 64 to 67), the directors' and corporate governance report (pages 108 to 133) and the remuneration report (pages 134 to 163), together with explanatory notes incorporated by reference.

The Board has chosen, in accordance with section 414C (11) of the Act, to include in the strategic report the following information that it considers to be of strategic importance that would otherwise be required to be disclosed in the directors' report:

- an explanation of the steps the directors have taken to foster the Company's business relationships with suppliers, customers and others;
- employment policies, employee consultation and involvement;
- disclosures concerning employment of disabled persons;
- additional details of the Group's approach to diversity and inclusion, and environmental, social and governance disclosures;
- disclosures concerning GHG emissions, energy consumption, energy-efficiency action and an intensity ratio appropriate for our business;
- the likely future developments in the business of the Group;
- detail on principal risks; and
- details of research and development activities.

The management report as required by the FCA's Disclosure Guidance and Transparency Rules (Rule 4.1) comprises the strategic report which includes the principal risks to our business.

There were no significant events since the balance sheet date.

The Group does not operate any branches outside of the United Kingdom.

The table below shows the location in the annual report of information required to be disclosed under Rule 9.8.4 R of the Listing Rules (LR):

LR	Relevant information	Page
9.8.4 (4)	Long-term incentive schemes	161
9.8.4 (12)	Dividend waiver by Employee Benefit Trust	166
9.8.4 (13)	Shareholder waiver of future dividends	166

Directors

Biographical details are shown earlier in the directors' and corporate governance report. The directors of the Company who served during the year are shown on page 147 in the remuneration report. Further details of the service agreements and remuneration of the executive directors, letters of appointment and fees of the non-executive directors, and their interests in shares of the Company are also given in the remuneration report.

The rules regarding the appointment and removal of directors are contained in the Company's Articles, the Code and the Act. The Board may appoint a director, either to fill a vacancy or as an addition to the existing Board, so long as the total number of directors does not exceed the limit provided in the Articles. At every AGM all the directors at the date of the notice convening the AGM must retire and offer themselves for re-election. All the directors proposed for re-election at the 2023 AGM held office throughout the year.

Annual general meeting

The AGM of the Company will be held on 4 May 2023 at 10.00am at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY. The Notice of Meeting is available to view on the Company's website in the investors section at morgansindall.com.

Powers of directors

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

Directors' indemnities

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

In addition, and in common with many other companies, the Company had during the year and continues to have in place appropriate directors' and officers' liability insurance in favour of its directors and other officers in respect of certain losses or liability to which they may be exposed due to their office. The Company has also indemnified each Board director and certain directors of its Group companies to the extent permitted by law against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties. The indemnity arrangements are categorised as qualifying third-party indemnity provisions under the Act and will continue in force for the purposes of the Act and for the benefit of directors (or officers or company secretary as the case may be) on an ongoing basis. The Company also had and continues to have in place a pension trustee liability insurance policy in favour of the trustees of The Morgan Sindall Retirement Savings Plan in respect of certain losses or liabilities to which they may be exposed due to their office. This constitutes a 'qualifying pension scheme indemnity provision' for the purposes of the Act.

Articles of association

The Company's constitution, known as 'the Articles', is essentially a contract between the Company and its shareholders, governing many aspects of the management of the Company. The Articles may be amended in accordance with the provisions of the Act by way of special resolution by the Company's shareholders. No changes to the Articles are being proposed at this year's AGM.

Capital structure

During the year, 975,731 ordinary shares were allotted to satisfy amounts under the Group's Savings-Related Share Option Plan.

As at 31 December 2022, the issued share capital totalled 47,350,604 ordinary shares of 5p each. Further details of the issued share capital are shown in note 23 to the consolidated financial statements.

Power to issue and allot shares

At each AGM, the Board seeks authorisation from its shareholders to allot shares. The directors were granted authority at the AGM on 5 May 2022 to allot relevant securities up to an aggregate nominal amount of £772,965.60. That authority will apply until the conclusion of this year's AGM or close of business on 5 August 2023, whichever is the earlier, and a resolution to renew the authority will be proposed at this year's AGM, as explained further in the Notice of Meeting to shareholders accompanying this annual report.

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

Rights and obligations attaching to shares

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

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

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

OTHER STATUTORY INFORMATION continued

Voting

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

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

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

Restrictions on transfer of shares

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

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

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

Purchase of own shares

At the AGM on 5 May 2022, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,637,794 shares of 5p each at a maximum price based on the market price of a share at the relevant time, as set out in the resolution. No purchases of shares were made during the year pursuant to this authority. The authority expires on the date of this year's AGM or close of business on 5 August 2023, whichever is earlier. A resolution to renew this authority will be proposed at this year's AGM, as explained further in the Notice of Meeting to shareholders accompanying this annual report.

Dividends and distributions

The Company may, by ordinary resolution, from time to time, declare dividends not exceeding the amount recommended by the Board. Subject to the Act, the Board may pay interim dividends, and also any fixed-rate dividend, whenever the financial position of the Company, in the opinion of the Board, having reviewed the level of distributable reserves, justifies its payment. The Company's capital allocation framework is designed to balance the needs of all our stakeholders while enhancing the Group's market competitiveness and capabilities and maintain our financial strength. This framework includes our expectation that dividend cover will be in the range of 2.0 times to 2.5 times on an annual basis. An interim dividend of 33p per share was paid on 26 October 2022 and the directors recommend a final dividend of 68p, making a total for the year of 101.0p. This represents dividend cover of 2.36 times. Further details can be found in note 8 to the consolidated financial statements on page 202. Subject to shareholder approval at the 2023 AGM, the final dividend will be paid on 18 May 2023 to shareholders on the register at close of business on 28 April 2023.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Act. Other than as referred to under Morgan Sindall Group Employee Benefit Trust below, during the year there were no arrangements under which a shareholder has waived or agreed to waive any dividends nor any agreement by a shareholder to waive future dividends.

Morgan Sindall Group Employee Benefit Trust

Zedra Trust Company (Guernsey) Limited, as Trustee of the Trust, holds shares on trust for the benefit of our employees and former employees of the Group and their dependants that have not been exercised or vested. The voting rights in relation to these shares are exercised by the Trustee. The Trustee may vote or abstain from voting with the shares or accept or reject any offer relating to those shares, in any way they see fit, without incurring any liability and without being required to give reasons for their decision. The terms of the Trust also provide that any dividends payable on the shares held by the Trust are waived unless and to the extent otherwise directed by the Company from time to time. The Trust waived its right to the 2021 final and 2022 interim dividend paid during 2022. Details of the shares so held may be found in the consolidated financial statements on page 187.

OTHER STATUTORY INFORMATION continued

Substantial shareholdings

As at 31 December 2022 the following information has been disclosed to the Company under the FCA's Disclosure Guidance and Transparency Rules (DTR 5), in respect of notifiable interests in the voting rights in the Company's issued share capital:

Name of holder	Total voting rights[1]	% of total voting rights[2]	Direct or indirect holding
abrdn plc	4,635,152	9.99	Indirect
Numis Nominees (Client) Limited <Morgan03> and HSBC Global Custody Nominee (UK) Limited <462704>[3]	3,479,537	7.51	Direct
BlackRock, Inc.	3,124,542	6.70	Indirect
Ameriprise Financial, Inc.	2,627,969	5.93	Indirect
JPMorgan Asset Management Holdings Inc.	2,477,054	5.23	Indirect

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

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

3 John Morgan's shareholding.

As at 22 February 2023, JPMorgan Asset Management Holdings Inc. had notified the Company in accordance with DTR 5 that their indirect interest in the total voting rights of the Company had fallen below the minimum threshold.

Related party transactions

During the year, the Board reviewed all related party transactions and, save as disclosed in note 25, there were no significant related party transactions in the year to 31 December 2022.

Change of control

The Group's banking facilities, which are described on page 45 in the financial review, require repayment in the event of a change of control. The Group's facilities for surety bonding require provision of cash collateral for outstanding bonds upon a change of control. In addition, the Company's employee share incentive schemes contain provisions whereby, upon a change of control, outstanding options and awards would vest and become exercisable by the relevant employees, subject to the rules of the relevant schemes.

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

Financial instruments and risks

The financial risk management objectives and policies can be found in the principal risks section in the strategic report on pages 72 and 73. Information about the use of financial instruments by the Company and its subsidiaries and details about the Group's exposure to credit, liquidity and market risks is given in note 26 to the consolidated financial statements.

Political contributions

No contributions were made to any political parties during the current or preceding year. As a precautionary measure, shareholder approval is being sought at the forthcoming AGM for the Company and its subsidiaries to make donations and/or incur expenditure, which may be construed as political by the wide definition of that term included in the relevant legislation. Further details are provided in the Notice of Meeting to shareholders accompanying this report.

Disclosure of information to the external auditor

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

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

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

Directors' responsibilities

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

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, 'Changes in Accounting Estimates and Errors' and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 International Financial Reporting Standards (and in respect of the Parent Company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company financial position and financial performance;
- in respect of the Group financial statements, state whether UK-adopted International Accounting Standards (UK IAS) have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the Parent Company financial statements, state whether applicable UK Accounting Standards, including FRS 101, 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 appropriate to presume that the Company and/or the Group will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Company and the Group financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Parent Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Responsibility statement

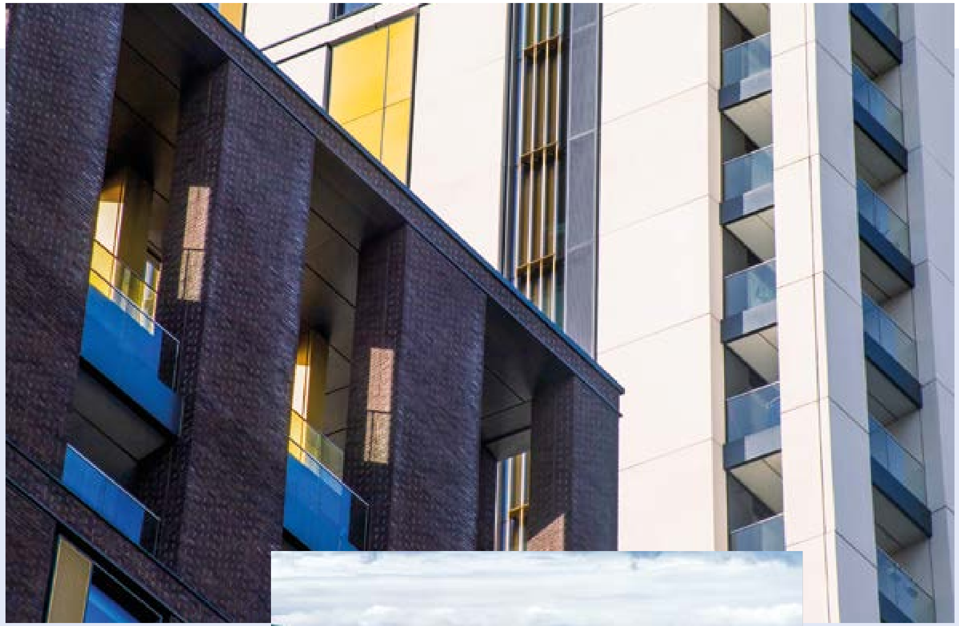
The directors confirm that to the best of their knowledge:

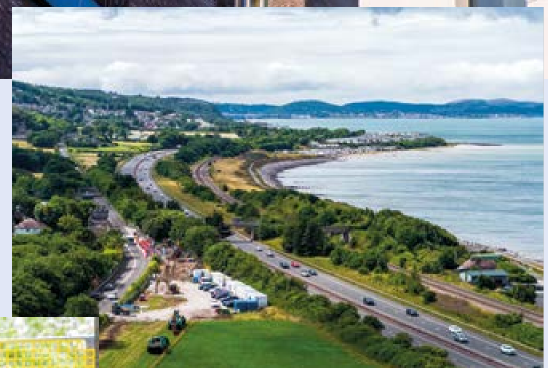
- the consolidated financial statements, prepared in accordance with UK-adopted International Accounting Standards (UK IAS), give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company and undertakings included in the consolidation taken as a whole;
- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The directors' report was approved by the Board and signed on its behalf by:

John Morgan
Chief Executive
22 February 2023

Financial statements





In this section

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC

Opinion

In our opinion:

- Morgan Sindall Group plc's Group financial statements and Parent Company financial statements ('the financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Morgan Sindall Group plc ('the Parent Company') and its subsidiaries ('the Group') for the year ended 31 December 2022 which comprise:

Group	Parent Company
Consolidated statement of financial position as at 31 December 2022	Company statement of financial position as at 31 December 2022
Consolidated income statement for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 3 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group's financial statement close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure key factors were considered in their assessment, including factors which we determined from our own independent risk assessment.
- We obtained management's Board-approved forecast cash flows and covenant calculation which covers the period to 29 February 2024. As part of this assessment, management have modelled six downside scenarios. Scenarios one and two relate to the construction business and assume a reduction in revenues and margin, and working capital, respectively. Scenario three assumes a reduction in value and timing of open market sales in respect of the Partnership Housing division. Scenario four assumes project delays, viability concerns and cost increases in the regeneration businesses. Scenario five assumes a higher developer pledge expense in relation to building safety matters. Lastly, scenario six is a severe downside scenario and models the combined impact of scenarios one to five. Management also performed a reverse stress test to identify what scenario could lead to the Group utilising all liquidity and/or breaching the financial loan covenants during the going concern period.

- We assessed the completeness and appropriateness of the scenarios modelled by management which included assessing the relevance to each division and how these compare with principal risks and uncertainties of the Group.
- We assessed the reasonableness of the cash flow forecast by analysing management's historical forecasting accuracy, and evaluating the key assumptions used in the forecast. This included considering the forecasts on a division by division basis and assessing whether key factors specific to each of the divisions, such as rising inflation, the economic environment and market/sector trends, were considered in management's assessment. We considered management's assessment of the impact of climate change on the Group's cash flow forecasts.
- We have considered the methodology used to prepare the forecast and covenant calculations. We also tested the clerical accuracy and logical integrity of the model, used to prepare the Group's going concern assessment.
- We considered whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including the assessment of goodwill impairment.
- We performed further sensitivity analysis and our own reverse stress testing in order to identify what scenarios (for example, the extent operating profit would need to deteriorate) could lead to the Group utilising all liquidity and/or breaching the financial loan covenants during the going concern period, and whether these scenarios were plausible.
- Our analysis also considered the mitigating actions that management could undertake in an extreme downside scenario and whether these were achievable and in control of management.
- We also confirmed the continued availability of credit facilities through the going concern period and reviewed their underlying terms, including covenants, by examination of executed documentation.
- We considered whether the going concern disclosures included in the annual report were appropriate and in conformity with applicable reporting standards.

Our key observations

The results from both management's evaluation and our independent sensitivity analysis and reverse stress testing indicate that, in order to breach its covenants and exhaust its available funding throughout the going concern period, the Group's operating profit would need to deteriorate to a loss, which is significantly worse than any of the plausible downside scenarios.

As at 31 December 2022, the Group has a secured order book of £8.5bn, of which £3.2bn relates to the 12 months ending 31 December 2023, and it has a net cash balance of £354.6m (which includes £38.0m that relates to the Group's share of cash held with jointly controlled operations). The Group also has substantial borrowing facilities available to it during the going concern period. The undrawn committed facilities available at 31 December 2022 amounted to £180m. These comprise a £165m facility expiring in October 2025 and a £15m facility expiring in March 2024.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period to 29 February 2024.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	▪ We performed an audit of the complete financial information of four components, audit procedures on specific balances for eight components, and specified procedures on two further components. ▪ The 14 components where we performed full, specific and audit procedures on specific balances accounted for 98% of profit before tax, excluding the exceptional building safety charge and 100% of revenue.
Key audit matters	▪ Contract revenue and margin recognition (including valuation of contract assets, unagreed income and contract liabilities). ▪ Recoverability and valuation of inventory balances held. ▪ Impairment of goodwill and investment in subsidiary undertakings (Parent Company only). ▪ Building safety provision (and related exceptional item).
Materiality	▪ Overall Group materiality of £6m which represents 5% of profit before tax, excluding the exceptional building safety charge.

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the effectiveness of Group-wide controls, changes in the business environment and the potential impact of climate change when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 14 entities across all five divisions within the Group.

Of the 14 components selected, we performed an audit of the complete financial information of four components ('full scope components') which were selected based on their size or risk characteristics. These covered the majority of the Construction & Infrastructure, Fit Out, Urban Regeneration and Partnership Housing divisions. For eight 'specific scope components', we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements, either because of the size of these accounts or their risk profile. These included the Property Services division, as well as smaller subsidiaries of the other divisions. For the remaining two components (which were joint ventures) we performed specified procedures over the Group's investment in this entity.

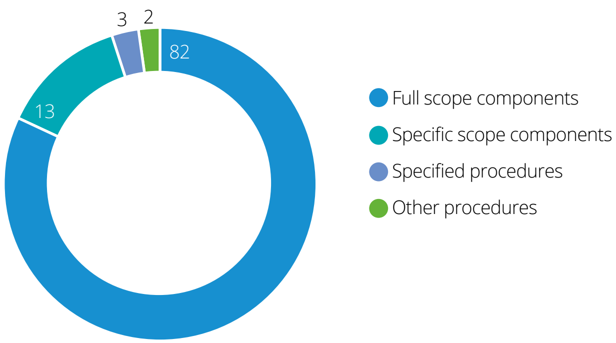
The reporting components where we performed audit procedures accounted for 98% (2021: 98%) of the Group's profit before tax, excluding the exceptional building safety charge and 100% (2021:100%) of the Group's revenue. For the current year, the full scope components contributed 82% (2021:76%) of the Group's profit before tax, excluding the exceptional building safety charge and 90% (2021: 82%) of the Group's revenue. The specific scope component contributed 13% (2021: 21%) of the Group's profit before tax, excluding the exceptional building safety charge and the remaining 10% (2021: 18%) of the Group's revenue. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. The components for which we performed specified procedures contributed 3% (2021: 1%) of the Group's profit before tax, excluding the exceptional building safety charge.

