

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

**ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

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MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

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MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

COMPANY INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2021

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M R Atkinson
S P Crummett
J C Morgan

Company Secretary

C Sheridan

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MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Principal activities

Morgan Sindall Construction & Infrastructure Ltd (hereafter referred to as “the Company”) is a UK construction and infrastructure business with a network of local offices. Our strategy has remained consistent for a number of years, with our focus on long term frameworks that allow us to build more meaningful relationships with our key customers, this strategy is reviewed on an annual basis to test its effectiveness. The Company works for private and public sector customers on projects and frameworks from £50,000 to over £1 billion. Activities range from small works and repair and maintenance, to the design and delivery of complex construction and engineering projects where the Company is able to provide building and civil engineering services. The Company operates across the commercial, defence, education, emergency and custodial, energy, healthcare, industrial, leisure and community, nuclear, retail, science and technology, transport and water sectors. We do not expect this to change in the foreseeable future. The Company is a member of the Morgan Sindall Group and its subsidiaries (hereafter referred to as “the Group”) and its activities are included in those of the Group’s Construction and Infrastructure division.

Business review

The results for the year and key performance indicators for the Company were as follows:

	Year to 31 December 2021 £000	Year to 31 December 2020 £000	Change
Revenue	1,416,470	1,533,146	-8%
Operating profit	49,774	28,256	+76%
Operating margin	3.5%	1.8%	+170bps
Profit after tax	37,109	21,632	+72%
Secured order book ¹	2,681,471	2,478,360	+8%

¹ The ‘secured order book’ is the sum of the ‘committed order book’ and the ‘framework order book’. The ‘committed order book’ represents the Company’s share of future revenue that will be derived from signed contracts or letters of intent. The ‘framework order book’ represents the Company’s expected share of revenue from the frameworks on which the Company 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 Company delivered a very strong set of results in the year, with substantial margin and profit growth. Although revenue reduced to £1,416m (2020: £1,533m), operating profit grew 76% up to £49.8m (2020: £28.3m) with operating margin increasing to 3.5%, up 170bps on the prior year (2020: 1.8%).

The Company’s activity is made up of Construction, accounting for 49% of revenue (2020: 44%) and Infrastructure contributing 51% of revenue (2020: 56%).

The Company performed well in terms of winning work and growing its future workload. The forward order book at the end of the year was £2,681m, up 8% compared to the prior year (2020: £2,478m).

Construction’s revenue increased 4% to £694m (2020: £670m) while operating profit increased 167% to £21.9m (2020: £8.2m). The focus on improved operational delivery, disciplined contract selectivity and risk management over many years, together with a favourable project mix in the year, all contributed towards increasing its operating margin to 3.2% (2020: 1.2%). The first half margin was 2.4%, which increased to 3.9% in the second half primarily due to a higher weighting of project completions in the second half, particularly projects in the education sector.

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In addition, Construction had a very strong year of winning work. The order book at the year-end was £810m, an increase of 58% on the prior year (2020: £512m). Of the total, £599m (74% by value) is secured for 2022. In addition to the total order book, Construction also had c£540m of work at preferred bidder stage at the year end. In line with the preferred risk profile of work undertaken, c99% of the order book value is derived through either negotiated, framework or two-stage bidding procurement processes.

In education, Construction's largest sector, project wins during the year included: a £61m project for the University of Hertfordshire to build a new home for its School of Physics, Engineering and Computer Science; Maybole Community Campus, a new £54m primary and secondary education campus in South Ayrshire; a £23m contract to build two new primary schools (Carnbroe and Sikeside) in North Lanarkshire; and the new £31m Glebe Farm School in Milton Keynes. Construction also won projects to expand Horsforth School in Leeds (£5m) which will create 365 new places and Chantry Academy in Ipswich (£3m) which will create 150 new places and a facility for children with special educational needs and/or disability (SEND). In addition, Construction was appointed to deliver a number of dedicated SEND schools, including the £18m Freemantle secondary school in Woking, Surrey; the £16.1m Summerdown School in Eastbourne; and the £9.8m Salmon's Brook Special School in Enfield for children with social, emotional and mental health needs.

Completions in the year included the £7.6m Castleward Spencer Academy primary school in Derby, delivered via the public sector procurement authority, SCAPE; and the £14.2m Wintringham Primary Academy in St Neots, Cambridgeshire.

In healthcare, Construction has been selected to deliver the initial works as part of the wider redevelopment of the North Manchester General Hospital in Crumpsall, one of the 40 new hospitals pledged under the UK government's health infrastructure plan and appointed to build a new £13m facility for the London Institute of Healthcare Engineering at St Thomas' campus, London.

In other sectors, project wins included: the £107m Manor Road Quarter scheme in Canning Town, London, a 34-storey, mixed-use development of 355 apartments (50% affordable) and 8,000 square feet of commercial and retail space, being delivered through Urban Regeneration's English Cities Fund joint venture; and a c£18m manufacturing facility in East Sussex for GW Pharmaceuticals. Completions included a £48m, nine-storey Moxy Hotel and Residence Inn in Slough, delivered through Urban Regeneration's Slough Urban Renewal joint venture, which opened three months ahead of schedule; and Hackney Britannia Leisure Centre, set over four storeys and featuring rooftop sports pitches to make the best use of space.

Framework appointments included: the SCAPE Construction frameworks to deliver education, healthcare, housing and government building projects across England, Wales and Scotland, with a cumulative value of £5 billion over four years (two lots in England and Wales, valued up to £7.5m and £7.5m-£75m, and two lots in Scotland, valued up to and over £7.5m); Lots 4 (£7m-£14m), 5 (£14m-£25m) and 6 (£25m+) on the new £1.6bn Public Buildings Construction and Infrastructure (PB3) framework run by public sector procurement organisation, LCH; and the medium band (£6m-£12m) of the Department for Education's four-year, £5bn construction framework.

Although Infrastructure's revenue was 16% lower at £722m (2020: £863m) primarily due to the timing of its project workload, operating profit increased significantly, up 39% to £27.9m (2020: £20.1m). This resulted in an operating margin of 3.9%, up from 2.3% in the prior year and was driven by strong operational delivery on site and by the type of work.

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The first half margin was 2.9%, while this increased to 4.8% in the second half, benefitting from work mix, efficiencies and final account settlements on a number of projects.

Infrastructure's order book at the year was £1,872m, down 5% on the previous year end (2020: £1,967m). In excess of 95% 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, work won included the appointment by National Highways (formerly Highways England) to the Concrete Roads Programme - Reconstruction Works Framework, a four-year programme worth c£130m to repair or replace the concrete surface of motorways or major A roads in England; and the detailed design for the Carlisle Southern Link Road by Cumbria County Council. In addition, Infrastructure was awarded a place on National Highways' new Scheme Delivery Framework, a £3.6bn, six-year programme to deliver vital renewals to maintain safety and reliability; Infrastructure was selected for the General Civil Engineering Central Region. Work completed in the year on enhancements to the M1 junction 23 and A512 scheme in Loughborough to improve journey times and safety for motorists, delivered for Leicestershire County Council through the Midlands Highways Alliance.

In rail, Infrastructure secured a position as one of three partners on Lot 1 of Transport for London's London Rail Infrastructure Improvement Framework and was subsequently awarded early contractor involvement works for Surrey Quays and Surrey Canal Road stations. In addition, Infrastructure was appointed as principal contractor on Northumberland County Council's framework to build six new stations on the Northumberland Line. The initial part of the Northumberland project, which aims to restore regular passenger trains between Ashington and Newcastle by 2024, will see the conclusion of comprehensive design and delivery plans for the stations and bridges. Subject to government confirmation of funding and approval of the Transport and Works Act Order application, the framework provides for the division to undertake £40m of construction work, set to start in early 2022. Other wins included a £28m contract for Network Rail to construct an extension to the rockfall shelter over the railway line between Dawlish and Holcombe in Devon; a c£9m project to upgrade Maidenhead and Slough Crossrail stations as part of Network Rail's CP6 framework, Western region; and c£9m of station upgrade and access-for-all schemes via the Merseyrail framework. Work completed on the remodelling of London King's Cross station; the £160m Werrington Grade Separation project for Network Rail to increase passenger capacity; and the construction of the new Whitechapel Station for Crossrail, including a new ticket hall and step-free access.

