Mott MacDonald Limited

Report and financial statements
31 December 2021

Mott MacDonald Limited

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Mike Haigh
Executive Chair – welcome

I am pleased to present our annual report for 2021. This has, once again, been an extraordinary year, still dominated by a pandemic that has been a major disruptor from health, economic and social perspectives, with consequential impacts on our industry.

Nevertheless, we have delivered a good performance. We have learned from the first year of the pandemic and have managed well the varying levels of lockdown across our offices. Wellbeing has continued to be a focus, particularly as we start to move back to office working. Our thoughts continue to be with our colleagues across the Mott MacDonald Group that have been directly affected by the pandemic and particularly and sadly with the families and colleagues of those who have lost their lives.

We continue to deal positively with the issues the pandemic brings and other uncertainties from global trade disputes and significant supply chain disruption. However, many of our core markets remain strong and we are therefore optimistic about our prospects over the next 12 months.

The delivery of a strong performance in 2021 has been underpinned by our continued focus on the sectors and services we believe provide a strong, resilient platform for our business and the agility and commitment of our colleagues around the world. This commitment has been reinforced by our independence which creates a strong sense of responsibility in our colleagues, many of whom are shareholders in the broader Group.

This independence also allows us to be bold in how we approach the future and how we define our role in the broader industry. We are driven by a clear purpose "to improve society by considering social outcomes in everything we do; relentlessly focusing on excellence and digital innovation, transforming our clients' businesses, our communities and employee opportunities."

This focus on Social Outcomes, Professional and Technical Excellence and Digital Innovation already differentiates us in our industry, and it has been instrumental in positioning us for a post-pandemic world in which these themes are already starting to emerge as core trends.

We are involved in some of the highest profile infrastructure and development projects from high-speed rail and advanced air mobility to the UK's largest water infrastructure project.

The excellence in the professional and technical work that we do is recognised through many exciting projects. We are proud to have been appointed as the technical integration and optimisation contractor for the largest green hydrogen project in Europe, NortH2. 2021 saw the official opening of London Underground's Northern Line Extension and we were involved throughout the project as lead designer to the construction joint venture where we were able to focus on finding ultra-low carbon alternatives to Portland cement.

Our commitment to social outcomes – supporting inclusion, accessibility, empowerment, resilience and wellbeing for all people – remains a priority. We are bringing these outcomes alive on many of our infrastructure projects around the world. We are extremely proud of our six-year contract with the UK Foreign, Commonwealth and Development Office to support the Tanzanian government in improving the quality, inclusiveness and safety of learning in Tanzanian primary schools.

We continue to strive to maximise benefit, delivering value by connecting innovation to outcomes. This is where digital innovation comes to the fore. Moata Smart Energy, one of our suite of digital offerings, is designed to meet the needs of our largest renewable energy clients to get the best value from investment. In the UK, we are helping Highways England to transform pavement asset management with artificial intelligence and digital tools, reducing costs and increasing the safety of journeys. Globally, we are supporting governments in developing countries to create their own version of the UK's 2050 energy and emissions model, accelerating the drive for net-zero emissions.

Addressing the causes and effects of climate change is key to our purpose – and why we are committed to working with our clients to plan, build and operate infrastructure that is consistent with net-zero emissions and resilient to the impacts of climate change. We are working on the delivery of some of the world's largest clean infrastructure and renewable energy projects. That is also why we became part of the critical mass behind COP26, participating in the UNFCCC's Resilience Hub, partnering with the Sustainable Innovation Forum and supporting the UK Green Building Council's Built Environment Virtual Pavilion and the World Green Building Council's Advancing Net Zero campaign.

Our excellence has been recognised through awards. In 2021, the Group won 89 awards (2020 – 85) around the world in key areas including sustainability, equality, diversity and inclusion, employment, health and wellbeing, professional excellence and digital innovation.

We are committed to influencing our industry through thought leadership. In 2021 we continued to enhance our engagement with the broader industry to help steer our business and test our thoughts and ideas. We also announced our partnership with the World Economic Forum (WEF), which will see us take a lead role in transforming energy, materials and infrastructure, to shape and build a more sustainable future. Becoming a WEF platform partner is by invitation only and is

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recognition of our contribution to tackling the world's biggest challenges. We believe that addressing those challenges in ways that deliver sustainable and equitable outcomes requires collaboration on a global scale. That is why we are excited to be able to play our part in helping WEF implement the best approaches across our sector, including our own commitments to social outcomes, net zero, tackling climate change and leveraging digital innovation.

As a business, ethics, health and safety, equality, diversity and inclusion and the wellbeing of our employees remain at the core of our operations. We are committed to the highest level of performance and compliance in these areas. We continue to operate a rigorous governance framework that touches all aspects of how we behave, how we make decisions, how we deliver value and how we manage risk.

On 1 January 2022, Cathy Travers was appointed as a director on the Board. Cathy brings a wealth of experience from her extensive time with the Group, most recently in her current role as General Manager of the UK and European business.

On behalf of the Board, I would like to thank once again our clients and partners for the opportunities they bring and particularly for their support during the global pandemic.

I also thank all our colleagues for their commitment in another extraordinary year. It is through their contribution that we make our company stronger, and it is through our people and our projects that we generate great social outcomes for our clients and our clients' clients.

Corporate responsibility

As part of an employee-owned Group, we are able to find balance between commercial success and a recognition of the impact that our actions can have for people and the world around them.

Our corporate responsibility themes are managed and coordinated across the Group to ensure consistency of approach and implementation while recognising relevant cultural, social and legal differences.

The commentary on corporate responsibility reflects the Group's activity of which Mott MacDonald Limited is approximately 50% in terms of revenue, profit and headcount.