Of the remaining components that together represent 2% of the Group's profit before tax, none contained individually material balances. For these components, we performed other procedures, including analytical review to respond to any potential risks of material misstatement to the Group financial statements.

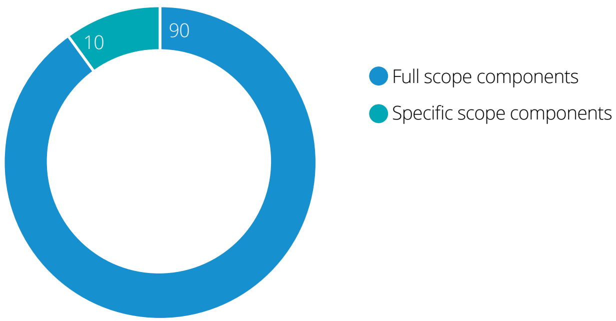
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC continued

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Profit before tax (%)



Revenue (%)



Changes from the prior year

For the current year, the Urban Regeneration division was determined to be a full scope component (2021: specific scope component) and two different joint ventures were subject to specified procedures. Our overall audit coverage of profit before tax and revenues has however remained unchanged from prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY UK offices or global network firms operating under our instruction. Where the work was performed by other EY offices, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary audit team visited or met with component teams over the course of the audit to discuss the audit approach with component teams and any issues arising from their work, meet with local management, and review relevant audit working papers on risk areas. The primary team also participated in interim and year-end audit close meetings for the divisions. These visits and meetings were supplemented by frequent video calls between the primary team and component teams throughout all stages of the audit, and the primary team reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact Morgan Sindall Group plc. The Group has assessed the principal risks and impact as relating to: (a) the environmental impact of carbon emissions and waste produced; (b) impact on operations of temperature changes and severe weather events; and (c) adapting to the changing needs of customers – all in the context of the Group's plan to achieve its 2030 net zero target. These matters are explained on pages 83 to 90 in the required Task Force for Climate-related Financial Disclosures and on page 77 in the principal risks and uncertainties. The Group has also explained its climate commitments on pages 28 to 34. All of these disclosures form part of the 'other information', rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on 'other information'.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC continued

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in the financial statements how it has considered the impact of climate change. The basis of preparation section also explains that governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK-adopted international accounting standards. In the 'Identified climate-related risks and opportunities' section of the strategic report, supplementary narrative explanation of the impact of reasonably possible changes in key assumptions has been provided.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of physical and transition climate risk. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit. We also focused on ensuring that the effects of material climate risks disclosed in the financial statements have been appropriately reflected in asset values and associated disclosures where values are determined through the modelling of future cash flows and in management's assessment of the impairment of goodwill. Details of our procedures and findings on the goodwill impairment assessment are included in our key audit matters below.

We also challenged the directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Contract revenue and margin recognition (including valuation of contract assets, unagreed income and contract liabilities) Revenue: £3,612.2m (2021: £3,212.8m) Operating profit: £88.3m (2021: £129.8m) Contract assets: £294.6m (2021: £232.6m) Contract liabilities: £74.2m (2021: £78.5m) *Refer to the audit committee report (page 126); accounting policies (page 190); and notes 1 (page 197) and 16 (page 209) of the consolidated financial statements.* The Group recognises revenue over time in the Construction & Infrastructure, Fit Out, Property Services, Urban Regeneration and Partnership Housing (in respect of pre-let, forward sold developments) divisions. The Group also recognises revenue under the point in time method in the Partnership Housing and Urban Regeneration divisions. There is a risk that revenue recognised over time is materially misstated as there is significant judgement involved in determining the inputs that drive contract revenue and margin recognition (e.g. forecast revenue, recoverability of unagreed income, and forecast costs to complete). Therefore these inputs could be susceptible to management bias or manipulation. There is also a risk that revenue recognised under the point in time method is recorded in the incorrect period either due to cut-off error or management bias resulting in a material misstatement.	**Contract revenue and margin recognised over time** We worked together with our component teams to perform a risk assessment of the contract population and selected a sample of higher-risk contracts (based on value and/or complexity) across the Group, and obtained an understanding of the: (1) contract terms; (2) key operational or commercial issues; (3) judgements impacting the contract position; and (4) contract revenue and margin recognised. Factors we considered when determining higher-risk contracts to select included: (1) the size of the contract; (2) contracts with significant unagreed income amounts; (3) low margin and loss-making contracts or contracts with a significant deterioration in margin; and (4) stage of completion. Our audit approach for higher-risk contracts has been outlined below: ▪ Performed walkthroughs of the significant classes of revenue transactions recognised over time and assessed the design effectiveness of key controls. ▪ Discussed management's contract risk tracker with divisional management and the Group commercial director. ▪ Performed site visits at a selection of higher-risk contracts in order to corroborate the contract positions in person through review of the operations and discussions with contract personnel on site to form an independent view on the judgements taken. ▪ Undertook detailed review of the signed contract agreements to understand the commercial terms and review of any legal correspondence or expert advice that has been obtained to support any contract positions recorded. ▪ Assessed the appropriateness of supporting evidence and the requirements of IFRS 15 and the Group's accounting policies (e.g. where contracts include additional entitlements for variations and claims, both for and against the Group). ▪ Assessed the appropriateness of the accruals at year end to check these have been incurred and not materially overstated/understated. ▪ Challenged the level of unagreed income or contract assets and the adequacy of the evidence (e.g. future certifications and cash receipts) to assess their recognition and recoverability. ▪ Reviewed contract asset balances and challenged management on the recovery of balances at the year end which have not been provided for, including consideration of counterparty risk. ▪ Assessed the reasonableness of calculations of estimated costs to complete, which included understanding the risks/outstanding works on the contract, the impact of any delays or other delivery issues and the related provisions for cost escalations that have been recognised. ▪ Assessed the appropriateness of cost allocations across contracts including evaluation of whether there has been any manipulation of costs between profit-making and loss-making contracts. ▪ Challenged the rationale for material provisions held at a contract/division level and concluded if these are appropriate.	Based on our audit procedures performed, we concluded that the recognition of revenue (including the valuation of contract assets, unagreed income and contract liabilities) was appropriate, and the key judgements made by management are consistent with the Group's accounting policies. The presentation and disclosure of revenue, contract assets and contract liabilities are materially correct and appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC continued

Risk	Our response to the risk	Key observations communicated to the audit committee
	▪ Challenged the level of onerous contract provisions recognised for loss-making contracts as well as any cost contingencies on the remaining contracts at year end. ▪ Assessed the correlation between revenue, receivables and cash balances using data analytical tools or through other substantive test of detail procedures. ▪ Reviewed material manual journals recorded to assess whether these have been properly authorised, are appropriately substantiated and are for a valid business purpose. **Contract revenue and margin recognised under the point in time method** ▪ Performed walkthroughs of the revenue recognition process under the point in time method and assessed the design effectiveness of key controls. ▪ Reviewed signed contract agreements to understand the commercial terms and ensure the correct revenue recognition method is applied in line with the requirements of IFRS 15 and the Group's accounting policies. ▪ Tested a sample of transactions by agreeing to contracts, bank receipts and obtaining evidence of fulfilment of performance obligations. ▪ Performed cut-off testing to assess whether revenue recorded either side of the year end is included in the correct accounting period. ▪ Reviewed material manual journals recorded in relation to revenue recognised under the point in time method to assess whether these have been properly authorised, are appropriately substantiated and are for a valid business purpose. We performed full and specific scope audit procedures over 100% of the Group's revenue.	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Recoverability and valuation of inventory balances held Inventory: £333.9m (2021: £288.5m) *Refer to the accounting policies (page 194); and note 15 of the consolidated financial statements (page 208).* Partnership Housing and Urban Regeneration deliver housing and regeneration schemes respectively. During construction, the cost of work in progress is held as inventory prior to it being recognised as cost of sales under contract accounting. This comprises land, raw materials, direct labour, other direct costs and related overheads. Inventory is held at the lower of cost and net realisable value. Therefore there is a high degree of management judgement required to determine the valuation of inventory pertaining to land and developments under construction. There is a risk that the carrying value of inventory held by the Group is overstated in the year-end Group accounts if management's assessment of the net realisable value is based on inappropriate assumptions. In the prior year, this key audit matter referred to the Partnership Housing division only; however, we have extended it in the current year across all the Group's inventory which also includes the Urban Regeneration division.	▪ Performed procedures to assess the ownership of the inventories held (e.g. review of sale purchase agreements, and land title deeds) in order to evaluate whether the Group has appropriate title over the inventory held. ▪ Performed a walkthrough of the impairment analysis and calculation process and evaluated how management look for indicators of inventory impairment. ▪ Reviewed a sample of planning permissions obtained or submitted as well as environmental assessment reports (where relevant) to assess their impact on the inventory on hand at year end. ▪ Assessed the nature of costs capitalised in the year-end inventory balance by vouching a sample of these back to supporting documentary evidence, ensuring these meet the criteria for capitalisation and have been charged to the correct project. ▪ Challenged the costs to complete by agreeing a sample of items to supporting documentation (e.g. subcontractor quotes, actual invoices issued, contracts executed, management reports) and through enquiry of the commercial teams. ▪ Recalculated the profit recognised for the year based on forecast revenue and costs. ▪ For Partnership Housing, compared the forecast sale prices and price per sq ft of the unsold units in management's forecast to the range of prices achieved on the units completed and exchanged, or compared prices achieved at equivalent competitor sites where possible. ▪ Inspected site plans and, for Partnership Housing, reviewed a sample of post year-end sales (where available) to evaluate management's forecast sales prices.	Based on our audit procedures, we have concluded that the inventory balances are not materially misstated.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Impairment of goodwill and investment in subsidiary undertakings (Parent only) Goodwill: £217.7m (2021: £217.7m) Parent Company's investment in subsidiary undertakings: £459.6m (2021: £459.6m) *Refer to the audit committee report (page 126); accounting policies (page 193); note 10 of the consolidated financial statements (page 204); and note 2 of the Company financial statements (page 223).* Intangible assets with an indefinite useful life must be evaluated for impairment annually, or whenever indicators of impairment are noted per IAS 36. Due to the degree of estimation involved in calculating the expected future cash flows from cash-generating units (CGUs) and determining the appropriate long-term growth rates and discount rates specific to each CGU, we have identified a significant risk regarding the assessment of any impairment against the goodwill carrying values, as well as the identification of any indicators of impairment. There is also a risk that the recoverable amount of the investment in subsidiary undertakings may be less than the investment balance on the Parent Company's statement of financial position.	▪ Performed a walkthrough of the impairment analysis and calculation process and evaluated the identification of CGUs performed by management. ▪ Assessed and challenged the key inputs of the forecast cash flows at the CGU level. As part of these procedures we: ▪ challenged the discount rate used by obtaining the underlying data used in the calculation and substantiating this against reputable independent assessments with the support of our EY valuation specialists; ▪ validated the growth rates assumed by comparing them to economic and industry forecasts and using the support of our EY valuation specialists, where required; and ▪ challenged management on the achievability of the cash flow forecasts and assessed the projected financial information against results achieved to date and other market data to assess the robustness of management's forecasting process. This included considering the impact of other relevant economic and social environmental factors, such as inflation and climate change, on future cash flows. ▪ Analysed the historical forecasting accuracy (budgets to actual results) to determine whether forecast cash flows are reliable based on past experience factoring in any anomalies. ▪ Understood the commercial challenges for each CGU and challenged/evaluated how these have been incorporated into management's assessment. ▪ Performed sensitivity analysis by changing key assumptions in management's model to see the impact on the headroom between carrying value and fair value (including combining the effects of different sensitivities). ▪ Assessed the appropriateness of the net asset values and component-specific cash flows for each of the investments in subsidiary undertakings held by the Parent Company, factoring in any audit adjustments or appropriate sensitivities to conclude on the available headroom. ▪ Performed a comparison between the carrying value of the CGUs against the value of these CGU investments on the Parent Company's statement of financial position. We also considered the carrying value of the CGUs in the context of the market capitalisation of the Group. ▪ Considered the appropriateness of the related disclosures, especially with regard to any impairment recognised (if the carrying value of CGU exceeds the value-in-use) or the justification of why the value of goodwill exceeds the market capitalisation of the Group.	Based on our audit procedures, we have concluded that the goodwill and investment in subsidiary undertakings are not impaired. The disclosures relating to goodwill are appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Building safety provision (and related exceptional item) Exceptional building safety charge recognised within Group: £39.1m (2021: £nil) Exceptional building safety charge recognised within Group's share of net profit of joint ventures: £9.8m (2021: £nil) *Refer to the audit committee report (page 126); accounting policies (page 196); note 4 of the consolidated financial statements (page 200) and note 2 of the Company financial statements (page 223).* During the year, the Group has undertaken an exercise to identify life-critical fire safety issues in residential properties it has developed. This review was triggered by the Partnership Housing division signing the Developers' Pledge ('the Pledge') with the Department for Levelling Up, Housing and Communities (DLUHC), and the expectation that the Urban Regeneration division will do so too. A provision totalling £48.9m has been recognised in 2022 to reflect the legal and constructive obligations related to the Pledge, including reimbursement of grants provided by the Building Safety Fund. The key judgements and estimates in the provision relate to forecasting the cost of rectifying these fire safety defects and cladding issues. There is uncertainty in this given that the issues and/or the buildings identified may not be complete, as well as the rectification cost being unknown until work is completed. Given the value of the provision and level of estimation, we have identified this as a new key audit matter for the current year.	▪ Performed a walkthrough of the process management have undertaken to determine and record the provision which included understanding any key controls in place. ▪ Understood the relevant laws, regulations and guidance. ▪ Held discussions with the Group commercial director and other key management personnel to understand the latest correspondence with the government in relation to the Pledge and the obligations arising from this. ▪ Reviewed relevant correspondence with DLUHC, including their assessment of the Building Safety Fund grants the Group is expected to reimburse them for, the terms of the Pledge signed by the Partnership Housing division, and the draft terms of the agreement expected to be signed by the Urban Regeneration and Partnership Housing divisions. ▪ Obtained the results of the review undertaken by management of the Partnership Housing and Urban Regeneration divisions, which included the calculation of the provision recognised. We assessed the methodology used and the competence of those involved in its calculation. Where management involved an external specialist, we assessed the scope of their work and their objectivity. ▪ Assessed the completeness of properties included in the provision. Our procedures included: press and internet searches; checking logs of legal matters, claims received and known defects; and reviewing historic annual reports to identify properties previously developed that may not have been included in management's assessment. ▪ Challenged the appropriateness of key inputs and assumptions used to estimate the expected cost of rectifying the identified issues. We made enquiries of relevant project managers and legal personnel to understand the basis of the assumptions. We verified the cost assumptions to the extent possible by agreeing to subcontractor quotations for remedial works obtained by the Group, or reports from third parties engaged to identify and investigate the extent of the issues. ▪ Assessed whether the provision met the definition of an 'exceptional item' to be drawn out separately in the financial statements. We agreed with management that this was appropriate given the material and one-off nature of the provision recognised in 2022. ▪ Reviewed the disclosures in the Group financial statements and challenged management to include appropriate sensitivity analysis. We concluded that these provided sufficient detail and met the requirements of the applicable financial reporting framework.	Based on our audit procedures, we have concluded that the provision recognised for building safety is not materially misstated and the related disclosures comply with requirements of UK-adopted international accounting standards.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £6m (2021: £6m), which is 5% (2021: 5%) of profit before tax, excluding the exceptional building safety charge. We believe that profit before tax provides us with an appropriate basis for materiality and is the most relevant measure for stakeholders as it is a focus of both management and investors. We excluded the exceptional building safety charge as we consider this to be a one-off item that does not represent part of the Group's normal trading results.

We determined materiality for the Parent Company to be £4m (2021: £3m), which is 2% (2021: 2%) of equity.

During the course of our audit, we reassessed initial materiality and found no reason to change from our original assessment at planning.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £3m (2021: £3m). We have set performance materiality at this percentage due to the number of audit differences identified in our prior-year audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.6m to £1.7m (2021: £0.6m to £1.8m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £0.3m (2021: £0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on the inside front cover to page 98, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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; or
- 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.

Corporate governance statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Group and Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 96;
- directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on pages 96 to 98;
- directors' statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 96;
- directors' statement on fair, balanced and understandable set out on page 168;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 67 and 78;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 128 to 130; and
- the section describing the work of the audit committee set out on pages 123 to 130.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 168, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL GROUP PLC continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (UK-adopted International Accounting Standards, the Companies Act 2006 and the UK Corporate Governance Code), the Building Safety Act (including the Pledge) and the relevant tax compliance regulations in the UK.
- We understood how Morgan Sindall Group plc is complying with those frameworks by making enquiries of management at Group level and within the divisions, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Board and audit committee, noting the strong emphasis of transparency and honesty in the Group's culture and the levels of oversight the Board and Group management have over each division, despite the decentralised operating model of the Group.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management in each division to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management at Group level and within the divisions monitor those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures are set out in the key audit matters section of this report and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing at each component in the scope of our Group audit with a focus on journals indicating unusual transactions based on our understanding of the business, enquiries of Group and divisional management, and focused testing as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the annual report and accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.