In nuclear, Infrastructure secured a third term extension to the Infrastructure Strategic Alliance for Sellafield Ltd and continued to deliver the £1.6bn Programme and Project Partners contract, a 20-year programme to clean up the legacy of early operations at Europe's largest nuclear site. Infrastructure also continued its work on the 10-year Clyde Commercial Framework for the Defence Infrastructure Organisation.

In energy, National Grid awarded Infrastructure a place on its 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 to 400kV across its transmission network. The framework, expected to be worth up to £1.5bn, is for an initial term of five years with an option for a two-year extension. The division secured additional work as part of the Scottish & Southern Electricity Networks (SSEN) overhead lines framework. Work completed on

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a £31.9m project in Cairngorms National Park to replace overhead lines and transmission towers with underground cables between Boat of Garten and Nethy Bridge, the first project in SSEN's VISTA (Visual Impact of Scottish Transmission Assets) initiative.

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

Looking ahead, the focus for the Company remains on contract selectivity and risk management, operational delivery and developing long term relationships with our clients.

The new medium-term target for Construction has been upgraded, with a target of increasing revenue to £1bn per annum while maintaining its operating margin within the previous range of 2.5%-3.0% per annum. Progress towards this target is expected in 2022 with its margin moving back to within its target range.

Infrastructure's new and upgraded medium-term target is to achieve revenue of £760m per annum while delivering an operating margin within the range of 3.5%-4.0% per annum. Progress towards this target is expected in 2022, although due to the timing and nature of its project workload for the year, its margin is expected to move back to within its target range off broadly similar revenue levels.

Financial position and liquidity

The financial position of the Company is presented in the Balance Sheet. The total shareholder's funds at 31 December 2021 were £301.8m (2020 re-stated: £301.9m). The Company had net current assets of £117.7m (2020 re-stated: £80.8m), including cash of £95.5m (2020: £86.2m) as at 31 December 2021. Included within cash is £55.7m (2020: £53.8m) which is the Company's share of cash held within jointly controlled operations.

The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2021 the Group had net cash balances of £358m. The Group also had £180m of committed loan facilities maturing in 2024, which were entirely undrawn as at 31 December 2021.

Key performance indicators

The Company's financial key performance indicators are described in the business review above. No other key performance indicators are deemed necessary to explain the development, performance or position of the Company.

Principle risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to the market and economic environment, Brexit, inflation, health and safety and environmental performance, contractual risk (including mispricing of contracts, managing changes to contracts and contract disputes, poor project delivery and poor contract selection), and counterparty and liquidity risk. Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided in the strategic report in the Group's annual report and accounts, which does not form part of this report.

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Financial risk management objectives and policies

The Company's operations expose it to a variety of financial risks that include credit risk, liquidity risk, interest rate risk and price risk.

Credit risk

With regard to credit risk the Company has implemented policies that require appropriate credit checks on potential customers before contracts are commenced. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers outside of the Group.

Liquidity risk

This is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company aims to manage liquidity by ensuring that it will always have sufficient resources to meet its liabilities when they fall due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Liquidity is provided through cash balances and access to the Group's committed bank loan facilities.

Interest rate risk

In respect of interest rate risk the Company has interest-bearing assets and liabilities. Interest-bearing assets and liabilities include cash balances and overdrafts, all of which have interest rates applied at floating market rates.

Price risk

The Company has some exposure to commodity price risk as a result of its operations. This risk is managed on a project by project basis by limited forward buying of certain commodities and by negotiating annual purchase agreements with key suppliers. The directors will revisit the appropriateness of this policy should the Company's operations change in size or nature.

Section 172(1) statement Companies Act 2006

Throughout 2021, the directors have complied with the requirements of Section 172 of the Companies Act 2006, in promoting the long-term success of the Company for the benefit of all stakeholders. The following disclosure describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the directors' statement required under section 414CZA of The Companies Act 2006.

Engagement with stakeholders

The directors consider its shareholder, employees, customers, suppliers and local communities to be its core stakeholder groups. As part of its ongoing activities of engaging with stakeholders, the directors have undertaken the following activities in 2021:

Shareholder

Our ultimate shareholder is the Group. We create value for the Group by generating strong and sustainable results that translate into dividends. We discuss our performance in monthly management meetings with the Group's executive directors and provide executive summaries for the Group Board. The directors routinely engage with the Group on topics of strategy, governance and performance and our strategic plans include information on the impact on each of our stakeholders including the community and environment.

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Employees

In line with the Group's Total Commitments, protecting the health, safety and wellbeing of everyone who comes into contact with our business is our number one priority. Furthermore, we are committed to a diverse and inclusive work environment and helping our employees gain skills that support their personal ambitions and drive the business forward.

The Company recognises the need to ensure effective communication with employees and focuses on three key methods of engagement; virtual briefings, leadership briefings and through in-house newsletters and intranet updates. We have adapted our way of working to enhance the level of communication and engagement, and continued to focus on adaptable working and employee wellbeing.

Our IT infrastructure enables our people to work flexibly whilst ensuring safe working practices on all of our operational environments in line with CLC site operating procedures. We continue to work with clients and supply chain to promote enhanced working practices across all of our operations.

The Company also has an Employee Forum which provides a formalised structure for feedback as well as regular employee surveys.

All new employees attend a formal induction, which includes a presentation on the important role played by the Group's core values and Total Commitments in our culture and operations. The Group offers a savings-related share option plan to encourage employee engagement with the business performance and progress.

Customers

We aim to develop long-term relationships with our clients and partners. During 2021, the forward orderbook has seen a strong growth, with £1,552m won through frameworks in Infrastructure and £389m in Construction. The appointment by National Highways (formerly Highways England) to the Concrete Roads Programme - Reconstruction Works Framework, a four-year programme worth c£130m to repair or replace the concrete surface of motorways or major A roads in England, National Highways' new Scheme Delivery Framework, a £3.6bn, six-year programme to deliver vital renewals to maintain safety and reliability, one of three partners on Lot 1 of Transport for London's London Rail Infrastructure Improvement Framework, a third term extension to the Infrastructure Strategic Alliance for Sellafield Ltd, National Grid awarded Infrastructure a place on its 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 to 400kV across its transmission network, the framework, expected to be worth up to £1.5bn, is for an initial term of five years with an option for a two-year extension. In Construction framework appointments included: the SCAPE Construction frameworks to deliver education, healthcare, housing and government building projects across England, Wales and Scotland, with a cumulative value of £5 billion over four years (two lots in England and Wales, valued up to £7.5m and £7.5m-£75m, and two lots in Scotland, valued up to and over £7.5m); Lots 4 (£7m-£14m), 5 (£14m-£25m) and 6 (£25m+) on the new £1.6bn Public Buildings Construction and Infrastructure (PB3) framework run by public sector procurement organisation, LCH; and the medium band (£6m-£12m) of the Department for Education's four-year, £5bn construction framework. All frameworks offer clients the chance to work collaboratively during pre-construction to help manage risk and budgets on complex capital works projects.

One of our core values is "the customer comes first", this is underpinned by our perfect delivery

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approach, the cornerstone of this is to develop a customer charter for each project which gives clarity around our customers objectives, ensuring we focus on these at all times and deal with potential issues as they arise.

Suppliers

Our suppliers and subcontractors are critical to our operations and we take a long-term collaborative approach to working with them. During the year we have continued to focus on how we engage with our suppliers through continuous improvement in the technology we use and sharing our future pipeline of work and strategy. We have also focused heavily on improving our payment record with our suppliers, this is borne by the statistics that we report to the government on a bi-annual basis. The key highlights for the year include; invoices paid within 60 days remained at 98% at December 2021 (December 2020: 98%), meaning we meet the Prompt Payment code target of 95%, the average days to pay invoices reduced to 25 days (December 2020: 27 days) and invoices paid to terms improved to 93% (December 2020: 91%).

Communities

We consult local communities impacted by our projects to find out any concerns they may have. During 2021, we have engaged with the local communities close to where we work in a number of ways, including local community sessions to discuss plans, project updates via post drops and e-newsletters as well as visits to schools to build engagement. We also ensure our website, project specific microsites and social media presence promote the value and reason behind why we are working in the area and encourage people to get in touch with us if they have any concerns.

Further information about how we and the Group engage with stakeholders can be found in the Group's 2021 report and accounts.

Principal decisions

We define principal decisions as those that are material to the Company and to the Group and those that are significant to our key stakeholder groups as above. As set out below, we have given examples of how the directors have considered the outcomes from our stakeholder engagement as well as the need to maintain the Company's reputation for high standards of business conduct and to act fairly between the members of the Company in some of the principal decisions we have taken during the year.

The year has seen continued challenges arising from the Covid-19 pandemic and the health and wellbeing of our people, partners and the public has remained our overriding priority throughout. We have also seen significant inflation growth as well as challenges around material availability.

We continued to promote adaptable working to support the wellbeing of our people utilising the technology we have embedded in our organisation and encouraging engagement as part of our culture and values.

As stated above a significant amount of our workload is undertaken through long-term frameworks, for customers typically in the public or regulated sectors. As part of the procurement process for securing these frameworks there is normally a lot of emphasis on how we engage with our employers, suppliers and the local communities we work in.

We continue to build long term partnerships with our key suppliers to ensure continuity of delivery to our customers. We have a dedicated supply chain management team responsible for our supply chain

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relationships and in 2021 the Group held an annual supply chain conference where we focused on our carbon pledge.

For further information on how the Group Board has considered stakeholders in its decision making please see the corporate governance and directors report in the Group's 2021 Report and Accounts

Approved by and on behalf of the Board



M Atkinson
Finance Director
31 March 2022

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report and the audited financial statements for the year ended 31 December 2021. The annual report comprises the strategic report and directors' report, which together provide the information required by the Companies Act 2006. These financial statements have been prepared under United Kingdom Accounting Standards.

Corporate governance statement

In line with The Companies (Miscellaneous Reporting) Regulations 2018 the following section sets out the corporate governance arrangements that the Company has had in place during the year. Further information which demonstrates how the Board makes decisions for the long-term success of the Company and its stakeholders, including how the directors ensure the Company complies with section 172 of the Companies Act 2006 can be found in the strategic report on pages 2 to 9.

The Company's ultimate parent, Morgan Sindall Group plc ("the Group"), applies the UK Corporate Governance Code (the "Code") to fulfil its Governance reporting requirements (a copy of the Group's consolidated accounts can be found at morgansindall.com). Having taken this into account, we have chosen not to apply a separate code however, this report explains how the Company has embedded the corporate governance arrangements established by the Morgan Sindall Group into its operations.

Board leadership and company purpose

The Group operates a decentralised philosophy in which each division operates independently within its own markets and areas of expertise. To ensure good governance practices are in place and the desired culture is embedded throughout the Group, the executive directors of the ultimate parent company are appointed as directors on each of the divisional companies' boards in order to ensure that clear lines of communication between the Group board and the Company's Board are maintained.

The overall Group purpose which is to inspire talent to deliver excellence in the built environment is reinforced by the Company through the expertise it offers in construction and infrastructure. Where appropriate, we collaborate with our sister companies within the Group to maximise our offering to customers. The Group has a common set of core values and Total Commitments and our Perfect Delivery and 100% Safe approach to work forms an integral part of our culture and business strategy. The directors ensure that the values, strategy and culture align, are implemented and communicated consistently through the Company's work force, for example through inductions for all new starters and regular on-site health and safety briefings for employees and supply chain. In addition, all employees receive a weekly Friday round up of business news and activities.

Division of responsibilities

The Group's decentralised philosophy gives the Company's directors the flexibility and autonomy to tailor resources and respond quickly to the needs of our own clients and partners. The Group's delegated authorities empowers decision making at the appropriate management levels dependent on knowledge and industry experience. Divisional delegated authorities ensure that oversight is always maintained and that the directors retain control of key decisions affecting the Company.

The managing directors of the Company are directors of the Group Management Team which meets regularly to consider strategic and operational matters affecting the Group as a whole. These include risk, health and safety, strategy, the Group budget and responsible business strategy.

Representatives from the Company also participate in several Group led forums which include health and safety, HR and commercial directors' forums, IT security steering group, and supply chain, social value and climate action panels which act as channels for sharing ideas and best practice and ensuring

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

that good governance is adopted across the Group.

Composition, succession and evaluation

A biography for the executive directors of the Group Board and the managing directors of the Company can be found in the Group's Governance report. The Company's directors are supported by a management team, of which details can be found on our websites: www.morgansindallconstruction.com and www.morgansindallinfrastructure.com.

Our succession plans are reviewed by the Group Board's nomination committee. The Group and Company are committed to ensuring a diverse workforce where everyone, regardless of background, can feel included and respected. For further information on diversity and inclusion, please see the strategic report and governance report in the Group's 2021 Report and Accounts.

While we do not formally evaluate the board of the Company, the directors and employees are subject to an annual appraisal process which includes the setting of objectives and identification of individual training and development needs.

Audit, risk and internal control

The Group board's audit committee is responsible for overseeing the relationship and appointing the Group's external auditor. As part of the internal review process of the external auditor, the Company's finance team feeds back on various matters to the Group audit committee to facilitate their assessment of the external auditor's effectiveness.

The Group board is responsible for setting the Group risk appetite. To support the Group's risk review process, the Company carries out a twice-yearly detailed review of risk, recording significant matters in our risk register. Each risk is evaluated, both before and after the effect of mitigation, on its likelihood of occurrence and severity of impact on our strategy. The Group head of assurance and internal control reviews the Company's risk register as part of the process of compiling the Group risk register. Further information on our principal risks can be found in our strategic report on page 6.

Remuneration

The Company's remuneration practices are in line with the remuneration policy established by the Group Board's remuneration committee to ensure a coherent and fair approach is taken across the Group. Our primary objectives are to set remuneration that is competitive in the marketplace which helps motivate and retain the calibre of employees required to deliver the Company's and Group strategy. Details of staff costs including directors' remuneration and information regarding the Company's pension commitments are provided in the notes to these accounts on pages 34 to 44.

For further information on the Group's corporate governance arrangements, please see the Corporate Governance section of the Group's 2021 Report and Accounts at morgansindall.com/investors.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Company, its cash flows, liquidity position and the borrowing facilities, are described in the strategic report on pages 2 to 9.

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the 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 2021

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

financial statements through to 31 March 2023.

The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2021 the Group had net cash balances of £358m. The Group also had £180m of committed loan facilities maturing (£15m maturing in March 2024 and £165m maturing in October 2024), which were entirely undrawn as at 31 December 2021.

The Company's future workload is healthy with a secured order book was £2,681m of which £1,259m relates to the 12 months ending 31 December 2022. The Company has a strong financial position at the year end with net current assets of £117.7m (2020 re-stated: £80.8m), including cash of £95.5m (2020: £86.2m) as at 31 December 2021. Included within cash is £55.7m (2020: £53.8m) which is the Company's share of cash held within jointly controlled operations.