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

Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the Company on 6 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ended 31 December 2021 and 31 December 2022.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter McIver (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 February 2023

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Revenue	1	**3,612.2**	3,212.8
Cost of sales		**(3,241.3)**	(2,830.0)
Gross profit		**370.9**	382.8
Analysed as:			
Adjusted gross profit		**410.0**	382.8
Exceptional building safety charge	4	**(39.1)**	–
Administrative expenses		**(287.6)**	(259.8)
Share of net profit of joint ventures	13	**4.5**	5.4
Other operating income		**0.5**	1.4
Operating profit		**88.3**	129.8
Analysed as:			
Adjusted operating profit		**139.2**	131.3
Exceptional building safety charge	4	**(48.9)**	–
Amortisation of intangible assets	10	**(2.0)**	(1.5)
Finance income	6	**2.3**	0.6
Finance expense	6	**(5.3)**	(4.2)
Profit before tax		**85.3**	126.2
Analysed as:			
Adjusted profit before tax		**136.2**	127.7
Exceptional building safety charge	4	**(48.9)**	–
Amortisation of intangible assets	10	**(2.0)**	(1.5)
Tax	7	**(24.4)**	(28.3)
Profit for the year	3	**60.9**	97.9
Attributable to:			
Owners of the Company		**60.9**	97.9

	Notes	2022 £m	2021 £m
Earnings per share			
Basic	9	**132.7p**	212.4p
Diluted	9	**130.4p**	204.4p

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

The consolidated income statement has been re-presented this year to give additional analysis of adjusted measures and the exceptional building safety charge.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2022

	2022 £m	2021 £m
Profit for the year	**60.9**	97.9
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange movement on translation of overseas operations	**2.1**	(0.2)
	2.1	(0.2)
Other comprehensive income/(expense)	**2.1**	(0.2)
Total comprehensive income	**63.0**	97.7
Attributable to:		
Owners of the Company	**63.0**	97.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Goodwill and other intangible assets	10	**221.2**	221.9
Property, plant and equipment	11	**74.8**	66.6
Investment property	12	**0.8**	0.8
Investments in joint ventures	13	**84.0**	94.1
Non-current assets		**380.8**	383.4
Inventories	15	**333.9**	288.5
Contract assets	16	**294.6**	232.6
Trade and other receivables	17	**353.0**	328.3
Current tax assets		**–**	4.7
Shared equity loan receivables	14	**0.4**	1.5
Cash and cash equivalents	26	**431.7**	468.6
Current assets		**1,413.6**	1,324.2
Total assets		**1,794.4**	1,707.6
Liabilities			
Contract liabilities	16	**(74.2)**	(78.5)
Trade and other payables	18	**(963.2)**	(891.4)
Current tax liabilities		**(5.6)**	–
Lease liabilities	21	**(16.0)**	(13.4)
Borrowings	26	**(77.1)**	(110.2)
Provisions	20	**(55.1)**	(33.4)
Current liabilities		**(1,191.2)**	(1,126.9)
Net current assets		**222.4**	197.3

	Notes	2022 £m	2021 £m
Trade and other payables	18	**(37.3)**	(32.6)
Lease liabilities	21	**(40.9)**	(39.4)
Borrowings	26	**–**	(0.4)
Retirement benefit obligation	19	**(0.2)**	(0.2)
Deferred tax liabilities	7	**(6.8)**	(10.0)
Provisions	20	**(21.8)**	(23.9)
Non-current liabilities		**(107.0)**	(106.5)
Total liabilities		**(1,298.2)**	(1,233.4)
Net assets		**496.2**	474.2
Equity			
Share capital	23	**2.4**	2.3
Share premium account		**55.9**	45.8
Other reserves		**1.1**	(1.0)
Retained earnings		**436.8**	427.1
Equity attributable to owners of the Company		**496.2**	474.2
Total equity		**496.2**	474.2

The consolidated financial statements of Morgan Sindall Group plc (company number: 00521970) were approved by the Board on 22 February 2023 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Operating activities			
Operating profit		**88.3**	129.8
Adjusted for:			
Exceptional building safety items	4	**48.9**	–
Amortisation of intangible assets	10	**2.0**	1.5
Underlying share of net profit of equity-accounted joint ventures	13	**(14.3)**	(5.4)
Depreciation	11	**22.9**	20.5
Share-based payments	24	**9.7**	12.1
Gain on disposal of property, plant and equipment		**(0.5)**	(0.5)
Movement in fair value of shared equity loan receivables	14	**(0.4)**	1.9
Impairment of investments	3	**0.9**	1.2
Proceeds on disposal of investment properties	12	**–**	1.9
Repayment of shared equity loan receivables	14	**1.5**	2.1
(Decrease)/increase in provisions excluding exceptional building safety items	20	**(19.5)**	26.4
Operating cash inflow before movements in working capital		**139.5**	191.5
(Increase)/decrease in inventories		**(45.4)**	5.7
Increase in contract assets		**(62.0)**	(60.8)
Increase in receivables		**(24.4)**	(94.0)
(Decrease)/increase in contract liabilities		**(4.3)**	22.9
Increase in payables		**71.6**	73.5
Movements in working capital		**(64.5)**	(52.7)
Cash inflow from operations		**75.0**	138.8
Income taxes paid		**(20.3)**	(28.3)
Net cash inflow from operating activities		**54.7**	110.5

	Notes	2022 £m	2021 £m
Investing activities			
Interest received		**1.8**	0.6
Dividends from joint ventures	13	**1.4**	–
Proceeds on disposal of property, plant and equipment		**0.6**	1.4
Purchases of property, plant and equipment	11	**(10.5)**	(6.7)
Purchases of intangible fixed assets	10	**(1.3)**	(1.3)
Net decrease in loans to joint ventures	13	**16.3**	1.5
Net cash inflow/(outflow) from investing activities		**8.3**	(4.5)
Financing activities			
Interest paid		**(1.8)**	(1.7)
Dividends paid	8	**(43.5)**	(32.3)
Repayments of lease liabilities	21	**(17.2)**	(15.2)
Repayment of borrowings	26	**(0.4)**	–
Proceeds on issue of share capital	23	**10.2**	0.3
Payments by the Trust to acquire shares in the Company		**(15.7)**	(33.6)
Proceeds on exercise of share options		**1.6**	1.7
Net cash outflow from financing activities		**(66.8)**	(80.8)
Net (decrease)/increase in cash and cash equivalents		**(3.8)**	25.2
Cash and cash equivalents at the beginning of the year		**358.4**	333.2
Cash and cash equivalents at the end of the year	26	**354.6**	358.4

Cash and cash equivalents presented in the consolidated cash flow statement include bank overdrafts. See note 26 for a reconciliation to cash and cash equivalents presented in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

	Notes	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2021		2.3	45.5	(0.8)	373.1	420.1
Profit for the year		–	–	–	97.9	97.9
Other comprehensive expense		–	–	(0.2)	–	(0.2)
Total comprehensive (expense)/ income		–	–	(0.2)	97.9	97.7
Share-based payments	24	–	–	–	12.1	12.1
Tax relating to share-based payments	7	–	–	–	8.2	8.2
Issue of shares at a premium	23	–	0.3	–	–	0.3
Exercise of share options		–	–	–	1.7	1.7
Purchase of shares in the Company by the Trust		–	–	–	(33.6)	(33.6)
Dividends paid	8	–	–	–	(32.3)	(32.3)
1 January 2022		**2.3**	**45.8**	**(1.0)**	**427.1**	**474.2**
Profit for the year		–	–	–	60.9	60.9
Other comprehensive income		–	–	2.1	–	2.1
Total comprehensive income		–	–	2.1	60.9	63.0
Share-based payments	24	–	–	–	9.7	9.7
Tax relating to share-based payments	7	–	–	–	(3.3)	(3.3)
Issue of shares at a premium	23	0.1	10.1	–	–	10.2
Purchase of shares in the Company by the Trust		–	–	–	(15.7)	(15.7)
Exercise of share options		–	–	–	1.6	1.6
Dividends paid	8	–	–	–	(43.5)	(43.5)
31 December 2022		**2.4**	**55.9**	**1.1**	**436.8**	**496.2**

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2021: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.8m) (2021: (£0.8m)) arising under cash flow hedge accounting. Movements on the effective portion of hedges are recognised through the hedging reserve, while any ineffectiveness is taken to the income statement.
- Translation reserve of £1.3m (2021: (£0.8m)) arising on the translation of overseas operations into the Group's functional currency.

Retained earnings

Retained earnings include shares in Morgan Sindall Group plc purchased in the market and held by the Morgan Sindall Employee Benefit Trust ('the Trust') to satisfy options under the Company's share incentive schemes. The number of shares held by the Trust at 31 December 2022 was 1,135,131 (2021: 1,051,664) with a cost of £26.1m (2021: £25.3m). All of the shares held by the Trust were unallocated at the year end and dividends on these shares have been waived. Based on the Company's share price at 31 December 2022 of £15.30 (2021: £25.20), the market value of the shares was £17.4m (2021: £26.5m).

SIGNIFICANT ACCOUNTING POLICIES
for the year ended 31 December 2022

Reporting entity

Morgan Sindall Group plc (the 'Group' or 'Company') is domiciled and incorporated in the United Kingdom. The nature of the Group's operations and its principal activities are set out in note 2 and in the strategic report on pages 7 and 9.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared on the going concern basis as set out on page 96 and in accordance with UK-adopted International Accounting Standards ('UK IAS').

(b) Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention, except where otherwise indicated.

(c) Going concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group and Company can continue in operational existence during the going concern period, which the directors have defined as the date of approval of the 31 December 2022 financial statements through to 29 February 2024.

As at 31 December 2022, the Group held cash of £431.7m, including £38.0m which is the Group's share of cash held within jointly controlled operations, and total overdrafts repayable on demand of £77.1m (together net cash of £354.6m). Should further funding be required, the Group has significant committed financial resources available including unutilised bank facilities of £180m, of which £165m matures in October 2025 and £15m matures in March 2024. The Group's secured order book at 31 December 2022 is £8.5bn (2021: £8.6bn), of which £3.2bn relates to the 12 months ended 31 December 2023.

The directors have reviewed the Group's forecasts and projections for the going concern period, including sensitivity analysis (detailed on pages 97 and 98), including reduced revenues, margins, a working capital deterioration and project delays) to assess the Group's resilience to the potential financial impact on the Group of any plausible losses of revenue or operating profit which could arise from one of the principal risks to the business occurring (these risks are discussed on pages 67 to 77 and include the directors' assessment of the impact of climate change). The analysis also includes a reasonable worst-case scenario in which the Group's principal risks manifest in aggregate to a severe but plausible level involving the aggregation of the impacts of a number of these risks. The modelling showed that the Group would remain profitable throughout the going concern period and there is considerable headroom above lending facilities such that there would be no expected requirement for the Group to utilise the bank facility, which underpins the going concern assumption on which these financial statements have been prepared. As part of the sensitivity analysis the directors also modelled a scenario that stress tests the Group's forecasts and projections, to determine the scenario in which the headroom above the committed bank facility would be exceeded. This model showed that the Group's operating profit would need to deteriorate substantially for the headroom to exceed the committed bank facility. The directors consider there is no plausible scenario where cash inflows would deteriorate this significantly. However, as part of their analysis, the Board also considered further mitigating actions at their discretion, such as a reduction in investments in working capital, to improve the position identified by the reasonable worst-case scenario. In all scenarios, including the reasonable worst case, the Group is able to comply with its financial covenants, operate within its current facilities, and meet its liabilities as they fall due.

Accordingly, the directors consider there to be no material uncertainties that may cast significant doubt on the Group's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the going concern period. For this reason, they continue to adopt the going concern basis in the preparation of these financial statements. The period from the date of signing of these financial statements to 29 February 2024 has been assessed following consideration of the budgeting cycles and typical contract lengths undertaken across the Group.

(d) Functional and presentation currency

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

SIGNIFICANT ACCOUNTING POLICIES continued

(e) Climate change risk

While the Group is committed to achieve its net zero emissions target by 2030, the governmental and societal responses to climate change risks are still developing and therefore the Group is currently unable to determine the full future economic impact of climate change risks on their business model to achieve this. As such, the potential impacts of climate change risk are not fully incorporated in these financial statements.

(f) Adoption of new and amended standards and interpretations

(i) New and amended accounting standards adopted by the Group

During the year, the Group has adopted the following new and amended standards and interpretations. Their adoption has not had any significant impact on the accounts or disclosures in these financial statements.

- Amendments to IFRS 3 'Reference to the Conceptual Framework'
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use'
- Amendments to IAS 37 'Onerous Contracts – Cost of Fulfilling a Contract'
- Annual Improvements to IFRS Accounting Standards 2018–2020 cycle

(ii) New and amended accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early by the Group

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

- IFRS 17 'Insurance Contracts'
- IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'
- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current'
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements – Disclosure of Accounting Policies'
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates'
- Amendments to IAS 12 'Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction'
- Amendments to IFRS 16 'Lease Liability in a Sale and Leaseback'

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

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company, together with the Group's share of the results of joint ventures made up to 31 December each year. Control is achieved when the Company: (i) has the power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Business combinations are accounted for using the acquisition method.

(a) Subsidiaries

Subsidiaries are entities that are controlled by the Group. 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.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the income statement. Any investment retained is recognised at fair value.

(b) Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, which requires unanimous consent for strategic, financial and operating decisions.

SIGNIFICANT ACCOUNTING POLICIES continued

(i) Joint ventures

A joint venture generally involves the establishment of a corporation, partnership or other entity in which each venturer has rights to the net assets of the joint venture and joint control over strategic, financial and operating decisions. The results, assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting.

Goodwill relating to a joint venture which is acquired directly is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group's investments in joint ventures are reviewed to determine whether any additional impairment loss in relation to the net investment in the joint venture is required, and if so, it is written off in the period in which those circumstances are identified. When there is a change recognised directly in the equity of the joint venture, the Group recognises its share of any change and discloses this, where applicable, in the statement of comprehensive income.

Where the Group's share of losses exceeds its equity-accounted investment in a joint venture, the carrying amount of the equity interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations. Appropriate adjustment is made to the results of joint ventures where material differences exist between a joint venture's accounting policies and those of the Group.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(ii) Joint operations

Construction contracts carried out as a joint arrangement without the establishment of a legal entity are joint operations. The Group's share of the results and net assets of these joint operations are included under each relevant heading in the income statement and the statement of financial position.

(c) Transactions eliminated on consolidation

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

Revenue and margin recognition

Revenue and margin are recognised as follows:

(a) Construction and infrastructure contracts

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

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

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

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

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

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

In order to recognise the profit over time, it is necessary to estimate the total costs of the contract. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any acceleration of or delays to the programme or changes in the scope of works and the expected cost of any rectification works during the defects liability period.

SIGNIFICANT ACCOUNTING POLICIES continued

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

(b) Service contracts

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

(c) Sale of land and development properties

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

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

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

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

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

(d) Contract balances

Contract assets

Contract assets primarily relate to the Group's right to consideration for construction work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. On most contracts, certificates are issued by the customer on a monthly basis.

Contract liabilities

Contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised. Contract liabilities are recognised as revenue when performance obligation to the customer has been satisfied.

(e) Contract costs

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

(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 a deduction from related expenses 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 income on a legal completion basis when the properties to which it relates are sold.

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that the Group will comply with the conditions attached and the grants will be received.

Leases

Where the Company is a lessee, a right-of-use asset and lease liability are recognised at the outset of the lease other than those that are less than one year in duration or of a low value.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Group's expectations of the likelihood of lease extension or break options being exercised. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

The lease liability is subsequently adjusted to reflect imputed interest, payments made to the lessor and any lease modifications.

The right-of-use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Group and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset.

The right-of-use assets are presented within the property, plant and equipment line in the statement of financial position and depreciated in accordance with the Group's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Finance income and expense

Finance income and expense is recognised using the effective interest method.

Income tax

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

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

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

Current tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

Goodwill and other intangible assets

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the Group's share of the identifiable net assets of the acquiree at the acquisition date. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. Consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed in administrative expenses as incurred. All identifiable assets and liabilities acquired and contingent liabilities assumed are initially measured at their fair values at the acquisition date.

Where the cost is less than the Group's share of the identifiable net assets, the difference is immediately recognised in the income statement as a gain from a bargain purchase.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP (Generally Accepted Accounting Principles) amounts, subject to being tested for impairment at that date.

Other intangible assets identified on acquisition by the Group that have finite useful lives are recognised at fair value and measured at cost less accumulated amortisation and impairment losses. Those that are acquired separately, such as software, are recognised at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful lives for the Group's finite life intangible assets are three years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged over their estimated useful lives using the straight-line method on the following basis:

▪ freehold land	not depreciated
▪ plant and equipment	between 8.3% and 33% per year
▪ fixtures and fittings	over the period of the lease
▪ right-of-use assets	over the period of the lease

Residual values of property, plant and equipment are reviewed and updated annually.

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

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the reporting 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 loan receivables

The Group has granted loans under shared equity home ownership schemes allowing qualifying home buyers to defer payment of part of the agreed sales price, up to a maximum of 25%, until the earlier of the loan term (10 or 25 years depending upon the scheme), remortgage or resale of the property. On occurrence of one of these events, the Group will receive a repayment based on its contributed equity percentage and the applicable market value of the property as determined by a member of the Royal Institution of Chartered Surveyors. Early or part repayment is allowable under the scheme and amounts are secured by way of a second charge over the property. The loans are non-interest bearing.

The shared equity receivable balance is designated as at fair value through profit and loss (FVTPL) under IFRS 9. Fair value movements are recognised in operating profit and include accreted interest. There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

Inventories

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Further disclosures relating to the impairment of non-financial assets are provided in note 10 – goodwill and other intangible assets.

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.

Cash and cash equivalents

Cash and cash equivalents can include cash in hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value.

Bank borrowings are generally considered to be financing activities. However, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents for the purpose of presentation in the consolidated cash flow statement. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

Trade payables

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

Retirement benefit schemes

(a) Defined contribution plan

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

(b) Defined benefit plan

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

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

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

SIGNIFICANT ACCOUNTING POLICIES continued

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. Provisions are recognised for events covered by the Group's captive or self-insurance arrangements, legal claims and restructuring.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement where the reimbursement has met the virtually certain recognition criteria.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Impairment of financial assets

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

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is expensed in employee benefits expenses on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 24).

Derivative financial instruments and hedge accounting

Derivative financial instruments may be used in joint ventures to hedge long-term floating interest rate and Retail Price Index (RPI) exposures and in Group companies to manage their exposure to foreign exchange rate risk.

Interest rate swaps, RPI swaps and foreign exchange forward contracts are stated in the statement of financial position at fair value. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Where financial instruments are designated as cash flow hedges and are deemed to be effective, gains and losses on remeasurement relating to the effective portion are recognised in equity, and gains and losses on the ineffective portion are recognised in the income statement.

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

There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES
for the year ended 31 December 2022

The preparation of financial statements under IFRS requires the Company's management to make judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements and estimates in applying the Group's accounting policies

The following are the critical judgements and estimates that the directors have made in the process of applying the Group's accounting policies and that have a significant effect on the amounts recognised in the financial statements:

- **Revenue recognition – mixed-use schemes (judgement)**

The Group acts as developer and/or contractor on a number of mixed-use schemes. In some instances, judgement is required to determine whether the revenue on a particular element of the scheme should be recognised as work progresses (recognised over time) or upon legal completion (recognised at a point in time). A detailed assessment is performed of the contractual agreements with the customer as well as the substance of the transaction to determine performance obligations have been satisfied. Relevant factors that are considered include the point at which legal ownership of the land passes to the customer, the degree to which the customer can specify the major structural elements of the design prior to construction work commencing and the degree to which the customer can specify modifications to the major structural elements of the building during construction.

- **Revenue and profit recognition for long-term contracts (judgement and estimate)**

In order to determine the revenue and profit recognition in respect of the Group's construction contracts, the Group has to estimate the total costs to deliver the contract as well as the final contract value. The Group has to allocate total expected costs between the amount incurred on the contract to the end of the reporting period and the proportion to complete in a future period. The assessment of the total costs to be incurred and final contract value requires a degree of judgement and estimation.

The final contract value may include assessments of the recovery of variations which have yet to be agreed with the client, as well as additional compensation claim amounts. The amount of variations and claims are often not fully agreed with the customer due to timing and requirements of the normal contractual process. Therefore, assessments are based on judgement and estimates of the potential cost impact of the compensation claims, and the revenue recognised is constrained to amounts where the Group believes it is highly probable that a significant reversal will not occur. The estimation of costs to complete is based on all available relevant information and may include judgements and estimates of any potential defect liabilities or liquidated damages for unagreed scope or timing variations. Costs incurred in advance of the contract, or contract fulfilment costs that are directly attributable to the contract, may also be included as part of the total costs to complete the contract. Judgement is required to consider when any pre-contract costs or contract fulfilment costs are directly attributable to a specific contract and the recognition of the related costs over the life of the contract.

The reference to estimates above is not intended to comply with the requirements of paragraph 125 of IAS 1, 'Presentation of Financial Statements', as it is not expected there is a significant risk of a material adjustment to the carrying amount of assets and liabilities within the next financial year. The above is presented as additional disclosure in order to give more detail on the process for revenue and profit recognition for long-term contracts.

- **Building safety provisions (estimate)**

Management have reviewed legal and constructive obligations with regard to remedial work to rectify legacy building safety issues. Where obligations exist, these have been evaluated for the likely cost to address, including repayments of the Building Safety Fund, and an appropriate provision has been created.

The ongoing legislative and regulatory changes in respect of legacy building safety issues create uncertainty around the extent of remediation required for legacy buildings, the liability for such remediation, recoveries from other parties (which would only be recognised when virtually certain to be received) and the time to be considered. This implies inherent uncertainty as to the precise future obligations of the Group in respect of building fire safety issues.

Management has recognised a provision based on its best estimate of the future obligations. However, should the costs of remediation increase by 5%, due to factors such as higher-than-expected inflation, the impact on the remediation costs would be £1m.

Please see note 20 for further detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Revenue

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

	2022 £m	2021 £m
Construction contracts	**2,409.3**	2,203.9
Other services	**267.1**	234.2
Construction activities revenue	**2,676.4**	2,438.1
Regeneration activities revenue	**935.8**	774.7
Total revenue	**3,612.2**	3,212.8

	2022			2021		
	Recognised on performance obligations satisfied over time £m	**Recognised on performance obligations satisfied at a point in time £m**	**Total Revenue £m**	Recognised on performance obligations satisfied over time £m	Recognised on performance obligations satisfied at a point in time £m	Total revenue £m
Construction	**808.1**	**–**	**808.1**	693.5	–	693.5
Infrastructure and design	**760.5**	**–**	**760.5**	826.1	–	826.1
Construction & Infrastructure	**1,568.6**	**–**	**1,568.6**	1,519.6	–	1,519.6
Traditional fit out	**844.3**	**–**	**844.3**	634.7	–	634.7
Design and build	**123.2**	**–**	**123.2**	160.7	–	160.7
Fit Out	**967.5**	**–**	**967.5**	795.4	–	795.4
Property Services	**163.5**	**–**	**163.5**	133.8	–	133.8
Contracting	**329.1**	**–**	**329.1**	249.2	–	249.2
Mixed tenure	**105.2**	**261.9**	**367.1**	55.1	267.9	323.0
Partnership Housing	**434.3**	**261.9**	**696.2**	304.3	267.9	572.2
Urban Regeneration	**175.6**	**68.4**	**244.0**	154.9	47.6	202.5
Inter-segment revenue	**(27.6)**	**–**	**(27.6)**	(10.7)	–	(10.7)
Total revenue	**3,281.9**	**330.3**	**3,612.2**	2,897.3	315.5	3,212.8

Finance income of £2.3m (2021: £0.6m) is excluded from the table above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2 Business segments

For management purposes, the Group is organised into five operating divisions: Construction & Infrastructure, Fit Out, Property Services, Partnership Housing and Urban Regeneration, and this is the structure of segment information reviewed by the Chief Operating Decision Maker (CODM). The CODM is determined to be the Board of directors and reporting provided to the Board is in line with these five divisions, which have been considered to be the Group's operating segments. Additional information is included in the strategic report related to the Group's Construction & Infrastructure division where this is considered useful to the Group's stakeholders.

The five operating divisions' activities are as follows:

- Construction & Infrastructure: Morgan Sindall Construction & Infrastructure Ltd focuses on the education, healthcare, commercial, industrial, leisure and retail markets in Construction; and highways, rail, energy, water and nuclear markets in Infrastructure. Infrastructure also includes the BakerHicks design activities based out of the UK and Switzerland.
- Fit Out: Overbury plc is focused on fit out and refurbishment in commercial, central and local government offices, as well as further education; Morgan Lovell plc provides office interior design and build services direct to occupiers.
- Property Services: Morgan Sindall Property Services Limited provides response and planned maintenance activities for social housing and the wider public sector.
- Partnership Housing: Lovell Partnerships Limited is focused on working in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes for open market sale and for social/affordable rent, design and build house contracting and planned maintenance and refurbishment.
- Urban Regeneration: Muse Places Limited is focused on transforming the urban landscape through partnership working and the development of multi-phase sites and mixed-use regeneration.

Group activities represent costs and income arising from corporate activities which cannot be meaningfully allocated to the operating segments. These include the costs of the Group Board, treasury management, corporate tax coordination, Group finance and internal audit, insurance management, company secretarial services, Group general counsel services, information technology services, interest revenue and interest expense.

The Group reports its segmental information as presented below:

Year ended 31 December 2022	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Group activities £m	Elimi-nations £m	Total £m
External revenue	1,545.4	967.5	163.5	691.8	244.0	–	–	3,612.2
Inter-segment revenue	23.2	–	–	4.4	–	–	(27.6)	–
Total revenue	**1,568.6**	**967.5**	**163.5**	**696.2**	**244.0**	**–**	**(27.6)**	**3,612.2**
Adjusted operating profit/(loss) (note 28)	**52.1**	**52.2**	**4.3**	**37.4**	**18.9**	**(25.7)**	**–**	**139.2**
Amortisation of intangible assets	–	–	(2.0)	–	–	–	–	(2.0)
Exceptional operating items	–	–	–	(5.5)	(43.4)	–	–	(48.9)
Operating profit/(loss)	**52.1**	**52.2**	**2.3**	**31.9**	**(24.5)**	**(25.7)**	**–**	**88.3**
Finance income								2.3
Finance expense								(5.3)
Profit before tax								**85.3**
Other information:								
Depreciation	(13.8)	(3.1)	(1.5)	(2.7)	(0.9)	(0.9)		(22.9)
Average number of employees	4,091	962	949	1,002	93	106		7,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2 Business segments continued

Year ended 31 December 2021	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Group activities £m	Eliminations £m	Total £m
External revenue	1,509.0	795.3	133.8	572.2	202.5	–	–	3,212.8
Inter-segment revenue	10.6	0.1	–	–	–	–	(10.7)	–
Total revenue	1,519.6	795.4	133.8	572.2	202.5	–	(10.7)	3,212.8
Adjusted operating profit/(loss) (note 28)	58.1	44.2	4.1	33.2	12.1	(20.4)	–	131.3
Amortisation of intangible assets	–	–	(1.5)	–	–	–	–	(1.5)
Operating profit/(loss)	58.1	44.2	2.6	33.2	12.1	(20.4)	–	129.8
Finance income								0.6
Finance expense								(4.2)
Profit before tax								126.2
Other information:								
Depreciation	(12.3)	(3.0)	(1.0)	(2.4)	(0.8)	(1.0)		(20.5)
Average number of employees	3,966	839	786	884	88	103		6,666

Segment assets and liabilities are not presented as these are not reported to the CODM.

3 Profit for the year

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

	2022 £m	2021 £m
Depreciation charge:		
Plant, equipment, fixtures and fittings	**7.1**	7.0
Right-of-use assets	**15.8**	13.5
Government grants received	**(15.9)**	(12.4)
Amortisation of intangible assets	**2.0**	1.5
Impairment of investments	**0.9**	1.2

Auditor's remuneration

	2022 £m	2021 £m
Audit of the Company's annual report	**0.4**	0.3
Audit of the Company's subsidiaries and joint ventures	**1.6**	1.2
Total audit fees	**2.0**	1.5
Total non-audit fees	**–**	–
Total audit and non-audit fees	**2.0**	1.5

Non-audit fees totalled £nil for the year ended 31 December 2022 (2021: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

4 Exceptional building safety charge

	Notes	2022 £m	2021 £m
Exceptional building safety provisions recognised	20	**39.1**	–
Exceptional building safety charges within joint ventures	13	**9.8**	–
Total exceptional building safety charge		**48.9**	–

During 2022 the Partnership Housing division signed the Pledge with the DLUHC setting out the principles under which life-critical fire safety issues on buildings that they have developed of 11 metres and above are to be remediated. A letter was also received from DLUHC in July 2022 requesting information to assess whether it may be appropriate for Urban Regeneration to also commit to the principles of the Pledge as part of its commitment to support the remediation of historic cladding and fire safety defects over and above its obligations under the new Building Safety Act.

The final-form legal contract was issued in January 2023 and both Partnership Housing and Urban Regeneration have confirmed in writing to DLUHC their intention to sign and execute the contract on or before the stipulated date of 13 March 2023.

A comprehensive review has been completed during the year to identify legal and constructive obligations related to the Pledge, including reimbursement of grants provided by the Building Safety Fund. As a result of this review and the obligations arising as a result of the Pledge, provisions were recognised totalling £48.9m and these have been presented as exceptional charges due to their materiality and irregular nature.

Included in the £48.9m total exceptional building safety charge is £9.8m that has been recognised in respect of the Group's share of constructive and legal obligations to remediate legacy building safety issues within joint ventures, and this has been recognised within the Group's share of net profit of joint ventures. The remaining £39.1m charge has been recognised in cost of sales.

5 Staff costs

	Notes	2022 £m	2021 £m
Wages and salaries		**507.3**	468.6
Social security costs		**62.2**	54.3
Other pension costs	19	**22.9**	20.8
Share-based payments	24	**9.7**	12.1
		602.1	555.8

6 Finance income and expense

	Notes	2022 £m	2021 £m
Interest receivable from joint ventures		**–**	0.6
Other interest income		**2.3**	–
Finance income		**2.3**	0.6
Interest expense on lease liabilities	21	**(1.9)**	(1.5)
Loan arrangement and commitment fees		**(2.2)**	(2.5)
Other interest expense		**(1.2)**	(0.2)
Finance expense		**(5.3)**	(4.2)
Net finance expense		**(3.0)**	(3.6)

Included within other interest expense is £1.2m discount unwind on deferred land payments (2021: £0.2m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

7 Tax

Tax expense for the year

	2022 £m	2021 £m
Current tax:		
Current year	**25.0**	22.9
Adjustment in respect of prior years	**8.5**	(0.3)
	33.5	22.6
Deferred tax:		
Current year	**–**	1.7
Effect of change in tax rate used to calculate deferred tax balances	**–**	5.1
Adjustment in respect of prior years	**(9.1)**	(1.1)
	(9.1)	5.7
Tax expense for the year	**24.4**	28.3

UK corporation tax is calculated at 19.00% (2021: 19.00%) of the estimated taxable profit for the year.

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

	Notes	2022 £m	2021 £m
Profit before tax		**85.3**	126.2
Less: underlying post-tax share of profits from joint ventures	13	**(14.3)**	(5.4)
		71.0	120.8
UK corporation tax rate		**19.00%**	19.00%
Income tax expense at UK corporation tax rate		**13.5**	23.0
Tax effect of:			
Adjustments in respect of prior years:			
Change to tax base cost of goodwill		**(1.1)**	–
Other		**0.5**	(1.4)
Expenses for which no tax relief is recognised:			
Proportion of exceptional items		**7.0**	–
Proportion of share-based payments		**1.6**	–
Other non-deductible expenses		**0.5**	0.3
Tax liability upon joint venture profits[1]		**2.6**	0.7
Residential property developer tax		**0.3**	–
Change in tax rate used to calculate deferred tax balances		**–**	5.1
Other		**(0.5)**	0.6
Tax expense for the year		**24.4**	28.3

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

7 Tax continued

Deferred tax assets/(liabilities)

	Asset amortisation and depreciation £m	Tax losses and short-term timing differences £m	Share-based payments £m	Total £m
1 January 2021	(16.4)	1.5	2.4	(12.5)
(Charge)/credit to income statement	(0.6)	1.0	(1.0)	(0.6)
Credit to equity	–	–	8.2	8.2
Effect of change in tax rate:				
Charge to income statement	(5.1)	–	–	(5.1)
1 January 2022	**(22.1)**	**2.5**	**9.6**	**(10.0)**
Credit/(charge) to income statement	3.6	7.0	(1.5)	9.1
Charge to equity	–	–	(5.9)	(5.9)
31 December 2022	**(18.5)**	**9.5**	**2.2**	**(6.8)**

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

During 2021 it was announced that the UK statutory tax rate will increase from 19% to 25% from 1 April 2023. Consequently the applicable tax rate for the Group (taking into account our December year end) is expected to be 23.5% in 2023 and 25% in 2024 (and beyond). Deferred taxes at the balance sheet date are measured at the enacted rates that are expected to apply to the unwind of each asset or liability. Accordingly, deferred tax balances as at 31 December 2022 have been calculated at a mix of 23.5% and 25%. Deferred tax balances as at 31 December 2021 were calculated at a mix of 19%, 23.5% and 25%.

On 1 April 2022, Residential Property Developer Tax (RPDT) was introduced at a rate of 4% (for a full year), on profits arising from residential property development. A £25m annual tax-free allowance applies in aggregate for the Group. A portion of the profits of the Group's Partnership Housing and Urban Regeneration businesses are subject to RPDT, and a liability of £0.3m has been accrued for the Group for 2022.

At 31 December 2022, the Group had unused tax losses of £42.7m (2021: £5.0m) available for offset against future profits. A deferred tax asset of £6.3m (2021: £nil) has been recognised in respect of £26.9m (2021: £nil) of these losses. For these £26.9m of losses on which a deferred tax asset has been recognised, the Group's current intention is to delay offsetting the losses against its other profits until 2023. No deferred tax asset has been recognised in respect of the remaining £15.8m of losses as these losses can only be utilised against profits from particular sources, and there are no probable future profits from these sources. The losses may be carried forward indefinitely.

8 Dividends

Amounts recognised as distributions to equity holders in the year:

	2022 £m	2021 £m
Final dividend for the year ended 31 December 2021 of 62.0p per share	**28.3**	
Final dividend for the year ended 31 December 2020 of 40.0p per share	**–**	18.5
Interim dividend for the year ended 31 December 2022 of 33.0p per share	**15.2**	
Interim dividend for the year ended 31 December 2021 of 30.0p per share	**–**	13.8
	43.5	32.3

The proposed final dividend for the year ended 31 December 2022 of 68.0p per share is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

9 Earnings per share

	2022 £m	2021 £m
Profit attributable to the owners of the Company	**60.9**	97.9
Adjustments:		
Exceptional operating items net of tax	**46.7**	–
Amortisation of intangible assets net of tax	**1.6**	1.2
Deferred tax charge arising due to change in UK corporation tax rates	**–**	5.1
Adjusted earnings	**109.2**	104.2

	2022 Number of shares (millions)	2021 Number of shares (millions)
Basic weighted average number of ordinary shares	**45.9**	46.1
Dilutive effect of share options and conditional shares not vested	**0.8**	1.8
Diluted weighted average number of ordinary shares	**46.7**	47.9
Basic earnings per share	**132.7p**	212.4p
Diluted earnings per share	**130.4p**	204.4p
Adjusted earnings per share	**237.9p**	226.0p
Diluted adjusted earnings per share	**233.8p**	217.5p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the year. The average share price for the year was £19.12 (2021: £21.39).

A total of 681,571 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 2022 (2021: 865,271).