Based on the above, the directors consider there to be no material uncertainties that may cast significant doubt on the Company's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Company have adequate resources to continue in operational existence for the going concern period from the date of signing. For this reason, they continue to adopt the going concern basis in the preparation of these financial statements. Further details can be found in the principal accounting policies in the financial statements.

Directors

The directors who served during the year are shown on page 1. None of the directors had any interest in the shares of the Company during the year ended 31 December 2021.

Directors' indemnities

The Company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Furthermore, the Group maintains liability insurance for its directors and officers and those of its directors and officers of its associated companies. The Group has also indemnified 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 Company has not made qualifying third-party indemnity provisions for the benefit of its directors during the year.

Dividends

An interim dividend of £37.2m (2020: nil) was paid during the year. The directors do not recommend the payment of a final dividend (2020: nil).

Post balance sheet events

On 23 February 2022, the Russian Government commenced its invasion of Ukraine, subsequently we have begun to see price increases for certain commodities starting to emerge. At this stage we are not seeing a significant impact on our projects, and we continue to work with our customers and supply chain partners to mitigate the impact on our projects wherever possible. The Company has determined that these events are non-adjusting subsequent events, as the duration and impact of the invasion of Ukraine remains unclear at this time.

At 31 December 2021 the balance sheet carried a contract provision of £22.7m and a corresponding insurance receivable of £22.7m relating to a specific contract claim. As a subsequent event, on 1 March 2022 the insurance claim was settled resulting in a reduction to contract provisions of £22.7m and a

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

corresponding reduction to insurance receivables of £22.7m. This is a non-adjusting post balance sheet event.

Political contributions

The Company made no political contributions during the year (2020: none).

Employment policies

The Company insists that a policy of equal opportunity employment is demonstrably evident at all times. Selection criteria and procedures and training opportunities are designed to ensure that all individuals are selected, treated and promoted on the basis of their merits, abilities and potential.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should as far as possible, be identical to that of a person who does not suffer from a disability.

Engagement with employees and other stakeholders

Details on engagement with other stakeholders can be found in the strategic report on pages 6 to 8.

Environmental performance

MS Group has announced plans to achieve net zero carbon emissions by 2030 and is going to reduce Scope 1, 2 and operational Scope 3 emissions by 30% by 2025 and by 60% by 2030, based on a 2019 baseline, with any remaining emissions being offset in the UK. MS Group has a history of leadership, transparency and openness around its sustainability goals. MS Group was one of the first construction companies in the world to gain accreditation by the Science-Based Targets Initiative, using targets which represent sector-specific actual reductions in overall emissions. The MS Group's (including the Company's) emission figures have been independently audited by Achilles, under the Carbon Reduce Scheme (formerly CEMARS), for over a decade.

In 2021, MS Group's actions to tackle climate change were independently recognised with an A score for leadership on climate change from the CDP (2020: A), a voluntary climate impact reporting scheme. In 2021, CDP again named MS Group a Supplier Engagement Leader, for its work to drive action on climate change along its supply chain.

For further details of the Group's environmental performance and a copy of the Group's reporting under the Task Force on Climate-related Financial Disclosure (TCFD) requirements please see the Morgan Sindall Group plc 2021 Annual Report www.morgansindall.com

In Construction and Infrastructure we saw a number of positive changes to our environmental performance, particularly improvements in our carbon reduction performance and continuing our focus on the impact of our operations within local communities.

In Construction we appointed a Director of Social Value & Sustainability to the division's leadership team and made a number of significant appointments to create and support environmental performance workstreams which are focused on whole life carbon reduction, biodiversity improvements and natural capital, stakeholder influence and employee empowerment.

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Some notable activities during the year include the completion of an R&D project called the Circular Twin where we undertook a desk top exercise to redesign a previously completed asset, with the prime objective of demonstrating the impact removing as much whole life carbon (WLC) as possible. Through the exercise we confirmed that, for a negligible cost uplift, we could significantly reduce WLC. The Circular Twin demonstrated that a 67% reduction in WLC and a 72% decrease in embodied carbon could be achieved. The results of this project have attracted a paid commission, from a government agency and a private developer, and is helping to shape further workstreams that will benefit the business.

In addition we've prepared for training over 500 customer-facing employees in how to deliver value by assessing and reducing carbon.

In National Environment Week we launched our 10 tonne carbon challenge across 14 projects in the business. The objective of the challenge was to remove a minimum of 10 tonnes of carbon from a project in a week. Other activities we undertook in the week also covered waste management, pollution prevention, air quality and single use plastics. This week long challenge delivered an overall saving of 1471 tonnes of carbon. All life cycle stages were covered i.e. embodied and operational and the challenge is a regular feature across the business.

The Great Green Challenge – a business-wide innovation project – ran throughout 2021 and delivered a number of innovative solutions against business and sector carbon reduction challenges. Specialists and colleagues from across the business came together to develop ideas and solutions against nine carbon reduction challenges. The Challenge culminated in a dragons-den style event where teams pitched their solutions, looking for further investment, of time or resource, and 2022 will see the trial and implementation of those selected innovations.

We continued to invest in the evolution of CarboniCa (the Group's carbon measurement tool), our intelligent carbon calculator to for enabling, measuring and reporting Whole Life Carbon. CarboniCa was deployed across the business and nearly half of all projects over £10m were applying the tool to their project by the end of the year.

We have been working closely with our supply chain to support innovation and our decarbonisation journey. We hosted a number of innovation sessions with our supply chain and held a supply chain carbon week. Fortnightly innovation lunchtime lectures where we invited supply chain partners to present their best and current innovations, ensuring our teams were up to date with the latest technology and solutions our supply chain could offer. We launched e-learning modules on carbon through the supply chain training academy and engaged key supply chain members on carbon.

One area of focus for us was the transition away from the use of conventional diesel fuel on our projects. During the year we saw the introduction of HVO (Hydrotreated Vegetable Oils) fuel, as an alternative. This matched with the introduction of our 'Fuel Free Guidance' and 'Hierarchy' have helped to reduce our fuel usage and associated emissions. This is also in line with our prioritisation of electric plant and equipment as well as research into hydrogen fuelled machinery and welfare buildings, battery storage, and alternative power generation solutions.

In April 2021, we introduced a number of changes to our vehicle policies removing pure diesel and petrol vehicles from our company car selection, we have now seen an increase to 69% being hybrid, plug-in hybrid or electric.

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The Company is committed to minimising its environmental impact both now and in the longer term. We balance this with the need to undertake construction activities for our clients which can have a direct and indirect impact on the environment. Where possible, we encourage our clients to consider more environmentally sustainable products with a longer life expectancy. We also seek to deliver projects in ways that will minimise their impact on the environment by re-using waste and reducing our carbon impact as well as extending the life cycle of the buildings that we construct. The Group's Total Commitment to 'improving the environment' sets the strategy for managing our environmental impact. Within this Commitment the Group focuses on climate change and caring for the natural environment by reducing our carbon footprint and re-using and recycling waste where possible. The Group's Commitment sets out clear KPIs and targets for measuring performance and driving improvement. As a subsidiary company, the Company is exempt from reporting separately under the Streamlined Energy and Carbon Reporting programme, further disclosures on the Group's performance, including details of its Green House Gas emissions is disclosed in the strategic report of the Group's 2021 annual report.

Independent auditor and disclosure of information to the independent auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Following an audit tender conducted during 2020, Ernst & Young LLP were selected as auditor for Morgan Sindall Group plc and its subsidiaries. Accordingly, Ernst & Young LLP were appointed to replace Deloitte LLP as the Company's auditor for the year ended 31 December 2021.

Ernst & Young LLP have expressed their willingness to continue in office as auditor and pursuant to Section 487 of the Companies Act 2006, Ernst & Young LLP is deemed to be reappointed as auditor.