10 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
1 January 2021	217.7	40.8	258.5
Additions	–	1.3	1.3
1 January 2022	**217.7**	**42.1**	**259.8**
Additions	–	1.3	1.3
Disposals	–	(2.0)	(2.0)
31 December 2022	**217.7**	**41.4**	**259.1**
Accumulated amortisation			
1 January 2021	–	(36.4)	(36.4)
Amortisation	–	(1.5)	(1.5)
1 January 2022	**–**	**(37.9)**	**(37.9)**
Amortisation	–	(2.0)	(2.0)
Disposals	–	2.0	2.0
31 December 2022	**–**	**(37.9)**	**(37.9)**
Net book value at 31 December 2022	**217.7**	**3.5**	**221.2**
Net book value at 31 December 2021	217.7	4.2	221.9

Goodwill represents the value of people, track record and expertise acquired within acquisitions that are not capable of being individually identified and separately recognised. Goodwill is allocated at acquisition to the cash-generating units that are expected to benefit from the business combination. The allocation is as follows: Construction & Infrastructure £151.1m (2021: £151.1m); Partnership Housing £50.6m (2021: £50.6m); and Urban Regeneration £16.0m (2021: £16.0m).

Other intangible assets relate to internally generated software in Property Services £3.5m (2021: £4.2m). The cost and accumulated amortisation amounts for acquired intangible assets (excluding goodwill) that are fully written down at 31 December 2022 are £35.3m and (£35.3m) respectively.

10 Goodwill and other intangible assets continued

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. In testing goodwill and other intangible assets for impairment, the recoverable amount of each cash-generating unit has been estimated from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the forecast revenue and margin, discount rates and long-term growth rates by market sector. Forecast revenue and margin are based on past performance, secured workload and workload likely to be achievable in the short to medium term, given trends in the relevant market sector as well as macroeconomic factors.

Cash flow forecasts have been determined by using Board-approved budgets for the next three years. Cash flows beyond three years have been extrapolated into perpetuity using an estimated nominal growth rate of 1.2% (2021: 2.1%). This growth rate does not exceed the long-term average for the relevant markets.

Discount rates are pre-tax and reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. The risk-adjusted nominal rates used for the cash-generating units with goodwill balances are 12.0% (2021: 10.7%) for Construction & Infrastructure, 13.0% (2021: 10.7%) for Partnership Housing and 13.0% (2021: 10.7%) for Urban Regeneration.

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

Consideration of the impact of climate change

In terms of the possible impacts of climate change, the two key assumptions that could be sensitive to this are the growth rate and discount rates noted above. If climate change has a negative impact on revenues and/or the operating costs of the Group, there could be a potential impact on the discounted cash flow growth rates used within the valuation model. Lower future growth rates would reduce the level of the discounted cash flow valuation and hence the amount of headroom available to the Group above an impairment trigger. At present, the material short- to medium-term risks presented by possible climate change impacts are considered to be factored into the growth and discount rates where they are known and can be quantified.

Using the current assumptions, no reasonably foreseeable change in the assumptions used within the value-in-use calculations would cause an impairment in any of the segments. Therefore, at present, changes in the long-term assumptions due to the impact of climate change would also not be expected to trigger an impairment.

11 Property, plant and equipment

			Right-of-use assets		
	Freehold property and land £m	Plant, equipment, fixtures and fittings £m	Leasehold property £m	Plant and equipment £m	Total £m
Cost					
1 January 2021	2.4	50.3	55.4	21.6	129.7
Additions	–	6.7	3.6	12.3	22.6
Disposals	–	(7.9)	(3.6)	(6.4)	(17.9)
1 January 2022	**2.4**	**49.1**	**55.4**	**27.5**	**134.4**
Additions	–	10.5	7.4	14.8	32.7
Foreign exchange adjustments	–	1.1	0.6	–	1.7
Disposals	–	(7.5)	(4.5)	(6.5)	(18.5)
31 December 2022	**2.4**	**53.2**	**58.9**	**35.8**	**150.3**
Accumulated depreciation					
1 January 2021	–	(35.3)	(17.8)	(10.8)	(63.9)
Depreciation charge	–	(7.0)	(7.2)	(6.3)	(20.5)
Disposals	–	7.0	3.3	6.3	16.6
1 January 2022	**–**	**(35.3)**	**(21.7)**	**(10.8)**	**(67.8)**
Depreciation charge	–	(7.1)	(8.0)	(7.8)	(22.9)
Foreign exchange adjustments	–	(0.7)	(0.2)	–	(0.9)
Disposals	–	7.4	2.6	6.1	16.1
31 December 2022	**–**	**(35.7)**	**(27.3)**	**(12.5)**	**(75.5)**
Net book value at 31 December 2022	**2.4**	**17.5**	**31.6**	**23.3**	**74.8**
Net book value at 31 December 2021	2.4	13.8	33.7	16.7	66.6

The Group holds some plant, property and equipment that is fully depreciated. The cost and accumulated depreciation amounts of this fully written down plant, property and equipment at 31 December 2022 are £16.2m and (£16.2m) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

12 Investment property

	2022 £m	2021 £m
Valuation		
1 January	**0.8**	2.7
Disposals	**–**	(1.9)
31 December	**0.8**	0.8

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 2022 is based on a valuation carried out at that date by the directors. The valuation, which conforms to International Valuation Standards, was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value measurement is classified as Level 3 as defined by IFRS 13 'Fair Value Measurement'.

13 Investments in joint ventures

The Group has interests in the following joint ventures:

Anthem Lovell LLP 50% partner

Anthem Lovell LLP is a joint venture with Anthem Homes Limited (a subsidiary of Walsall Housing Group Limited) carrying out a strategic development project of a residential nature.

Brentwood Development Partnership LLP 50% partner

Brentwood Development Partnership LLP is a partnership with Seven Arches Investments Limited (a wholly owned subsidiary of Brentwood Borough Council) which is developing a series of sites in Brentwood over a 30-year period.

Chalkdene Developments LLP 50% partner

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

Claymore Roads (Holdings) Limited 50% share

Claymore Roads (Holdings) Limited is a joint venture with Infrastructure Investments (Roads) Limited and is responsible for the upgrade and operation of the A92 between Dundee and Arbroath in Scotland.

Edmundham Developments LLP 50% partner

Edmundham Developments LLP is a joint venture with Suffolk County Council, which has been established to progress the initial development of c3,000 residential homes across five sites, inclusive of associated infrastructure, local centres, employment land, education land and extra care provision.

English Cities Fund Limited Partnership 22.9% share

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

Health Innovation Partners Limited 50% share

Through the Health Innovation Partners joint venture with Arcadis BAC Limited, the Group has a 25% interest in The Oxleas Property Partnership LLP (TOPP), a joint venture with the Oxleas NHS Foundation Trust. TOPP is a partnership that has been developing the Trust's estate and surplus assets, helping to reduce costs and maximise revenue for the Trust. In agreement with our partners, the partnership is expected to be dissolved and the joint venture wound up during 2023.

hub West Scotland Limited 54% share

hub West Scotland Limited is a joint venture between Wellspring Partnership Limited (itself a joint venture between Morgan Sindall Investments Limited and Apollo (Hub West) Limited), Scottish Futures Trust Investments Limited, East Dunbartonshire Council, East Renfrewshire Council, West Dunbartonshire Council, Glasgow City Council, NHS Greater Glasgow Health Board, The Board of Strathclyde Fire and Rescue, Strathclyde Joint Police Board and Clydebank Property Company Limited. The joint venture is delivering a pipeline of public sector health, education, and community projects in the Glasgow area.

Laurus Lovell LLP 50% partner

Laurus Lovell LLP is a joint venture with THT Developments Limited (subsidiary of Trafford Housing Limited) established to carry out a strategic development project of a residential nature in the North West of England.

13 Investments in joint ventures continued

Lingley Mere Business Park Development Company Limited 50% share

Lingley Mere Business Park Development Company Limited is a joint venture with United Utilities Property Services Limited (a wholly owned subsidiary of United Utilities PLC) delivering development at a site in Warrington.

Lovell Flagship LLP 50% partner

Lovell Flagship LLP is a joint venture with Flagship Housing Developments Limited (a subsidiary of Flagship Housing Group Limited) established to carry out strategic development and/or regeneration projects of a primarily residential nature.

Lovell Latimer LLP 50% partner

Lovell Latimer LLP is a joint venture with Latimer Developments Limited (a subsidiary of Clarion Housing Group) established to carry out a strategic development project of a residential nature in the north west of England.

Lovell Together LLP 50% partner

Lovell Together LLP is a joint venture with Together Commercial Limited (a subsidiary of Together Housing Group Limited) carrying out three strategic development projects of a residential nature in Eastern England.

Lovell/Abri Weymouth LLP 50% partner

Lovell/Abri Weymouth LLP is a joint venture with Radian Developments Limited (a subsidiary of Abri Group Limited) carrying out a strategic development project of a residential nature.

Lovell Together (Pendleton) LLP 50% partner

Lovell Together (Pendleton) LLP is a joint venture with Together Commercial Limited (a subsidiary of Together Housing Group Limited) established to carry out a strategic development project of a residential nature in the north west of England.

Morgan-Vinci Limited 50% share

Morgan-Vinci Limited is a joint venture with Vinci Newport DBFO Limited and is responsible for the construction and operation of the Newport Southern Distributor Road.

Slough Urban Renewal LLP 50% partner

Slough Urban Renewal LLP is a partnership with Slough Borough Council which is developing a series of sites in Slough over an initial term of 15 years, extendable by 10 years.

The Bournemouth Development Company LLP 50% partner

The Bournemouth Development Company LLP is a partnership with Bournemouth, Christchurch and Poole Council which is developing a series of sites in Bournemouth over a 20-year period.

The Compendium Group Limited 50% share

The Compendium Group Limited is a joint venture with The Riverside Group Limited and is a company formed to carry out strategic development and regeneration projects of a primarily residential nature.

The Prestwich Regeneration LLP 50% partner

The Prestwich Regeneration LLP is a joint venture with Bury Metropolitan Borough Council and was set up to undertake the redevelopment of the Longfield Shopping Centre in Prestwich, located in the Metropolitan Borough of Bury, Greater Manchester.

Waterside Places (General Partner) Limited 50% share

Waterside Places (General Partner) is a joint venture with The Canal and River Trust to undertake regeneration of waterside sites.

Wapping Wharf (Alpha) LLP 50% partner

Wapping Wharf (Alpha) LLP is a joint venture with Wapping Wharf (Umberslade) Limited which has completed development of the first phase of residential apartments within the Harbourside Regeneration Area of Bristol.

Wapping Wharf (Beta) LLP 40% partner

Wapping Wharf (Beta) LLP is a joint venture with Wapping Wharf (Umberslade) Limited which will develop the second phase of residential apartments within the Harbourside Regeneration Area of Bristol.

West Sussex Property Development LLP 50% partner

West Sussex Property Development LLP is a joint venture with Edes Estates Limited (a subsidiary of West Sussex County Council) established to carry out strategic developments of residential homes, town centre regeneration and extra care provision across West Sussex.

Wirral Growth Company LLP 50% partner

Wirral Growth Company LLP is a joint venture with Wirral Borough Council and was set up to undertake regeneration of numerous sites in the Wirral region of North West England.

13 Investments in joint ventures continued

Investments in equity-accounted joint ventures are as follows:

	Notes	2022 £m	2021 £m
1 January		**94.1**	91.4
Equity-accounted share of net profits:			
Underlying share of net profits		**14.3**	5.4
Exceptional building safety charge	4	**(9.8)**	–
		4.5	5.4
Loans advanced to joint ventures		**18.3**	28.1
Loans repaid by joint ventures		**(34.6)**	(29.6)
Non-cash impairment		**(0.9)**	(1.2)
Dividends received		**(1.4)**	–
Reclassification to funding obligations payable	18	**4.0**	–
31 December		**84.0**	94.1

During 2022, an exceptional building safety charge of £9.8m has been recognised in respect of the Group's share of constructive and legal obligations to remediate legacy building safety issues within joint ventures. These obligations create potential funding obligations within joint ventures of £4.0m where the obligations recognised are in excess of the carrying values of investments. These funding obligations have been presented in amounts owed to joint ventures as discussed in note 18.

During 2021, a £5.6m non-cash impairment was recognised in the Group's investment in The Bournemouth Development Company LLP, a joint venture with Bournemouth, Christchurch and Poole Council. The impairment related to one specific scheme within the joint venture where construction cost inflation as well as other factors challenged the viability of the scheme. The impairment was reported through both the equity-accounted share of net profits and non-cash impairment lines in the table above.

Summarised financial information related to equity-accounted joint ventures that are not individually material is set out below.

	2022 £m	2021 £m
Non-current assets (100%)	**231.9**	241.5
Current assets (100%)	**496.5**	448.8
Current liabilities (100%)	**(118.5)**	(187.4)
Non-current liabilities (100%)	**(368.5)**	(389.3)
Net assets reported by equity-accounted joint ventures (100%)	**241.4**	113.6
Revenue (100%)	**453.4**	315.0
Expenses (100%)	**(440.2)**	(298.0)
Net profit (100%)	**13.2**	17.0

Results of equity-accounted joint ventures:

	2022 £m	2021 £m
Group share of profit before tax	**14.4**	5.6
Group share of tax	**(0.1)**	(0.2)
Exceptional building safety charge	**(9.8)**	–
Group share of profit after tax	**4.5**	5.4

14 Shared equity loan receivables

The Group has granted loans under shared equity home ownership schemes allowing qualifying home buyers to defer payment of part of the agreed sales price, up to a maximum of 25%, until the earlier of the loan term (10 or 25 years depending upon the scheme), remortgage or resale of the property.

	2022 £m	2021 £m
1 January	**1.5**	5.5
Net change in fair value recognised in the income statement	**0.4**	(1.9)
Repayments by borrowers	**(1.5)**	(2.1)
31 December	**0.4**	1.5
Current	**0.4**	1.5
31 December	**0.4**	1.5

The Group's maximum credit exposure is limited to the carrying value of the shared equity loan receivables granted. The Group's credit risk is partially mitigated as the shared equity loan receivables are secured by way of a second charge over the property. There were no defaults during the year (2021: no defaults).

Basis of valuation and assumptions made

There is no directly observable fair value for individual loans arising from the sale of properties under the scheme. Therefore the Group has developed a model for determining the fair value of the portfolio of loans based on national property prices, expected property price increases, expected loan defaults and a discount factor which reflects the interest rate expected on an instrument of similar risk and duration in the market.

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

15 Inventories

	2022 £m	2021 £m
Work in progress	**333.9**	288.5

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

16 Contract assets and liabilities

	2022 £m	2021 £m
Contract assets	**294.6**	232.6
Contract liabilities	**(74.2)**	(78.5)

The contract assets primarily relate to the Group's right to consideration for construction work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. On most contracts, certificates are issued by the customer on a monthly basis. All contract assets held at 31 December 2022 are expected to be invoiced and transferred to trade receivables within the next 12 months.

The Group has taken advantage of the practical expedient in paragraph 94 of IFRS 15 to immediately expense the incremental costs of obtaining contracts where the amortisation period of the assets would have been one year or less.

The contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised. All contract liabilities held at 31 December 2022 are expected to satisfy performance obligations in the next 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

16 Contract assets and liabilities continued

Significant changes in the contract assets and the contract liabilities during the period are as follows:

	2022		2021	
	Contract assets £m	Contract liabilities £m	Contract assets £m	Contract liabilities £m
1 January	**232.6**	**(78.5)**	171.8	(55.6)
Revenue recognised:				
– performance obligations satisfied in the current year	**3,533.7**	**78.5**	3,157.2	55.6
– adjustments to performance obligations satisfied in previous years	**–**	**–**	–	–
Cash received for performance obligations not yet satisfied	**–**	**(74.2)**	–	(78.5)
Amounts transferred to trade receivables	**(3,471.7)**	**–**	(3,096.4)	–
31 December	**294.6**	**(74.2)**	232.6	(78.5)

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

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

	2023 £m	2024 £m	2025+ £m	Total £m
Construction & Infrastructure	1,382.7	1,194.4	23.6	**2,600.7**
Fit Out	590.9	204.5	46.0	**841.4**
Property Services	150.4	148.3	905.7	**1,204.4**
Partnership Housing	784.7	490.8	708.4	**1,983.9**
Urban Regeneration	310.9	219.7	1,316.9	**1,847.5**
Eliminations	(19.0)	–	–	**(19.0)**
	3,200.6	2,257.7	3,000.6	**8,458.9**

17 Trade and other receivables

	Notes	2022 £m	2021 £m
Amounts falling due within one year			
Trade receivables	26	**243.6**	200.3
Amounts owed by joint ventures	25	**9.2**	13.5
Prepayments		**13.0**	13.2
Insurance receivables		**4.8**	30.4
Other receivables		**36.0**	21.0
		306.6	278.4
Amounts falling due after more than one year			
Trade receivables	26	**46.4**	49.9
		46.4	49.9
Trade and other receivables		**353.0**	328.3

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

Trade receivables are stated after provisions for impairment losses of £2.5m (2021: £1.2m).

17 Trade and other receivables continued

Retentions held by customers for contract work included within trade receivables at 31 December 2022 were £96.8m (2021: £91.0m). These will be collected in the normal operating cycle of the Company. The Company manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact with clients to ensure that potential issues that could lead to the non-payment of retentions are identified and addressed promptly.

The Group holds third-party insurances that may mitigate the contract and legal liabilities described in note 20 – provisions and note 22 – contingent liabilities. Insurance receivables are recognised when reimbursement from insurers is virtually certain.

18 Trade and other payables

	Notes	2022 £m	2021 £m
Trade payables		**165.4**	157.6
Amounts owed to joint ventures	25	**4.2**	0.2
Other tax and social security		**107.0**	107.5
Accrued expenses		**637.7**	602.7
Deferred income		**5.8**	8.9
Land creditors		**30.8**	8.9
Other payables		**12.3**	5.6
Current		**963.2**	891.4
Land creditors		**30.9**	32.6
Other payables		**6.4**	–
Non-current		**37.3**	32.6

The directors consider that the carrying amount of trade payables approximates to their fair value. No interest was incurred on outstanding balances. Non-current other payables have been discounted by £2.2m (2021: £3.3m) to reflect the time value of money.

Retentions withheld from subcontractors included in trade payables amount to £80.9m (2021: £75.4m).

Funding obligations to joint ventures included within amounts owed to joint ventures are £4.0m (2021: £nil) as described in note 13.

19 Retirement benefit schemes

Defined contribution plan

The Morgan Sindall Retirement Benefits Plan ('the Retirement Plan') was established on 31 May 1995 and currently operates on defined contribution principles for employees of the Group. The assets of the Retirement Plan are held separately from those of the Group in funds under the control of the Trustees of the Retirement Plan. The total cost charged to the income statement of £22.9m (2021: £21.1m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2022, contributions of £3.3m (2021: £2.6m) were due in respect of December's contribution not paid over to the Retirement Plan.

Defined benefit plan

The Retirement Plan includes a defined benefit section comprising liabilities and transfers of funds representing the accrued benefit rights of active and deferred members and pensioners of pension plans of companies which are now part of the Group. These include salary-related benefits for members in respect of benefits accrued before 31 May 1995 (and benefits transferred in from The Snape Group Limited Retirement Benefits Scheme accrued up to 1 August 1997). No further defined benefit membership rights can accrue after those dates. The scheme duration is an indicator of the weighted average time until benefit payments are expected to be made. For the scheme as a whole, the duration is around 11 years.

On 23 May 2018, the Trustees of the Retirement Plan completed a buy-in transaction with Aviva to insure the benefits of the defined benefit members. The buy-in policy is an asset of the Plan that provides payments that are an exact match to the pension payments made to the defined benefit members covered by the policy.

During the year ended 31 December 2020, additional liabilities were recognised due to a court ruling on 20 November 2020 in respect of Guaranteed Minimum Pension (GMP) equalisation for past transfers out. The additional liability recognised as a result of this ruling at 31 December 2022 is £0.2m (2021: £0.2m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

19 Retirement benefit schemes continued

The present value of the defined benefit liabilities was measured using the projected unit credit method. The following table shows the key assumptions used:

Key assumptions used:	2022	2021
Discount rate (%)	**4.8**	1.9
Rate of inflation (%)	**3.3**	3.1
Rate of future pension increases[a] (%)	**3.0–3.5**	3.0–3.5
Average life expectancy for pensioner retiring now at age 65 years (years)	**87.1**	87.3
Average life expectancy for pensioner retiring in 20 years at age 65 years (years)	**88.9**	89.1

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

	2022			2021		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	**10.1**	**(10.3)**	**(0.2)**	12.7	(12.9)	(0.2)
Finance income/(expense)	**0.2**	**(0.2)**	**–**	0.1	(0.1)	–
Actuarial (loss)/gain	**(3.0)**	**3.0**	**–**	(0.8)	0.8	–
Benefits paid	**(0.7)**	**0.7**	**–**	(1.9)	1.9	–
31 December	**6.6**	**(6.8)**	**(0.2)**	10.1	(10.3)	(0.2)

Sensitivity analysis

As the buy-in policy is valued in line with the corresponding liability value, there would be a corresponding change in assets and liabilities for any change in assumptions used to value the liabilities, with no impact on the net position.

There was no actuarial gain or loss recognised in the statement of comprehensive income during the current or prior year.

For IAS 19 purposes, the buy-in asset is valued as equal to the accounting value of the liabilities covered. This results in the total plan assets being equal to the IAS 19 liabilities, excluding the £0.2m GMP equalisation liability.

No contributions are expected to be paid to the defined benefit section of the Retirement Plan during 2023.

20 Provisions

	Building safety	Self-insurance £m	Contract and legal £m	Other £m	Total £m
1 January 2021	–	22.8	–	8.1	30.9
Utilised	–	(1.6)	–	(5.0)	(6.6)
Additions	–	4.5	22.7	0.2	27.4
Reclassifications	–	–	10.7	–	10.7
Released	–	(4.5)	–	(0.6)	(5.1)
1 January 2022	**–**	**21.2**	**33.4**	**2.7**	**57.3**
Utilised	(0.8)	(1.0)	(6.5)	(0.2)	(8.5)
Additions	39.1	4.0	13.2	1.3	57.6
Released	–	(4.4)	(24.4)	(0.7)	(29.5)
31 December 2022	**38.3**	**19.8**	**15.7**	**3.1**	**76.9**
Current	38.3	–	15.7	1.1	55.1
Non-current	–	19.8	–	2.0	21.8
31 December 2022	**38.3**	**19.8**	**15.7**	**3.1**	**76.9**

Building safety provisions

During 2022, Partnership Housing signed the Pledge with the DLUHC setting out the principles under which life-critical fire safety issues on buildings that they have developed of 11 metres and above are to be remediated. A letter was also received from DLUHC requesting information to assess whether it may be appropriate for Urban Regeneration to also commit to the principles of the Pledge as part of its commitment to support the remediation of historic cladding and fire safety defects over and above its obligations under the new Building Safety Act.

The final-form legal contract was issued in January 2023 and both Partnership Housing and Urban Regeneration have confirmed in writing to DLUHC their intention to sign and execute the contract on or before the stipulated date of 13 March 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20 Provisions continued

Management have reviewed legal and constructive obligations with regard to remedial work to rectify legacy building safety issues. Where obligations exist, these have been evaluated for the likely cost to address, including repayments of the Building Safety Fund. As a result of this review, provisions were recognised, excluding those recognised in joint ventures, totalling £39.1m, of which £0.8m has been utilised during the period.

Note 22 includes details of contingent liabilities related to building safety.

Self-insurance provisions

Self-insurance provisions comprise the Group's self-insurance of certain risks and include £11.1m (2021: £10.8m) held in the Group's captive insurance company, Newman Insurance Company Limited ('the captive').

The Group makes provisions in respect of specific types of claims incurred but not reported (IBNR). The valuation of IBNR considers past claims experience and the risk profile of the Group. These are reviewed periodically and are intended to provide a best estimate of the most likely or expected outcome.

Contract and legal provisions

Contract and legal provisions include liabilities, loss provisions, defect and warranty provisions on contracts that have reached completion.

The Group also holds third-party insurances that may mitigate the liabilities. Third-party insurance reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. See note 17 for details of mitigating insurance receivables recognised at the period end.

Note 22 includes details of contingent liabilities related to claims.

Other provisions

Other provisions include property dilapidations and other personnel-related provisions.

The majority of the provisions are expected to be utilised within 10 years.

21 Lease liabilities

The Group leases several assets including the buildings, plant and vehicles to enable the Group to carry out its day-to-day operations. The average lease term is five years. There are no variable terms to any of the leases. The maturity profile for the lease liabilities at 31 December 2022 is set out below:

	2022			2021		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
Within one year	**8.6**	**9.2**	**17.8**	8.4	6.5	14.9
Within two to five years	**22.7**	**15.2**	**37.9**	22.5	10.4	32.9
After more than five years	**7.2**	**–**	**7.2**	9.2	–	9.2
Total undiscounted cash flows	**38.5**	**24.4**	**62.9**	40.1	16.9	57.0
Deduct impact of discounting	**(4.5)**	**(1.5)**	**(6.0)**	(3.5)	(0.7)	(4.2)
31 December	**34.0**	**22.9**	**56.9**	36.6	16.2	52.8

	2022			2021		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
1 January	**36.6**	**16.2**	**52.8**	41.0	10.0	51.0
Additions	**7.0**	**15.0**	**22.0**	3.5	12.5	16.0
Terminations	**(2.1)**	**(0.5)**	**(2.6)**	(0.3)	(0.2)	(0.5)
Repayments	**(8.8)**	**(8.4)**	**(17.2)**	(8.7)	(6.5)	(15.2)
Interest expense (note 6)	**1.3**	**0.6**	**1.9**	1.1	0.4	1.5
31 December	**34.0**	**22.9**	**56.9**	36.6	16.2	52.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

22 Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business. As at 31 December 2022, contract bonds in issue under uncommitted facilities covered £148.3m of contract commitments of the Group, of which £25.7m related to joint arrangements and £0.1m to joint ventures (2021: £137.2m, of which £25.6m related to joint arrangements and £0.6m to joint ventures).

Contingent liabilities may also arise in respect of subcontractor and other third-party claims made against the Group in the normal course of trading. These claims can include those relating to cladding/legacy fire safety matters, and defects. A provision for such claims is only recognised to the extent that the directors believe that the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation. However, such claims are predominantly covered by the Group's insurance arrangements. Recoveries under insurance arrangements are recognised as insurance receivables when they are considered virtually certain.

Building safety

At 31 December 2022, the Group held provisions totalling £48.1m, including those related to joint ventures, in respect of liabilities arising from commitments made under the Pledge. This represents management's best estimate of the cost and timing of remedial works required and repayments to the Building Safety Fund.

The ongoing legislative and regulatory changes in respect of legacy building safety issues create uncertainty around the extent of remediation required for legacy buildings, the liability for such remediation, recoveries from other parties and the time to be considered. It is possible that as remediation work proceeds, additional remedial works are required that may not have been identified from the reviews and physical inspections undertaken to date. The scope of buildings and remediation works to be considered may also change as legislation and regulations continue to evolve.

Uncertainties also exist in respect of the timing and extent of expected recoveries from other third parties involved in developments for which no assets have been recognised at 31 December 2022.

23 Share capital

	2022		2021	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	**46,374,873**	**2.3**	46,353,338	2.3
Exercise of share options	**975,731**	**0.1**	21,535	–
31 December	**47,350,604**	**2.4**	46,374,873	2.3

All issued ordinary shares are fully paid. Ordinary shares are entitled to dividends when declared and each share carries the right to one vote at a meeting of the Company.

During 2022, 975,731 shares were issued in respect of options exercised under the Group's SAYE for a total consideration of £10.2m (2021: 21,535 shares were issued for a total consideration of £0.3m).

24 Share-based payments

The Group recognised a share-based payment expense of £9.7m (2021: £12.1m) related to equity-settled share-based payment transactions. The Group has four share option schemes with unvested options or awards at 31 December 2022:

- Share Option Plan ('2014 SOP') for eligible employees across the Group. Options can be exercised if any applicable EPS performance conditions are met over a three-year maturity period. If the options remain unexercised after a period of 10 years from the date of grant, the options lapse. If employees are not deemed to be good leavers under the rules of the 2014 SOP, their options will be forfeited if they leave the Group before the end of the option maturity period.
- Savings-Related Share Option Plan ('SAYE') for all employees that are employed by the Group at the relevant invitation date. There are no performance criteria for the SAYE and options are issued to participants in accordance with HMRC rules.
- Long-Term Incentive Plan ('2014 LTIP'). Details of the performance conditions and other information in respect of the 2014 LTIP are set out in the directors' remuneration report on pages 161 and 162.
- Deferred bonus plan nil-cost options ('deferred bonus plan'). Information in respect of the deferred bonus plan is set out in the directors' remuneration report on page 139 and 143.

The Group also has options which are outstanding at 31 December 2022 under the Employee Share Option Plan 2007 ('ESOP 2007') that have vested but the employees have not elected to exercise their options. The outstanding options under the ESOP 2007 must be exercised by 27 November 2024.

Details of the share awards and options granted during the year and the valuation methodology are as follows:

		Share awards under 2014 LTIP		
		Awards with TSR condition	Awards with EPS condition	Share options under 2014 SOP
Number of awards or options granted		65,346	130,691	712,103
Weighted average fair value at date of grant (per share)		£11.45	£17.25	£3.91
Weighted average share price at date of grant		£20.45	£20.45	£20.40
Weighted average exercise price		n/a	n/a	£22.86
Valuation model		Monte–Carlo	Black–Scholes	Black–Scholes
Expected term (from date of grant)		3.0 years	3.0 years	6.5 years
Expected volatility	(a)	44.4%	48.9%	36.7%
Expected dividend yield	(b)	n/a	n/a	4.6%
Risk-free rate		1.2%	1.2%	1.1%

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

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

24 Share-based payments continued

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

	2022		2021	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	**4,598,162**	**14.19**	4,481,179	12.43
Granted during the year	**728,166**	**22.35**	1,780,274	16.08
Lapsed during the year	**(216,270)**	**16.41**	(790,781)	12.75
Exercised during the year	**(1,440,152)**	**10.81**	(872,510)	10.28
Outstanding at 31 December	**3,669,906**	**16.81**	4,598,162	14.19
Exercisable at 31 December	**732,706**	**11.79**	284,443	9.75
Weighted average remaining contractual life	**6.4 years**		5.4 years	

The weighted average share price at the date of exercise for share options exercised during the year was £20.36 (2021: £20.15).

The options outstanding at 31 December 2022 had exercise prices ranging from £nil to £22.94.

25 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the year, Group companies entered into transactions to provide construction and property development services with related parties, all of which were joint ventures, not members of the Group, amounting to £105.0m (2021: £124.0m). At 31 December 2022, amounts owed to the Group by joint ventures was £9.2m (2021: £13.5m) and amounts owed by the Group to joint ventures was £4.2m (2021: £0.2m) including joint venture funding obligations as described in note 13.

Remuneration of key management personnel

The Group considers key management personnel to be the members of the Group management team, and sets out below in aggregate remuneration for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2022 £m	2021 £m
Short-term employee benefits	**9.8**	10.3
Post-employment benefits	**0.1**	0.1
Share-based payments	**4.4**	4.9
	14.3	15.3

Details of directors' remuneration are set out in the directors' remuneration report on pages 152 to 156.

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 22 February 2023.

Directors' material interests in contracts with the Company

No director held any material interest in any contract with the Company or any Group company in the year or in the subsequent period to 22 February 2023.

26 Financial instruments

Net cash

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

	2022 £m	2021 £m
Cash and cash equivalents	**431.7**	468.6
Bank overdrafts presented as borrowings due within one year	**(77.1)**	(110.2)
Cash and cash equivalents reported in the consolidated cash flow statement	**354.6**	358.4
Borrowings due between two and five years	**–**	(0.4)
Net cash	**354.6**	358.0

Included within cash and cash equivalents is £38.0m (2021: £55.7m) which is the Group's share of cash held within jointly controlled operations. There is £11.1m included within cash and cash equivalents that is held for future payment to designated suppliers (2021: £6.4m).

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £15m matures in March 2024 and £165m in October 2025. These facilities are undrawn at 31 December 2022.

Average daily net cash during 2022 was £256.3m (2021: £291.4m). Average daily net cash is defined as the average of the 365 end-of-day balances of the net cash (as defined above) over the course of a reporting period. Management use this as a key metric in monitoring the performance of the business.

Financial risks and management

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

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

- credit risk
- liquidity risk
- market risk

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a client or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily in respect of the Group's trade receivables and contract assets.

The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the project. The Group's credit risk is also influenced by general macroeconomic conditions. The Group does not have any significant concentration risk in respect of contract assets or trade receivable balances at the reporting date with receivables spread across a wide range of clients. Due to the nature of the Group's operations, it is normal practice for clients to hold retentions in respect of contracts completed. Retentions held by clients at 31 December 2022 were £96.8m (2021: £91.0m). These will be collected in the normal operating cycle of the Group.

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

The risk management policies of the Group also specify procedures in respect of obtaining Parent Company guarantees or, in certain circumstances, use of escrow accounts which, in the event of default, mean that the Group may have a secure claim. The Group does not require collateral in respect of contract assets or trade receivables.

The Group manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact with clients to ensure that potential issues that could lead to the non-payment of retentions are identified and addressed promptly. The directors always estimate the loss allowance on contract assets and trade receivables at the end of the reporting period at an amount equal to lifetime expected credit losses.

None of the contract assets at the end of the reporting period are past due, and, taking into account the historical default experience and the future prospects in the industry, the directors consider that no contract assets are impaired.

26 Financial instruments continued

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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

	2022		2021	
	Gross trade receivables £m	Provision for expected credit losses £m	Gross trade receivables £m	Provision for expected credit losses £m
Not past due	**244.7**	**0.5**	219.5	–
Past due 1 to 30 days	**22.9**	**–**	10.9	–
Past due 31 to 120 days	**10.4**	**–**	9.3	–
Past due 121 to 365 days	**6.1**	**–**	7.0	0.4
Past due greater than one year	**8.4**	**2.0**	4.7	0.8
	292.5	**2.5**	251.4	1.2

The following table shows the movement in lifetime expected credit losses that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9:

	2022 £m	2021 £m
1 January	**1.2**	1.2
Net increase in loss allowance arising from new amounts recognised in current year, net of those derecognised upon billing	**1.3**	–
31 December	**2.5**	1.2

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

The average credit period on revenue is 29 days (2021: 28 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 £45.8m (2021: £30.7m) 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 108 days (2021: 108 days).

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

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

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The ultimate responsibility for liquidity risk rests with the Board.

The Group aims to manage liquidity by ensuring that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions.

Liquidity is provided through cash balances and committed bank loan facilities. Additional project finance borrowings may be used to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

The Group reports cash balances daily and invests surplus cash to maximise income while preserving liquidity and credit quality. The Group prepares weekly short-term and monthly medium-term cash forecasts, which are used to assess the Group's expected cash performance and compare with the facilities available to the Group and the Group's covenants.

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

26 Financial instruments continued

Key among these are continual monitoring of the secured 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; continual monitoring of working capital exceptions (overdue debts and conversion of work performed into certificates and invoices); continual review of levels of current and forecast profitability on contracts; review of client and supplier credit references; and approval of credit terms with clients and suppliers to ensure they are appropriate.

The Group does not have any material derivative or non-derivative financial liabilities with the exception of trade and other payables, borrowings and lease liabilities. Trade and other payables are generally non-interest bearing and, therefore, have no weighted average effective interest rates. Lease liabilities are carried at the present value of the minimum lease payments. Trade and other payables are due to be settled in the Group's normal operating cycle.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or equity prices, will affect the Group's income or the carrying amount of its holdings of financial instruments. The objective of market risk management is to achieve a level of market risk that is within acceptable parameters as set out in the Group risk management framework.

Interest rate risk

The Group is not exposed to significant interest rate risk as it does not have significant interest-bearing liabilities and its only interest-bearing asset is cash invested on a short-term basis.