Directors' responsibilities statement

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

The directors confirm that they have complied with the above requirements in preparing the financial statements. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD


DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved for and on behalf of the Board



M Atkinson
Finance Director
31 March 2022

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD FOR THE YEAR ENDED 31 DECEMBER 2021

Opinion

We have audited the financial statements of Morgan Sindall Construction & Infrastructure Ltd for the year ended 31 December 2021 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company'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 which covers the period to 31 March 2023. We have reviewed the forecasts and have modelled four downside scenarios. Scenarios one and two assume a reduction in revenues and margin respectively. Scenario three assumes a deterioration in working capital in the construction businesses and scenario 4 reflects the inflationary increase in the cost associated with the project which are not recoverable from the customers. Lastly, scenario five is a severe downside scenario and models the combined impact of scenarios one to four.
- We assessed the appropriateness of the scenarios modelled by management which included assessing how these compare with principal risks and uncertainties of the Company.

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD FOR THE YEAR ENDED 31 DECEMBER 2021

- 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 Covid, the economic environment and market/sector trends, were considered in management's assessment. We also assessed the completeness and appropriateness of the scenarios modelled by management which included assessing the relevance to each division and how they compare with principal risks of the Company. We considered management's assessment of the impact of climate change on the Company's cash flow forecasts.
- We have considered the methodology used to prepare the forecast. We also tested the clerical accuracy and logical integrity of the model used to prepare the Company's going concern assessment.
- 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 Company utilising all liquidity 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 reviewed the financial position of the ultimate holding company, Morgan Sindall Group PLC to evaluate whether it has a strong financial position to support the Company if needed, although this is not forecast to be required in scenarios one to five above.
- We assessed the reasonableness of the management forecasts for the year 2022 by comparing the forecasts made for the two months ended 28 February 2022 with the actual financial performance.
- Inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern and compared their response to their forward order book and market forecasts (e.g., in respect of inflation risk).
- We considered whether the going concern disclosures included in the financial statements were appropriate and in conformity with applicable reporting standards.

The results from both management's evaluation and our independent sensitivity analysis and reverse stress testing indicates that in order to exhaust its available funding throughout the going concern period, the Company's revenue and margin would need to shrink to a position that is significantly worse than the financial effect of the disruption caused by the Covid pandemic during 2020.

As at 31 December 2021, the Company has a secured order book of £2.7bn, of which £1.3bn relates to the 12 months ending 31 December 2022, and it has a net cash balance of £95.5m (which includes £55.7m that relates to the Company's share of cash held with jointly controlled operations). The Company also has a £90.0m receivable from other group entities as a part of group cash pool arrangements.

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 Company's ability to continue as a going concern for a period, which the Directors have defined as the date of approval of the 31 December 2021 financial statements through to 31 March 2023.

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 Company's ability to continue as a going concern.

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD FOR THE YEAR ENDED 31 DECEMBER 2021

Other information

The other information comprises the information included in the annual report, 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 our 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 this 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, 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 Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or 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 or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD FOR THE YEAR ENDED 31 DECEMBER 2021

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 15, 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 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 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.

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 entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (UK adopted International Accounting Standards, the Companies Act 2006, The Companies (Miscellaneous Reporting) Regulations 2018) and the relevant tax compliance regulations in the UK.
- We understood how Morgan Sindall Construction & Infrastructure Ltd is complying with those frameworks by making enquiries of management, 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 the Group's Audit Committee, noting the strong emphasis of transparency and honesty in the Company's culture and the levels of oversight the Board and Group management have over the Company despite the decentralised operating model of the Group.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management 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 Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD FOR THE YEAR ENDED 31 DECEMBER 2021

management 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 below and were designed to provide reasonable assurance that the financial statements were free from material fraud and error.

- We performed risk assessment of the contract population and selected a sample of higher-risk contracts (based on value and/or complexity) and obtained an understanding of the contract terms, key operational or commercial issues, judgements impacting the contract position and contract revenue and margin recognised. Factors we considered when determining higher-risk contracts to select includes the size of the contract, contracts with significant unagreed income amounts, low margin and loss making contracts or contracts with a significant deterioration in margin, and stage of completion;
- 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 the Finance Directors of both the Construction and Infrastructure divisions and the respective divisional Commercial Directors;
- 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;
- Performed a 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 requirement of IFRS 15 and the Company's accounting policy;
- Considered the appropriateness of the accruals at the yearend and assessed whether these have been incurred and not materially overstated/understated;
- Challenged the level of unagreed income or contract assets and adequacy of the evidence;
- Reviewed contract asset balances and challenged management on both the recognition criteria together with the recovery of balances at the year end which have not been provided for including the consideration of counterparty risk;
- Inspected correspondence with counterparties and lawyers in respect of contract claims for and against the Company and assessed the judgements made in respect of the existence of assets and the completeness of liabilities including liquidated damages;
- 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;
- 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; and
- Reviewed material manual journals recorded to assess whether these have been properly authorised, are appropriately substantiated and are for a valid business purpose.

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD FOR THE YEAR ENDED 31 DECEMBER 2021

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing with a focus on journals indicating unusual transactions based on our understanding of the business, enquiries of management, and focussed testing as defined above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Financial Statements with the requirements of the relevant accounting standards and applicable UK legislation.

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Adrian Roberts (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham, United Kingdom
31 March 2022

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £000	2020 £000
Revenue	1	1,416,470	1,533,146
Cost of sales		(1,286,178)	(1,424,636)
Gross profit		130,292	108,510
Administrative expenses		(80,518)	(80,254)
Operating profit	2	49,774	28,256
Interest receivable	5	425	274
Interest payable	5	(548)	(284)
Profit before tax		49,652	28,246
Tax	6	(12,543)	(6,614)
Profit for the financial year attributable to the owners of the Company	18	37,109	21,632
Total comprehensive income for the year attributable to owners of the Company		37,109	21,632

Continuing operations

The results for the current and previous financial years derive from continuing operations.

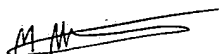
MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

BALANCE SHEET AS AT 31 DECEMBER 2021

		2021	2020	1 January
			re-stated ¹	2020
	Notes	£000	£000	re-stated ¹
				£000
Non-current assets				
Intangible assets	8	120,502	120,502	120,502
Property, plant and equipment	9	11,634	11,839	13,127
Investments in subsidiaries	10	111,371	111,371	111,371
		243,507	243,712	245,000
Current assets				
Contract assets	11	79,758	69,899	82,477
Trade and other receivables	12	412,999	385,981	331,832
Current tax asset		860	-	-
Cash and bank balances	13	95,520	86,219	68,127
		589,137	542,099	482,436
Total assets		832,644	785,811	727,436
Current liabilities				
Contract liabilities	11	(58,673)	(31,970)	(20,794)
Trade and other payables	14	(410,793)	(427,310)	(403,110)
Current tax liabilities		-	(97)	(1,597)
Lease liabilities	22	(2,012)	(1,919)	(2,316)
		(471,478)	(461,296)	(427,817)
Net current assets		117,659	80,803	54,619
Non-current liabilities				
Lease liabilities	22	(7,401)	(7,761)	(7,508)
Provisions for liabilities	15	(35,657)	(2,512)	(1,229)
Deferred tax liabilities	16	(16,297)	(12,331)	(10,603)
		(59,355)	(22,604)	(19,340)
Total liabilities		(530,833)	(483,900)	(447,157)
Net assets		301,811	301,911	280,279
Capital and reserves				
Share capital	17	220,900	220,900	220,900
Share premium account	18	11,372	11,372	11,372
Retained earnings	19	69,539	69,639	48,007
Total shareholder's funds		301,811	301,911	280,279

¹The prior year balances for Trade and other payables and Retained earnings have been re-stated as described in the Principal accounting policies, along with their respective totals.