Certain of the Group's equity-accounted joint ventures have entered into interest rate swaps to manage their exposure to interest rate risk arising on floating rate bank borrowings.

The Group's share of joint ventures' interest rate swap contracts have a nominal value of £11.6m (2021: £12.2m) and fixed interest payments at an average rate of 5.1% (2021: 5.1%) for periods up until 2033.

Currency risk

The majority of the Group's operations are carried out in the UK and the Group has a low level of exposure to currency risk on sales and purchases. The Group's policy is to hedge foreign currency transactions where they are material, at which point derivative financial instruments are entered into so as to hedge forecast or actual foreign currency exposures.

Capital management

The Board aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business, and its approach to capital management is explained fully in the financial review on pages 45 and 46.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The cash and cash equivalents are supplemented by £180m of committed bank facilities, of which £15m expires in March 2024 and £165m expires in October 2025. In order to manage its capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

There were no changes in the Group's approach to capital management during the year and the Group is not subject to any capital requirements imposed by regulatory authorities.

27 Subsequent events

There were no subsequent events that affected the financial statements of the Group.

28 Adjusted performance measures

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

'Adjusted' In all cases the term 'adjusted' excludes the impact of intangible amortisation and exceptional items. This is used to improve the comparability of information between reporting periods to aid the use of the annual report in understanding the activities across the Group's portfolio.

Below is a reconciliation between the reported gross profit, operating profit and profit before tax measures on a statutory basis and the adjustment made to calculate adjusted gross profit, adjusted operating profit and adjusted profit before tax.

Adjusted basic earnings per share and adjusted diluted earnings per share is the statutory measure excluding the post-tax impact of intangible amortisation and exceptional items, and the deferred tax charge arising due to changes in UK corporation tax rates. See note 9 for a detailed reconciliation of the adjusted EPS measures.

	Gross profit		Operating profit		Profit before tax	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Reported	**370.9**	382.8	**88.3**	129.8	**85.3**	126.2
Add back: exceptional building safety charge[1]	**39.1**	–	**48.9**	–	**48.9**	–
Add back: amortisation of intangible assets	**–**	–	**2.0**	1.5	**2.0**	1.5
Adjusted	**410.0**	382.8	**139.2**	131.3	**136.2**	127.7

1 The exceptional building safety charge includes items recognised in cost of sales (£39.1m) and share of net profit of joint ventures (£9.8m) (see note 4).

'Net cash' Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing. Lease liabilities are not deducted from net cash. A reconciliation of this number at the reporting date can be found in note 26. In addition, management monitor and review average daily net cash as good discipline in managing capital. Average daily net cash is defined as the average of the 365 end-of-day balances of the net cash over the course of a reporting period.

'Operating cash flow' Management use an adjusted measure for operating cash flow as it encompasses other cash flows that are key to the ongoing operations of the Group, such as repayments of lease liabilities, investment in property, plant and equipment, investment in intangible assets, and returns from equity-accounted joint ventures. Operating cash flow can be derived from the cash inflow from operations reported in the consolidated cash flow statement as shown below.

Operating cash flow conversion is operating cash flow divided by adjusted operating profit as defined above.

	2022 £m	2021 £m
Cash inflow from operations – reported	**75.0**	138.8
Interest received from joint ventures[1]	**–**	0.6
Dividends from joint ventures	**1.4**	–
Proceeds on disposal of property, plant and equipment	**0.6**	1.4
Purchases of property, plant and equipment	**(10.5)**	(6.7)
Purchases of intangible fixed assets	**(1.3)**	(1.3)
Repayments of lease liabilities	**(17.2)**	(15.2)
Operating cash flow	**48.0**	117.6

1 Interest received from joint ventures in 2022 was £nil (2021: £0.6m). Note 6 provides a breakdown of finance income in the year.

'Return on capital employed' Management use return on capital employed (ROCE) in assessing the performance and efficient use of capital within the regeneration activities. ROCE is calculated as adjusted operating profit plus interest received from joint ventures divided by adjusted average capital employed. Adjusted average capital employed is the 12-month average of total assets (excluding goodwill, other intangible assets and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing, overdrafts and exceptional building safety items).

COMPANY STATEMENT OF FINANCIAL POSITION
at 31 December 2022

	Notes	2022 £m	2021 £m
Assets			
Property, plant and equipment		**4.0**	3.5
Investments	2	**459.6**	459.6
Deferred tax asset[1]		**9.7**	9.8
Amounts owed by subsidiary undertakings		**15.4**	15.4
Non-current assets		**488.7**	488.3
Trade receivables		**0.7**	0.7
Amounts owed by subsidiary undertakings		**144.5**	117.2
Current tax asset		**–**	5.0
Prepayments		**5.1**	5.1
Other receivables		**5.0**	3.5
Cash and cash equivalents		**158.1**	160.1
Current assets		**313.4**	291.6
Total assets		**802.1**	779.9
Liabilities			
Bank overdrafts		**(56.8)**	(94.6)
Lease liabilities		**(0.4)**	(0.5)
Trade payables		**(1.6)**	(1.1)
Amounts owed to subsidiary undertakings		**(536.5)**	(520.5)
Current tax liabilities		**(2.6)**	–
Other tax and social security		**(0.8)**	(0.7)
Retirement benefit obligation		**(0.2)**	(0.2)
Accrued expenses		**(9.9)**	(8.5)
Other payables		**(1.5)**	(1.3)
Provisions	3	**(2.5)**	–
Current liabilities		**(612.8)**	(627.4)

	Notes	2022 £m	2021 £m
Net current liabilities		**(299.4)**	(335.8)
Total assets less current liabilities		**189.3**	152.5
Lease liabilities		**(1.1)**	(1.5)
Provisions	3	**(9.0)**	(10.7)
Non-current liabilities		**(10.1)**	(12.2)
Net assets		**179.2**	140.3
Equity			
Share capital		**2.4**	2.3
Share premium account		**55.9**	45.8
Capital redemption reserve		**0.6**	0.6
Special reserve		**13.7**	13.7
Retained earnings		**106.6**	77.9
Total equity		**179.2**	140.3

1 We have reclassified the deferred tax asset to non-current in line with IAS 1. This reclassification has no impact on the Company income statement or the Company statement of changes in equity.

The Company reported a profit for the financial year ended 31 December 2022 of £79.9m (2021: profit of £93.5m).

The financial statements of the Company (company number: 00521970) were approved by the Board and authorised for issue on 22 February 2023 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

COMPANY STATEMENT OF CHANGES IN EQUITY
at 31 December 2022

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
1 January 2021	2.3	45.5	0.6	13.7	28.3	90.4
Profit for the year	–	–	–	–	93.5	93.5
Other comprehensive income	–	–	–	–	–	–
Total comprehensive expense	–	–	–	–	93.5	93.5
Share-based payments	–	–	–	–	12.1	12.1
Issue of shares at a premium	–	0.3	–	–	–	0.3
Tax relating to share-based payments	–	–	–	–	8.2	8.2
Purchase of shares in the Company by the Trust	–	–	–	–	(33.6)	(33.6)
Exercise of share options	–	–	–	–	1.7	1.7
Dividends paid	–	–	–	–	(32.3)	(32.3)
1 January 2022	**2.3**	**45.8**	**0.6**	**13.7**	**77.9**	**140.3**
Profit for the year	–	–	–	–	79.9	79.9
Other comprehensive income	–	–	–	–		–
Total comprehensive income	–	–	–	–	79.9	79.9
Share-based payments	–	–	–	–	9.7	9.7
Tax relating to share-based payments	–	–	–	–	(3.3)	(3.3)
Issue of shares at a premium	0.1	10.1	–	–	–	10.2
Purchase of shares in the Company by the Trust	–	–	–	–	(15.7)	(15.7)
Exercise of share options	–	–	–	–	1.6	1.6
Dividends paid	–	–	–	–	(43.5)	(43.5)
31 December 2022	**2.4**	**55.9**	**0.6**	**13.7**	**106.6**	**179.2**

SIGNIFICANT ACCOUNTING POLICIES
for the year ended 31 December 2022

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 ('the Act'). The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Company has prepared its financial statements in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The Company's accounting policies are consistent with those described in the consolidated accounts of Morgan Sindall Group plc, except that, as permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and related party transactions. Where required, equivalent disclosures are given in the consolidated accounts. In addition, disclosures in relation to retirement benefit schemes (note 19), share capital (note 23) and dividends (note 8) have not been repeated here as there are no differences to those provided in the consolidated accounts. There are no critical judgements the directors have made within the Company financial statement.

These financial statements have been prepared on the going concern basis as set out in the basis of preparation to the consolidated financial statements on page 188, where the Company receives income in the form of dividends from other Group subsidiaries, and under the historical cost convention. The financial statements are presented in pounds sterling, which is the Company's functional currency and, unless otherwise stated, have been rounded to the nearest £0.1m.

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the Parent Company is not presented as part of these accounts.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Staff costs

	2022 £m	2021 £m
Wages and salaries	**12.3**	12.0
Social security costs	**1.0**	2.4
Other pension costs	**0.3**	0.3
Share-based payments	**5.7**	5.3
	19.3	20.0
The average number of employees	**106**	103

Social security costs include a benefit of £1.0m (2021: expense of £0.9m) related to the Group share option scheme.

2 Investments

	Subsidiary undertakings £m
Cost	
1 January 2022	459.6
31 December 2022	**459.6**
Net book value at 31 December 2022	**459.6**
Net book value at 31 December 2021	459.6

A list of all subsidiary, associated undertakings and significant holdings owned by the Group at 31 December 2022 is shown below:

Construction & Infrastructure

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Construction & Infrastructure Ltd	Indirect	100
Bluestone Limited	Indirect	100
Magnor Plant Hire Limited	Direct	100
Morgan Sindall All Together Cumbria CIC(6)	Indirect	100
Morgan Sindall Engineering Solutions Limited	Indirect	100
Morgan Sindall Holdings Limited	Direct	100
Morgan Utilities Limited	Indirect	100
MS (MEST) Limited	Indirect	100
Newman Insurance Company Limited*(l)	Indirect	100
Baker Hicks Limited	Direct	100
Baker Hicks Europe Holdings Limited (formerly Morgan Sindall Professional Services (Switzerland) Ltd)	Indirect	100
BakerHicks AG*(e)	Indirect	100
BakerHicks Aps*(q)	Indirect	100
BakerHicks GmbH*(f)(g)	Indirect	100
BakerHicks SA*(r)	Indirect	100

Fit Out

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Overbury plc	Direct	100
Morgan Lovell plc	Direct	100

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

2 Investments continued

Property Services

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Property Services Limited	Direct	100
Golden i Limited	Indirect	100
Lovell Powerminster Limited	Indirect	100
Manchester Energy Company Limited	Indirect	100

Partnership Housing

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Lovell Partnerships Limited	Direct	100
345 Park Place Residents Management Company Limited[a][2]	Indirect	100
Abbey Walk Management Company Limited[a][2]	Indirect	100
AH Burnholme Limited	Indirect	100
All Saints Green Residents Management Company Limited[s][2]	Indirect	100
Anthem Lovell LLP[1]	Indirect	50
Blossomfield (Thorp Arch) Management Company Limited[a][2]	Indirect	100
Caldon Quay Residents Management Company Limited[a][2]	Indirect	100
Chalkdene Developments LLP[1]	Indirect	50
Cherry Pie Meadow Residents Management Company Limited[a][2]	Indirect	100
Claymore Roads (Holdings) Limited[c]	Indirect	50
Community Solutions for Education Limited	Indirect	100
Community Solutions for Regeneration Limited	Indirect	100
Community Solutions for Regeneration (Hertfordshire) Limited	Indirect	100
Community Solutions Living Limited	Indirect	100
Community Solutions Management Services Limited	Indirect	100

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Community Solutions Management Services (Hub) Limited	Indirect	100
Community Solutions Partnership Services Limited	Indirect	100
Crosse Courts (Basildon) Management Company Limited[a][2]	Indirect	100
Crown Meadows Residents Management Company Limited[a][2]	Indirect	100
Drummond Park (Ludgershall) Residents Management Company Limited[a][2]	Indirect	100
Eden Park (Bonscale Crescent) Residents Management Company Limited[a][2]	Indirect	100
Eden Valley Management Company Limited[a][2]	Indirect	100
Edmundham Developments LLP[1] (formerly Suffolk Housing JV LLP)	Indirect	50
Electric Quarter Residents Management Company Limited[a][2]	Indirect	100
Exford Drive Management Company Limited[a][2]	Indirect	100
Fairfields Management Company Limited[a][2]	Indirect	100
Firs Park Residents Management Company Limited[a][2]	Indirect	100
Fountain Court Residents Company Limited[a][2]	Indirect	100
Foxglove Meadows Residents Management Company Limited[a][2]	Indirect	100
Gallus Fields Residents Management Company Limited[a][2]	Indirect	100
Golwg Y Bryn Residents Management Company Limited[a][2]	Indirect	100
Hamsard 3134 Limited	Indirect	100
Hamsard 3135 Limited	Indirect	100
Health Innovation Partners Limited	Indirect	50
Heath Farm Residents Management Company Limited[a][2]	Indirect	100
hub West Scotland Limited[d]	Indirect	54
Ingleby View Management Company Limited[a][2]	Indirect	100
Keepers Gate (WSM) Residents Management Company Limited[a][2]	Indirect	100
Kensington Gardens Management Limited[a][2]	Indirect	100

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Kings Reach (Snaith) Residents Management Company[(a)(2)]	Indirect	100
Laurus Lovell Whalley LLP[(1)]	Indirect	50
Laxton Close Management Company Limited[(a)(2)]	Indirect	100
Lockside Residents Management Company Limited[(a)(2)]	Indirect	100
Lovell Bow Limited	Indirect	100
Lovell Director Limited	Indirect	100
Lovell Flagship LLP[(1)]	Indirect	50
Lovell Guf Limited	Indirect	100
Lovell Later Living LLP[(1)]	Indirect	100
Lovell Latimer LLP[(1)]	Indirect	50
Lovell Plus Limited	Indirect	100
Lovell Property Rental Limited	Indirect	100
Lovell Together (Pendleton) LLP[(1)]	Indirect	50
Lovell Together LLP[(1)]	Indirect	50
Lovell/Abri Weymouth LLP[(1)]	Indirect	50
Lymington Mews Management Company Limited[(a)(2)]	Indirect	100
Meggeson Management Company Limited[(a)(2)]	Indirect	100
Minshull Way Residents Management Company Limited[(a)(2)]	Indirect	100
Morgan Sindall Consortium LLP[(1)]	Indirect	100
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50
Morris Walk North Management Company Limited[(a)(2)]	Indirect	100
Morris Walk South Residents Management Company Limited[(a)(2)]	Indirect	100
Mount View (Melton Mowbray) Residents Company Limited[(a)(2)]	Indirect	100

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Oakfield Grange (Llantarnam) Residents Management Company Ltd[(a)(2)]	Indirect	100
Oaktree Grange Residents Management Company Limited[(a)(2)]	Indirect	100
Oriel View Residents Management Company Limited[(a)(2)]	Indirect	100
Pich Management Company Limited[(a)(2)]	Indirect	100
Pool House Wombourne Ltd	Indirect	100
Principal Point Residents Management Company Limited[(a)(2)]	Indirect	100
Queensbury Park Management Company Limited[(a)(2)]	Indirect	100
RMC The Meadows, Clifton-upon-Teme Limited[(a)(2)]	Indirect	100
Romsey Extra Care Limited	Indirect	100
Ruby Brook Estate Management Company Limited[(a)(2)]	Indirect	100
Ruby Brook Management Company Limited[(a)(2)]	Indirect	100
Saddlers Grange (Howden) Management Company Limited[(a)(2)]	Indirect	100
Saints Quarter (Steelhouse Lane) Residents Management Company Limited[(a)(2)]	Indirect	100
Saredon Gardens Residents Management Company Limited[(a)(2)]	Indirect	100
Shawbrook Manor (Residents) Management Company Limited[(a)(2)]	Indirect	100
Somerford Park Residents Management Company Limited[(a)(2)]	Indirect	100
St Mary's View (Residents) Management Company Limited[(a)(2)]	Indirect	100
Station Fields Residents Management Company Limited[(a)(2)]	Indirect	100
Station House (Stourbridge) Management Company Limited[(a)(2)]	Indirect	100
Stoke Development Limited (formerly HB Villages Developments (Stoke) Ltd)	Indirect	100
Tennyson Fields (Phase 2) Residents Management Company Limited[(a)(2)]	Indirect	100
Tennyson Fields Management Company Limited[(a)(2)]	Indirect	100
The Acorns (Walsham Le Willows) Residents Management Company Limited[(a)(2)]	Indirect	100

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
The Compendium Group Limited	Indirect	50
The East Avenue 2 Residents Management Company Limited[a][2]	Indirect	100
The East Avenue Residents Management Company Limited[a][2]	Indirect	100
The Junction Apartments Residents Management Company Limited[a][2]	Indirect	100
The Junction Residents Management Company Limited[a][2]	Indirect	100
The Laureates Residents Management Company Limited[a][2]	Indirect	100
The Mill (Site 1) Residents Management Company Limited[a][2]	Indirect	100
The Mill (Site 2) Residents Management Company Limited[a][2]	Indirect	100
The Spires Residents Management Company Limited[a][2]	Indirect	100
The Sycamores (Kirk Ella) Management Company Limited[a][2]	Indirect	100
The Way Beswick (Zone 1) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 2) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 3) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 4) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 5) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 6) Management Limited[a][2]	Indirect	100
The Way Beswick (Zone 7) Management Limited[a][2]	Indirect	100
Tixall View Residents Management Company Limited[a][2]	Indirect	100
Towcester Regeneration Limited	Indirect	100
Trinity Walk Residents Management Company Limited[a][2]	Indirect	100
Victoria Court (Newport No 1) Residents Management Company Limited[p][2]	Indirect	50
Victoria Court (Newport No 2) Residents Management Company Limited[a][2]	Indirect	100