The financial statements of Morgan Sindall Construction & Infrastructure Ltd (Company number 04273754) were approved by the Board and authorised for issue on 31 March 2022. They were signed on its behalf by:



M Atkinson, Finance Director
31 March 2022

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital (Note 17) £000	Share Premium account (Note 18) £000	Retained earnings (Note 19) £000	Total £000
At 1 January 2020	220,900	11,372	57,862	290,134
Adjustment for correction of an historic error	-	-	(9,855)	(9,855)
At 1 January 2020 (restated)	220,900	11,372	48,007	280,279
Total comprehensive income	-	-	21,632	21,632
At 1 January 2021 (restated)	220,900	11,372	69,639	301,911
Total comprehensive income	-	-	37,109	37,109
Dividends paid (note 7)	-	-	(37,209)	(37,209)
At 31 December 2021	220,900	11,372	69,539	301,811

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2021

General information

Morgan Sindall Construction & Infrastructure Ltd (the 'Company') is a private company limited by shares, incorporated and domiciled in the UK under the Companies Act 2006 and registered in England and Wales. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 9. The address of the registered office is given on page 1.

Basis of accounting

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 and with the requirements of the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, presentation of standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated accounts of Morgan Sindall Group plc, which are available to the public at morgansindall.com.

The financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

These financial statements are presented in pounds sterling which is the Company's functional currency.

The immediate parent undertaking of the Company is Morgan Sindall Holdings Limited, which is registered in England and Wales.

The directors consider that the ultimate parent undertaking and ultimate controlling party of this Company is Morgan Sindall Group plc, which is registered in England and Wales. It is the only group into which the results of the Company are consolidated. Copies of the consolidated financial statements of Morgan Sindall Group plc are publicly available from morgansindall.com or from its registered office Kent House, 14-17 Market Place, London W1W 8AJ.

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the preparation of consolidated financial statements because it is included in the Group accounts of Morgan Sindall Group plc. These financial statements are separate financial statements and present information about the Company as an individual undertaking and not of the Group.

MORGAN SINDALL CONSTRUCTION & INFRASTRUCTURE LTD

PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2021

Adoption of new and revised standards

New and revised accounting standards adopted by the Company

During the year, the Company has adopted the following new and revised standards and interpretations. Their adoption has not had any significant impact on the accounts or disclosures in these financial statements.

- Interest Rate Benchmark Reform – Amendments to IFRS 9 ‘Financial Instruments’, IAS 39 ‘Financial Instruments – recognition and measurement’, IFRS 7 ‘Financial Instruments: Disclosures’, IFRS 4 ‘Insurance Contracts’ and IFRS 16 ‘Leases’
- Amendments to IFRS 16 ‘Covid-19 Related Rent Concessions’

(ii) New and revised accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early

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 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 as Contract’
- Annual Improvements to IFRS Standards 2018-2020 Cycle
- 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’

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

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements.

Going concern

The Company’s business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Company, its cash flows, liquidity position and the borrowing facilities, are described in the strategic report on pages 2 to 9.

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the 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 2021 financial statements through to 31 March 2023.

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The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2021 the Group had net cash balances of £358.0m. The Group also had £180m of committed loan facilities maturing (£15m maturing in March 2024 and £165m maturing in October 2024), which were entirely undrawn as at 31 December 2021.

The Company's future workload is healthy with a secured order book was £2,681m of which £1,259m relates to the 12 months ended 31 December 2022. The Company has a strong financial position at the year end with net current assets of £117.7m (2020 re-stated: £80.8m), including cash of £95.5m (2020: £86.2m) as at 31 December 2021.

Based on the above, the directors consider there to be no material uncertainties that may cast significant doubt on the Company's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Company have adequate resources to continue in operational existence for the going concern period from the date of signing. For this reason, they continue to adopt the going concern basis in the preparation of these financial statements. Further details can be found in the principal accounting policies in the financial statements.

Correction of an historic error

On 27 July 2007 the Group acquired Amec Developments Limited and certain assets and businesses carried on by Amec Investments Limited and the assets, liabilities and contracts relating to the Design and Project Services ('DPS') division of Amec plc, save for certain excluded assets and liabilities (together 'Amec').

A difference has been identified relating to the acquired business of Amec. This error is a historic unsubstantiated asset of £9,855,000 that has continued to be recorded on the balance sheet in accruals and deferred income within Trade and other payables. Therefore, the error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

Impact on shareholder's funds ((decrease) in equity)

	31 December 2020 £000	1 January 2020 £000
Trade and other payables	9,855	9,855
Total liabilities	9,855	9,855
Net impact on shareholder's funds	(9,855)	(9,855)

The change has no impact on the statement of comprehensive income for each period presented. In accordance with IAS 1, a restated balance sheet at 1 January 2020 has been presented.

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Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, which requires unanimous consent for strategic, financial and operating decisions.

(i) Joint operations

Some Infrastructure and Construction contracts carried out as a joint arrangement without the establishment of a legal entity are joint operations. The Company's share of the results and net assets of these joint operations are included under each relevant heading in the statement of comprehensive income and the balance sheet. Transaction between joint arrangements, are eliminated in preparing the financial statements.

Intangible fixed assets – goodwill

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the Company'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 Company 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 Company's share of the identifiable net assets, the difference is immediately recognised in the statement of comprehensive income and as a gain from a bargain purchase.

Goodwill arising on acquisitions before the date of transition to FRS101 has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Goodwill is tested for impairment annually.

Property, plant and equipment

Freehold and leasehold property, plant, machinery and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided in equal annual instalments at rates calculated to write off the cost of the assets, less estimated residual value, over their estimated useful lives as follows:

Plant, equipment, fixtures and fittings	between three and 10 years
Right of use assets	over the period of the lease

Residual value is calculated on prices prevailing at the date of acquisition.

Investments in subsidiaries

Investments held as fixed assets are stated at cost less provision for impairment.

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PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2021

Revenue

Revenue is defined as the value of goods and services rendered excluding discounts and VAT and is recognised as follows:

Construction and infrastructure services contracts

All of the Company'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.

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

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

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

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

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

In order to recognise the profit over time it is necessary to estimate the total costs of the contract. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any acceleration of or delays to the programme or changes in the scope of works and the expected cost of any rectification works during the defects liability period.

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

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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.

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 Company'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 Company and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset.

The right-of-use assets are presented within the property, plant and equipment line in the balance sheet and depreciated in accordance with the Company's accounting policy on property, plant and equipment. The amount charged to the statement of comprehensive income 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.

Pensions

The Company contributes to The Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements, which are of a defined contribution type. For all schemes the amount charged to the statement of comprehensive income is equal to the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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Income tax

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

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

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

Deferred tax is recognised using the 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 profits, 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 this is a legally enforceable right to offset current tax assets and liabilities.

Dividends

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

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Derivative financial instruments and hedge accounting

Derivative financial instruments are used in joint arrangements to reduce exposure to foreign exchange risk. The Company does not hold or issue derivative financial instruments for speculative purposes. Derivative financial instruments are stated in the balance sheet at fair value. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various

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hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company 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 measurement relating to the effective portion are recognised in equity and gains and losses on the ineffective portion are recognised in the statement of comprehensive income.

Grants

Grants received are credited to the statement of comprehensive income during the life of the project to which they relate or, for grants received from the Construction Industry Training Board, as training is provided to employees. Differences between the amount recognised in the statement of comprehensive income and the amount received are shown as either deferred income or accrued income in the balance sheet.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions are recognised for events covered by the Company's captive or self-insurance arrangements, legal claims and restructuring.

When the Company 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 statement of profit or loss 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.

Current/non-current classification

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or consumption as part of the Company's normal identifiable operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes in line with the Company's identifiable normal operating cycle. These liabilities are expected to be settled as part of the Company's normal course of business. All other liabilities are classified as non-current liabilities.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements 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.

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PRINCIPAL ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2021

Critical judgements and estimates in applying the Company's accounting policies

The following are the critical judgements and estimates that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- **Revenue and profit recognition for long term contracts (judgement and estimate)**

In order to determine the revenue and profit recognition in respect of the Company's construction and infrastructure service contracts, the Company has to estimate the total costs to deliver the contract as well as the final contract value. The Company 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 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 an estimate of the potential cost impact of the compensation claims and revenue is constrained to amounts that the Company believes are highly probable of being received. 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 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 are directly attributable to a specific contract.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Analysis of revenue and profit before taxation

All revenue and profit before taxation relates to the Company's principal activity carried out in the UK. All revenue was derived from construction and infrastructure services contracts.

2. Operating profit

	2021 £000	2020 £000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets:		
Plant, equipment, fixtures & fittings	1,643	1,958
Right of use assets	2,190	2,615
Loss on sale of tangible fixed assets	-	54
Fees payable to the Company's auditor for the audit of the Company's annual accounts	420	389

Non-audit fees payable by the Company during the year were £nil (2020: £nil). Prior year fees for the audit of the Company's annual accounts were payable to Deloitte LLP.

3. Staff costs

	2021 £000	2020 £000
Wages and salaries	223,988	214,560
Social security costs	26,293	25,416
Redundancy costs	1,765	5,178
Pension costs	9,066	8,804
	261,112	253,958

	No.	No.
The average number of employees (including executive directors) during the year was:	3,156	3,334

4. Directors' remuneration

	2021 £000	2020 £000
Directors' remuneration		
Emoluments	2,207	1,665
Company contributions to money purchase pension scheme	32	18
	2,239	1,683

Remuneration of the highest paid director

Emoluments	725	671
Company contributions to money purchase pension scheme	4	6

	No.	No.
The number of directors who:		
- are members of money purchase pension schemes	4	4

Total emoluments excludes amounts in respect of share options (granted and/or exercised), pension

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contributions, benefits under pension schemes and benefits under long term incentive plans. Two current directors of the Company received no emoluments (2020: two) in their capacity as directors of this Company. These individuals are remunerated by another company in the Group.

5. Net interest payable

	2021 £000	2020 £000
Bank interest receivable	361	274
Other interest receivable	64	-
Interest receivable	425	274
Bank interest payable	(293)	-
Interest payable on lease liabilities	(255)	(284)
Interest payable	(548)	(284)

6. Tax

	2021 £000	2020 £000
UK corporation tax charge on profit for the year	9,208	4,298
Adjustment in respect of previous years	(631)	588
Total current tax	8,577	4,886
Origination and reversal of timing differences	412	1,120
Change in tax rate used to calculate deferred tax balances	4,011	1,247
Adjustment in respect of previous years	(457)	(639)
Total deferred tax (note 15)	3,966	1,728
Total tax expense	12,543	6,614

Corporation tax is calculated at 19.0% (2020: 19.0%) of the estimable taxable profit for the year. The actual tax charge for the current and preceding year differs from the standard rate for the reasons set out in the following reconciliation:

	2021 £000	2020 £000
Profit before tax	49,652	28,246
Tax on profit at corporation tax rate	9,434	5,367
<i>Factors affecting the charge for the year:</i>		
Expenses not deductible for tax purposes	46	44
Other	140	6
Change in tax rate used to calculate deferred tax balances	4,011	1,247
Adjustments to tax charge in respect of previous years	(1,088)	(50)
Total tax expense	12,543	6,614

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 its December year end) is expected to be 19% in 2022, 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 2021 have been calculated at a mix of 19%, 23.5% and 25%. Deferred tax balances as at 31 December 2020 were calculated at

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19%. This change in the deferred tax calculation rate has resulted in a £4.0m increase in the tax charge for the year.

7. Dividends

Amounts recognised as distributions to equity holders in the year:

	2021 £000	2020 £000
Interim dividend for the year ended 31 December 2021	37,209	-
	37,209	-

The directors do not recommend the payment of a final dividend (2020: nil).

8. Intangible fixed assets

	Goodwill £000
Cost and net book value	
As at 1 January 2021	120,502
As at 31 December 2021	120,502

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

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. In testing goodwill, the recoverable amount has been estimated from value in use calculations. The key assumptions for the value in use calculations are those regarding the forecast revenue and margin, discount rates and long-term growth rates by market sector. Forecast revenue and margin are based on past performance, secured workload and workload likely to be achievable in the short to medium term, given trends in the relevant market sector as well as macroeconomic factors.

Cash flow forecasts have been determined by using Board approved strategic plans for the next three years. Cash flows beyond three years have been extrapolated into perpetuity using an estimated nominal growth rate of 2.1% (2020: 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 Company. The risk-adjusted nominal rate used for the goodwill balance is 10.7% (2020: 10.4%)

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 the Company.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Property, plant and equipment

	Plant, equipment, fixtures & fittings	Right of use assets- Leasehold Buildings	Right of use assets- Plant, equipment, fixtures & fittings	Total £000
	£000	£000	£000	
Cost				
As at 1 January 2021	10,828	14,050	657	25,535
Additions	1,806	1,939	-	3,745
Disposals	(36)	(1,528)	-	(1,564)
As at 31 December 2021	12,598	14,461	657	27,716
Depreciation				
As at 1 January 2021	(8,563)	(5,094)	(39)	(13,696)
Charge for the year	(1,643)	(1,972)	(218)	(3,833)
Disposals	36	1,411	-	1,447
As at 31 December 2021	(10,170)	(5,655)	(257)	(16,082)
Net Book Value				
As at 31 December 2021	2,428	8,806	400	11,634
As at 31 December 2020	2,265	8,956	618	11,839

The Company holds some property, plant & equipment that is fully depreciated. The cost and accumulated depreciation amounts of this fully written down plant, property & equipment is £6.8m and (2020: £6.8m) respectively.

10. Investments in subsidiaries

	Total £000
Cost and net book value	
At 1 January 2021	111,371
At 31 December 2021	111,371

The details of the Company's subsidiaries are shown below. The country of incorporation and principal place of business is the UK and the address of the registered office of each entity is the same as the registered office of this Company unless otherwise indicated.

Name of company	Direct or indirect holding	Principal activity	Group's interest in allotted capital
Bluestone Limited	Direct	Dormant	100%
Morgan Sindall All Together Cumbria CIC ¹	Direct	Labour services	100%
MS (MEST) Limited	Direct	Non-trading	100%
Morgan Utilities Limited	Indirect	Dormant	100%
Newman Insurance Company Limited ²	Indirect	Insurance	100%

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Key:

¹ Community Interest Company (Company limited by guarantee)

² Registered and operating in Guernsey, registered office address C/o Willis Management (Guernsey) Limited, Suite 1 North, First Floor, Albert House, South Esplanade, St Peter Port, Guernsey GY1 1AJ.

11. Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	2021 £000	2020 £000
Contract assets	79,758	69,899
Contract liabilities	(58,673)	(31,970)

The contract assets primarily relate to the Company's right to consideration for construction work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. On most contracts certificates are issued by the customer on a monthly basis.

The Company 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 2021 are expected to satisfy performance obligations in the next 12 months.

Significant changes in the contract assets and the contract liabilities during the period are as follows:

	2021 £000	2020 £000		
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
As at 1 January	69,899	(31,970)	82,477	(20,794)
Revenue recognised				
- performance obligations satisfied in the current period	1,384,500	31,970	1,512,352	20,794
Cash received for performance obligations not yet satisfied	-	(58,673)	-	(31,970)
Amounts transferred to trade receivables	(1,374,641)	-	(1,524,930)	-
As at 31 December	79,758	(58,673)	69,899	(31,970)

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the balance sheet date:

	2022 £m	2023 £m	2024+ £m	Total £m
As at 31 December 2021	1,259	711	711	2,681

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

12. Trade and other receivables

	2021	2020
	£000	£000
Amounts falling due within one year		
Trade receivables	57,230	54,223
Amounts owed by Group undertakings	283,472	290,592
Prepayments and accrued income	1,815	1,328
Other receivables	36,660	11,400
	379,177	357,543
Amounts falling due after more than one year		
Trade receivables	33,822	28,438
	412,999	385,981

Amounts owed by Group undertakings are payable on demand and are not interest bearing.