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Waterside Quay Residents Management Company Limited[a][2]	Indirect	100
Wellspring Finance Company Limited	Indirect	49.5
Wellspring Partnerships Limited[b]	Indirect	90
Wensum Grange Management Company Limited[a][2]	Indirect	100
West Sussex Property Development LLP[1]	Indirect	50
Westcroft 12 Management Company Limited[a][2]	Indirect	100
Weston Woods Residents Management Company Limited[a][2]	Indirect	100
Weymouth Community Sports LLP[1]	Indirect	100
Wild Walk Donnington Wood Residents Management Company Limited[a][2]	Indirect	100
William's Park Residents Management Company Limited[a][2]	Indirect	100
Willow Grange (Lakeside) Residents Management Company Limited[a][2]	Indirect	100
Woodlark Chase (Warren Drive) Residents Management Company Limited[a][2]	Indirect	100
YMYL YR Afon Residents Management Company Limited[a][2]	Indirect	100

Urban Regeneration

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Muse Places Limited (formerly Muse Developments Limited)	Direct	100
Alexandria Business Park Management Company Limited[5]	Indirect	100
Ashton Moss Developments Limited	Indirect	50
Brentwood Development Partnership LLP[1]	Indirect	50
Bromley Park (Holdings) Limited	Indirect	50
Chatham Place (Building 1) Limited	Indirect	100
Chatham Place Building 1 (Commercial) Limited	Indirect	100

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Chatham Square Limited	Indirect	100
Cheadle Royal Management Company Limited[h][3]	Indirect	27.9
Community Solutions for Regeneration (Bournemouth) Limited	Indirect	100
Community Solutions for Regeneration (Brentwood) Limited	Indirect	100
Community Solutions for Regeneration (Slough) Limited	Indirect	100
ECF (General Partner) Limited[i]	Indirect	33.3
English Cities Fund[i][4]	Indirect	22.9
Eurocentral Partnership Limited	Indirect	99
EPL Contractor (Plot B West) Limited	Indirect	99
EPL Contractor (Plot F East) Limited	Indirect	99
EPL Contractor (Plot F West) Limited	Indirect	99
EPL Developer (Plot B West) Limited	Indirect	99
EPL Developer (Plot F East) Limited	Indirect	99
EPL Developer (Plot F West) Limited	Indirect	99
Harrier Park Management Company Limited[2]	Indirect	100
ICIAN Developments Limited	Indirect	100
Intercity Developments Limited	Indirect	50
Ivor House (Brixton) Management Company Limited[n][2]	Indirect	100
Lewisham Gateway Developments (Holdings) Limited	Indirect	100
Lewisham Gateway Developments Limited	Indirect	100
Lingley Mere Business Park Development Company Limited[j]	Indirect	50
Logic Leeds Management Company Limited[2]	Indirect	50
Muse Aberdeen Limited	Indirect	100
Muse (Brixton) Limited	Indirect	100

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Muse (ECF) Partner Limited	Indirect	100
Muse (Warp 4) Partner Limited	Indirect	100
Muse Brixton (Phase 2) Limited	Indirect	100
Muse Chester Limited	Indirect	100
Muse Developments (Northwich) Limited	Indirect	100
Muse Properties Limited	Indirect	100
North Shore Development Partnership Limited	Indirect	100
Northshore Management Company Limited[2]	Indirect	50
Olive Morris House (Brixton) Management Company Limited[o][2]	Indirect	100
Rail Link Europe Limited	Indirect	100
Slough Urban Renewal LLP[1]	Indirect	50
Sovereign Leeds Limited	Indirect	100
St Andrews Brae Developments Limited	Indirect	50
The Bournemouth Development Company LLP[1]	Indirect	50
The Prestwich Regeneration LLP[1]	Indirect	50
Wapping Wharf (Alpha) LLP[1]	Indirect	50
Wapping Wharf (Beta) LLP[1]	Indirect	40
Warp 4 General Partner Limited	Indirect	100
Warp 4 General Partner Nominees Limited	Indirect	100
Warp 4 Limited Partnership[4]	Indirect	100
Waterside Places (General Partner) Limited[k]	Indirect	50
Waterside Places Limited Partnership[k][4]	Indirect	50
Wirral Growth Company LLP[m][1]	Indirect	50

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

2 Investments continued

Morgan Sindall Group

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Barnes & Elliott Limited	Direct	100
Bluebell Printing Limited	Direct	100
Hinkins & Frewin Limited	Direct	100
Lovell Partnerships (Northern) Limited	Direct	100
Lovell Partnerships (Southern) Limited	Direct	100
Morgan Est (Scotland) Limited[(b)]	Direct	100
Morgan Beton And Monierbau Limited[(b)]	Indirect	50
Morgan Lovell London Limited (formerly Muse Places Limited)	Direct	100
Morgan Sindall Investments Limited	Direct	100
Morgan Sindall Trustee Company Limited	Direct	100
Morgan Utilities Group Limited	Direct	100
Muse Developments Limited (incorporated 17 February 2023)	Direct	100
Roberts Construction Limited	Direct	100
Sindall Eastern Limited	Indirect	100
Snape Design & Build Limited	Indirect	100
Stansell Limited	Direct	100
T J Braybon & Son Limited	Direct	100
The Snape Group Limited	Direct	100
Underground Professional Services Limited	Direct	100
Wheatley Construction Limited	Direct	100

* With the exception of Newman Insurance Company Limited, registered and operating in Guernsey, BakerHicks AG, registered and operating in Switzerland, BakerHicks Aps, registered and operating in Denmark, BakerHicks GmbH, registered and operating in Austria and Germany, and BakerHicks SA, registered and operating in Denmark, all undertakings are registered in England and Wales or Scotland and the principal place of business is the UK.

Unless otherwise stated, the registered office address for each of the above is Kent House, 14–17 Market Place, London, W1W 8AJ.

Registered office classification key:

(a) One Eleven, Edmund Street, Birmingham, West Midlands, B3 2HJ
(b) 1 Rutland Court, Edinburgh, EH3 8EY
(c) Cannon Place, 78 Cannon Street, London, EC4N 6AF
(d) The Lighthouse, 2nd Floor, 11 Mitchell Lane, Glasgow, G1 3NU
(e) Badenstrasse 3, 4057, Basel, Switzerland
(f) Albert-Nestler-Strasse 26, 76131 Karlsruhe, Germany
(g) Am Euro Platz 3, 1120 Wien, Austria
(h) 2 New Bailey, 6 Stanley Street, Salford, Greater Manchester, M3 5GS
(i) One Coleman Street, London, EC2R 5AA
(j) Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP
(k) National Waterways Museum, Ellesmere Port, South Pier Road, Ellesmere Port, Cheshire, CH65 4FW
(l) Willis Management (Guernsey) Limited, Suite 1 North, First Floor, Albert House, South Esplanade, St Peter Port, Guernsey, GY1 1AJ
(m) C/o Head of Legal Wirral Borough Council, Town Hall, Brighton Street, Wallasey, Wirral, CH44 8ED
(n) c/o Rendall and Rittner Limited, 13b St George Wharf, London, SW8 2LE
(o) Riverside House, Irwell Street, Salford, M3 5EN
(p) 7 Neptune Court, Vanguard Way, Cardiff, CF24 5PJ
(q) C/o Bech-Bruun Advokatpartnerselskab, Langelinie Allé 35, 2100 København Ø, Denmark
(r) Boulevard Louis Schmidt 29 15, 1040 Etterbeek, Belgium
(s) 100 Avebury Boulevard, Milton Keynes, MK9 1FH

Unless otherwise stated, the Group's interest is in the ordinary shares issued (or the equivalent of ordinary shares issued in the relevant country of issue).

Registered office classification key:

(1) Limited Liability Partnership.
(2) Limited by guarantee.
(3) Holding of ordinary and special shares.
(4) Limited Partnership.
(5) Holding of special shares.
(6) Community Interest Company.

The proportion of ownership interest is the same as the proportion of voting power held except English Cities Fund and hub West Scotland, details of which are shown in note 13 of the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

3 Provisions

	Self-insurance £m	Other £m	Total £m
1 January 2021	11.4	5.2	16.6
Utilised	(0.5)	(4.9)	(5.4)
Additions	1.5	–	1.5
Released	(2.0)	–	(2.0)
1 January 2022	**10.4**	**0.3**	**10.7**
Utilised	(0.7)	(0.2)	(0.9)
Additions	1.5	2.7	4.2
Released	(2.5)	–	(2.5)
31 December 2022	**8.7**	**2.8**	**11.5**
Current	–	2.5	2.5
Non-current	8.7	0.3	9.0
31 December 2022	**8.7**	**2.8**	**11.5**

Self-insurance provisions

Self-insurance provisions comprise the Group's self-insurance of certain risks. The Group makes provisions in respect of specific types of claims that are IBNR. The valuation of IBNR considers past claims experience and the risk profile of the Group. These are reviewed periodically and are intended to provide a best estimate of the most likely or expected outcome.

Other provisions

Other provisions include property dilapidations and other personnel-related provisions.

The majority of the provisions are expected to be utilised within 10 years.

SHAREHOLDER INFORMATION

Analysis of shareholdings at 31 December 2022

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 1,000	1,505	63.77	662,033	1.40
1,001 to 5,000	566	23.98	1,042,116	2.20
5,001 to 100,000	60	2.54	431,492	0.91
100,001 to 1,000,000	218	9.24	22,725,940	48.00
Over 1,000,000	11	0.47	22,489,023	47.49

Useful contacts

Morgan Sindall Group plc

Registered office
Kent House, 14–17 Market Place,
London, W1W 8AJ

Registered in England and Wales
Company number: 00521970

General queries

Email: cosec@morgansindall.com
Telephone: 020 7307 9200

Registrar

All administrative enquiries relating to shareholdings, such as lost certificates, changes of address, change of ownership or dividend payments and requests to receive corporate documents by email should, in the first instance, be directed to the Company's registrar and clearly state the shareholder's registered address and, if available, the full shareholder reference number:

By post: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ
By phone: +44 (0) 370 707 1695. Lines open 8.30am to 5.30pm (UK time), Monday to Friday
By email: webcorres@computershare.co.uk
Online: investorcentre.co.uk

Shareholders who receive duplicate communications from the Company may have more than one account in their name on the register of members. Any shareholder wishing to amalgamate such holdings should write to the registrar giving details of the accounts concerned and instructions on how they should be amalgamated.

Please note that the Company is no longer paying dividends by cheque. Shareholders who do not currently have their dividends paid directly to a UK bank or building society account should complete a mandate instruction available from the registrar on request or at investorcentre.co.uk by selecting 'Company info', Morgan Sindall Group plc, 'Printable Forms', 'Amendments' and 'Dividend Mandate Form'.

Financial calendar 2023

Ex-dividend date – final dividend	27 April 2023
Record date to be eligible for final dividend	28 April 2023
AGM and trading update	4 May 2023
Payment date for final dividend	18 May 2023
Half-year results announcement	August 2023
Interim dividend payable	October 2023
Trading update	November 2023

Group website and electronic communications

A wide range of Company information is available on our website including:

- financial information – annual reports and half-year results;
- financial news and events;
- share price information; and
- information on how to manage your shares, including share dealing.

Shareholder documents are made available via our website, unless a shareholder has requested hard copies from the registrar.

Forward-looking statements

This document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, may include certain forward-looking statements, beliefs or opinions that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements give the Group's current expectations or forecasts of future events. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Without limitation, forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. No assurance can be given that any particular expectation will be met and shareholders are cautioned not to place undue reliance on any such statements because, by their very nature, they are subject to risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

All forward-looking statements contained in this document are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, fluctuations in exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Forward-looking statements speak only as of the date they are made. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority), the Group, its directors, officers, employees, advisers and associates disclaim any intention or obligation to revise or update any forward-looking or other statements contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise, except as required by applicable law.

APPENDIX – CARBON EMISSIONS BACKGROUND AND TERMINOLOGY

Science-based targets

Following the global agreement on climate change action (CoP 21, Paris, December 2015), companies were encouraged to set greenhouse gas emission reduction targets based on science. Targets are calculated according to the reduction required to keep global warming within an agreed level of temperature rise. Originally, the Paris Agreement was written around a 2°C warming model above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. The calculation of targets varies according to industry sector and the contribution the sector makes to global emissions.

Science-based targets are calculated to decarbonise as much as possible as fast as possible and neutralise any residual emissions to the atmosphere by 2050. The Science Based Targets initiative (SBTi) is a collaboration between CDP, the United Nations Global Compact, World Resources Institute and World Wide Fund for Nature. The initiative uses the latest available climate science to define best practice in science-based target-setting, offers resources and guidance to reduce barriers to adoption, and independently assesses companies' assets against validation criteria.

Types of emissions

The Greenhouse Gas Protocol is a globally recognised framework for measuring and managing greenhouse gas emissions. The Protocol defines three types – scopes – of emissions:

Scope 1 (direct emissions) covers the direct emissions to air under an organisation's control. These mainly include gas boilers and fuel used in vehicle fleets.

Scope 2 (indirect emissions) covers the emissions produced during the generation of electricity purchased and consumed by an organisation.

Scope 3 covers all other indirect emissions, upstream and downstream of the business. There are **15 categories** for Scope 3 emissions. Some are relatively simple to measure and report (e.g. air travel and commuting), while others are more difficult (e.g. purchased goods and materials and products in use). The more straightforward ones are generally reported as part of an organisation's emissions (often referred to as 'limited disclosure'); we refer to these as our 'operational Scope 3 emissions'. If a company's Scope 3 emissions are 40% or more of its total emissions, reduction targets for Scope 3 need to be included as part of agreed science-based targets. This includes all 15 categories, where they are relevant or significant.

Our emissions

Our emissions are broken down as follows:

Scope 1

- other fuels – emissions via air conditioning (kg of gas recharge and gas type), generation of electricity (fuel consumption/litres of gas oil);
- company cars – petrol purchased on Arval fuel cards (litres);
- transport fuels; and
- natural gas (kWh).

Scope 2

Our Scope 2 emissions are calculated using location-based methodology: UK emission factors published by BEIS (the Department for Business, Energy & Industrial Strategy). As the generation of electricity shifts away from fossil fuels, these emission factors change. We therefore update our factors each year:

- electricity purchased (kWh);
- steam and heat purchased from offsite (kWh); and
- electricity consumed in landlord-controlled offices (metres cubed of lease floor area).

Operational Scope 3

Our operational Scope 3 emissions consist of categories 3 (fuel- and energy-related activities); 5 (waste generated in operations); and 6 (business travel), specifically:

- electricity upstream generation, transmission and distribution losses;
- employees with travel allowances – petrol purchased via expense claims and mileage claims (miles);
- transport – other – public transport including air travel, train or tube (passenger miles), supplier freight (miles);
- waste – tonnes of waste produced; and
- water and waste water – metres cubed of potable water consumption and waste water generation.

Wider Scope 3

Our wider Scope 3 emissions consist of the following categories: 1 (purchased goods and services); 2 (capital goods); 4 (upstream transportation and distribution); 7 (employee commuting); 8 (upstream leased assets); 11 (use of sold products); 12 (end-of-life treatment of sold products); and 15 (investments), specifically:

- carbon embodied in materials (emitted during raw extraction, manufacture, transport to site, and disposal or recycling);
- carbon emitted during construction (via energy use and waste); and
- estimated carbon emitted from operating the buildings for 60 years following handover to the client, based on how our clients tell us they will use the buildings.

We are working with our supply chain and clients to gather this data.

More information on our wider Scope 3 emissions, including calculations and relevancy of categories, can be found in our CDP submission available on our website. Categories 9, 10, 13 and 14 have been classified as non-relevant to the Group.

APPENDIX – CARBON EMISSIONS BACKGROUND AND TERMINOLOGY continued

Offsets

Offsets are a mechanism whereby companies can effectively buy 'credits' to reduce the balance of their carbon emissions. An offset is generally an investment in a recognised emission-reduction activity or process that reduces or removes carbon dioxide and other greenhouse gases, such as methane, from the atmosphere. Offsetting is a relatively complex subject and not all offsets are recognised by the UN, which publishes a list of recognised projects.

Offsets are not currently accepted as part of an organisation's science-based targets. However, according to the SBTi, the body responsible for approving and assuring science-based targets, offsetting can play two roles in science-based net zero strategies:

1. In the transition to net zero: companies may opt to compensate or to neutralise emissions that are still being released into the atmosphere while they transition towards a state of net zero emissions.
2. At net zero: companies with residual emissions within their value chain are expected to neutralise those emissions with an equivalent amount of carbon dioxide removals.

Net zero

The ambition of many countries and organisations is to become net zero, effectively having a zero account on their carbon balance sheet. True net zero emissions are represented by the SBTi's 2050 goal. However, not all industries will be able to meet this target no matter what measures are implemented to reduce emissions. For example, current technology will not enable the aviation sector to become true net zero.

The current terminology for net zero is not the same as achieving zero emissions by 2050 (science-based targets). In the past, some companies have claimed to be carbon neutral (net zero) simply by purchasing a large amount of offsets (often forestry). It is still possible for a company to become 'net zero' almost immediately by offsetting. However, this does not ultimately achieve the goal of eliminating all emissions.

Responsible businesses are now approaching net zero by examining their carbon emissions trajectory (often one that has been approved by the SBTi) at two levels: reductions made possible by behavioural change and reductions through development and implementation of new technologies. It is only then that any remaining emissions are offset.

The type of offsetting implemented to achieve net zero is currently up to the individual organisation, but there are many offsets provided on the market which do not meet accepted quality criteria. Quality carbon offset credits must be associated with greenhouse gas reductions or removals that are:

- additional (i.e. that the mitigation activity would not have taken place in the absence of the added incentive created by the carbon credits);
- not overestimated;
- permanent;
- not claimed by another entity; and
- not associated with significant social or environmental harms.

Source: 'Securing Climate Benefit – A Guide to Using Carbon Offsets'. Stockholm Environment Institute & Greenhouse Gas Management Institute.

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