Retentions held by customers for contract work at 31 December 2021 were £53.7m (2020: £43.7m). 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 contract with clients to ensure that potential issues that could lead to the non-payment of retentions are identified and addressed promptly.

Included within Other receivables are balances in respect of where the Company holds third party insurances that may mitigate the contract and legal liabilities described in note 14 – Provisions for liabilities. Insurance receivables are recognised when reimbursement from insurers is virtually certain. The balance as at 31 December 2021 for insurance receivable is £30.4m (2020: £9.2m) – see note 23 for amount settled post year end.

13. Cash and bank balances

	2021	2020
	£000	£000
Cash and bank balances	95,520	86,219
	95,520	86,219

Included within cash and bank balances is £55.7m (2020: £53.8m) which is the Company's share of cash held within jointly controlled operations.

14. Trade and other payables

	2021	2020
	£000	re-stated ¹ £000
Amounts falling due within one year		
Trade payables	61,428	85,038
Amounts owed to Group undertakings	14,868	15,579
Social security and other taxes	51,427	21,263
Other payables	3,364	4,694
Accruals and deferred income	279,706	300,736
	410,793	427,310

¹The prior year balances for accruals and deferred income within Trade and other payables have been re-stated as described in the principal accounting policies, along with their respective totals.

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Trade payables include amounts relating to retentions payable to sub-contractors, a proportion of which £10.5m (2020: £16.4m) are expected to be settled after a period of more than 12 months. However, considering they fall due within the normal operating cycle of the company, they have been considered and presented as a current liability.

Amounts owed by Group undertakings are payable on demand and are not interest bearing.

15. Provisions for liabilities

	Contract & legal £000	Employee £000	Property £000	Total £000
At 1 January 2021	-	1,237	1,275	2,512
Created	22,714	773	207	23,694
Reclassifications*	11,392	-	-	11,392
Released	(704)	(1,237)	-	(1,941)
Balance at 31 December 2021	33,402	773	1,482	35,657

*A number of items previously presented as accruals have been reclassified to provisions in the current year.

Contract and legal provisions include liabilities, loss provisions, defect and warranty provisions on contracts that have reached completion. The Company 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 12 for details of mitigating insurance assets recognised as the period end. These are expected to be utilised within the next five years.

Employee provisions comprise obligations to former employees other than retirement or post-retirement obligations, which are expected to be utilised within the next five years.

Provisions for property include directors' assessment of office repairs required on self-repairing leases. These are expected to be utilised within six years.

16. Deferred tax liability

	2021 £000	2020 £000
Balance at 1 January	12,331	10,603
Income statement charge (note 6)	3,966	1,728
Balance at 31 December	16,297	12,331

Deferred tax liabilities consist of the following amounts:

	2021 £000	2020 £000
Accelerated capital allowances	(1,177)	(1,118)
Goodwill	18,602	13,819
Short term timing differences	(1,126)	(366)
Other	(2)	(4)
	16,297	12,331

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17. Share capital

	2021	2020
	£000	£000
Issued, authorised and fully paid		
220,899,981 ordinary shares of £1 each	220,900	220,900

The Company has one class of ordinary share which carries no rights to fixed income.

18. Share premium account

	2021	2020
	£000	£000
Share premium on shares	11,372	11,372

19. Retained earnings

	2021	2021 re-stated ¹
	£000	£000
Balance as at 1 January	69,639	48,007
Profit for the year	37,109	21,632
Dividends	(37,209)	-
Balance as at 31 December	69,539	69,639

20. Pension commitments

The Company contributes to the Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements. The Morgan Sindall Retirement Benefits Plan is a defined contribution post-retirement benefit plan under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. The pension creditor at 31 December 2021 was £724,000 (2020: £677,000).

21. Contingent liabilities

Performance bonds have been entered into in the normal course of business. Performance bond facilities and banking facilities of the Group are supported by cross guarantees given by the Company and other participating companies in the Group. It is not anticipated that any liability will accrue.

Contingent liabilities may also arise in respect of subcontractor and other third party claims made against the Company, 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 Company 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 Company's insurance arrangements.

Cladding and fire safety review

The Company has considered the public letter to Residential Property Developer industry from the Department for Levelling Up, Housing & Communities dated 10 January 2022, as well as the letter dated 22 January 2022 to the Construction Products Association and all other related Government press releases, communications and publications.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The Company fully agrees that the costs of remediation should not be borne by leaseholders and is supportive of working with the Government, industry and other key stakeholders to determine a solution to the issue of historic cladding and fire safety defects in buildings.

The Company has considered the scope of relevant cases across its business in line with the criteria set out in the 10 January 2022 letter and this review is ongoing. It is possible that a small number of cases will be identified where the Company has a liability leading to remediation. In accordance with the Company's past practice, the Company is committed to meeting its liabilities as they are identified. Whilst any such costs incurred are not expected to be material and will likely span a number of years, the industry-wide solution to the issues set out in the 10 January 2022 letter is still being determined and therefore any liability arising therefrom cannot be reliably estimated.

22. Lease liabilities

The Company leases assets including property and software. The average term is six years. There are no variable terms to any of the leases. The maturity profile for the lease liabilities at 31 December 2021 are set out below:

	2021			2020		
	Leasehold Buildings	Other Assets	Total	Leasehold Buildings	Other Assets	Total
	£000	£000	£000	£000	£000	£000
Maturity analysis						
Within one year	1,793	219	2,012	1,701	218	1,919
Within two to five years	5,456	165	5,621	4,495	384	4,879
After more than five years	1,780	-	1,780	2,882	-	2,882
As at 31 December	9,029	384	9,413	9,078	602	9,680

	2021			2020		
	Leasehold Buildings	Other Assets	Total	Leasehold Buildings	Other Assets	Total
	£000	£000	£000	£000	£000	£000
As at 1 January	9,078	602	9,680	9,824	-	9,824
Additions	1,924	-	1,924	1,704	657	2,361
Terminations	(123)	-	(123)	(179)	-	(179)
Repayments	(2,102)	(221)	(2,323)	(2,554)	(56)	(2,610)
Interest expenses	252	3	255	283	1	284
As at 31 December	9,029	384	9,413	9,078	602	9,680

23. Related party transactions

In the ordinary course of business, the Company has traded with its parent company Morgan Sindall Group plc together with its subsidiaries. Advantage has been taken of the exemption permitted by FRS 101 not to disclose transactions with entities that are wholly owned by the Group. Balances with these entities are disclosed in notes 12 and 14 of these financial statements.

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23. Subsequent events

On 23 February 2022, the Russian Government commenced its invasion of Ukraine, subsequently we have begun to see price increases for certain commodities starting to emerge. At this stage we are not seeing a significant impact on our projects, and we continue to work with our customers and supply chain partners to mitigate the impact on our projects wherever possible. The Company has determined that these events are non-adjusting subsequent events, as the duration and impact of the invasion of Ukraine remains unclear at this time.

At 31 December 2021 the balance sheet carried a contract provision of £22.7m and a corresponding insurance receivable of £22.7m relating to a specific contract claim. As a subsequent event, on 1 March 2022 the insurance claim was settled resulting in a reduction to contract provisions of £22.7m and a corresponding reduction to insurance receivables of £22.7m. This is a non-adjusting post balance sheet event.