Delivering on Our Purpose

The Group's purpose is to improve society by considering social outcomes in everything we do; relentlessly focusing on excellence and digital innovation, transforming our clients' businesses, our communities and employee opportunities.

Through our business, we seek to make a positive difference to the world and in the communities in which we work. Our purpose is a commitment to changing people's lives for the better. These are some of the ways we continue to deliver on that commitment and behave in a way that is accountable for the difference we want to make.

Through Our Code

In September 2021, we launched a new Code of Conduct for our staff and those who work with us. It is called Our Code – Delivering with PRIDE. It sets standards and expectations for the issues most relevant to our Group and is a guide for making good choices and living our PRIDE values (progress, respect, integrity, drive, excellence).

By setting out our commitment to acting with integrity and our expectations of all colleagues and those we work with, Our Code challenges us to work with each other, our partners, clients and communities in a way that builds trust and mutual respect. It sets out our standards and expectations on the issues that matter to us – it is a guide to making good choices.

Our Code helps all those who work for us and with us to improve their understanding of our position on human rights and modern slavery, among other topics, and how to raise concerns, should they come across any. Our Code highlights our desire to work only with those that can meet our standards and expectations.

Through Our People Promise and Inclusive Social Outcomes

Our People Promise describes the characteristics we take pride in demonstrating which are evidence of the powerful culture we are creating together. Our new agile working guidance provides our people with greater flexibility to do what is right for them, their teams and their clients. We have instigated a new health, safety and wellbeing reporting process enabling staff to report wellbeing issues and positive interventions – steps they have taken to improve their own or a colleague's wellbeing.

We are committed to delivering socially-inclusive outcomes through our projects, working with our clients to improve accessibility, inclusion, empowerment, resilience and wellbeing for the communities we work with. We have a network in place enabling us to equip our colleagues with the tools and support needed to deliver on our commitments.

Through Corporate Social Responsibility (CSR)

Our approach to CSR continues to mature and was adapted in response to the COVID-19 pandemic. This included increasing our digital and remote engagement with not-for-profit organisations and our communities; signing the Literacy Business Pledge with the National Literacy Trust in the UK to tackle the gap in literacy and improve social

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mobility; and being awarded a silver medal from EcoVadis in India, placing us in the top 25% of companies for managing 21 issues in four themes (environment, labour practices and human rights, ethics and sustainable development).

We are also pleased to be one of the eleven participants on the Greater London Authority's Design Lab programme, which aims to tackle the underrepresentation of young black men in construction and infrastructure sectors.

Through Equality, Diversity, Inclusion (EDI) and Racial Justice

Over the past 12 months, our dedicated diversity and inclusion programmes continue to create opportunities for those groups facing the highest levels of discrimination. At the same time, our Advance EDI networks have spearheaded work on tackling disability discrimination, including training for our hiring teams on accessible recruitment and launching a 'Not all disabilities are visible' campaign.

To support women's careers and tackle discrimination, stereotyping, conscious and unconscious biases, our EDI networks have worked on improving leadership development and our promotion processes, increasing the visibility of women on days like the International Women in Engineering Day. We are establishing networks aimed at influencing and championing opportunities for change and progress, ensuring that Mott MacDonald continues to be a place where we can be ourselves, feel valued, safe and at our best.

During 2021 we have engaged with colleagues across our organisation to inform the development of a new EDI strategy that will help to enhance our work on this strategic business issue. Fundamental to our new strategy will be the collection of better data and insights on both the demographics of our workforce and their levels of engagement and inclusion. We took steps during 2021 to ensure that we will be in a much better position to do this in 2022 and as a consequence to make evidence-based policy decisions.

We have also reviewed and renewed our commitment to racial justice. We provided safe platforms for colleagues to speak up about their experiences of race and racism and for others to listen, learn and commit to taking action. In 2021 we carried out a number of listening events to better understand the impact of racism on our colleagues. In the UK, we continued to progress work on the ethnicity pay gap, especially by improving relevant policies and processes. Along with many of our clients, our Advancing Race and Culture network led on the production of a Race Cross-Sector Collaboration Group video that included messages from the executive sponsors of each organisation's employee network, setting out their commitment to tackling racism and making the sector more diverse.

Through Excellence and Digital Innovation

Our excellence networks connect our thinking across the globe, driving continuous improvement and unlocking the combined potential of our digital and domain expertise to bring the best technical solutions to our clients and exciting opportunities to our people.

We have more than 40 practices based around sub-sectors, disciplines or some other key area of professional activity, and these are responsible for developing technical capability, knowledge sharing, safeguarding technical quality, innovation and external visibility.

We continue to recognise our role as a multidisciplinary global consultancy in using our breadth of expertise to develop and deploy digital solutions that improve how we create and manage infrastructure and services for the benefit of our clients and society. As part of the Group's Executive Board committees, a Digital Committee is now providing direct oversight of all the elements of the Group's project-related digital activities, including the Digital Delivery Network (DDN) and the Moata Product Development Group (MPDG).

Through Tackling Climate Change and Advancing Sustainability

As a business we recognise our responsibility to transition our operations to a net-zero future. Over the past year, we sought continuous improvement of our carbon management process, updated our Travel Policy and initiated behavioural change to support low carbon modes of transport. We are investigating alternative sources for procurement, to ensure only low carbon choices are made, and a carbon incentivisation scheme. We continue to offset our residual emissions, renewed our PAS 2060 Carbon Neutral certification and report on Science Based Targets. Support for regional uptake of renewable energy was also provided with the UK reaching 89%.

We have joined Race to Zero, a UN initiative to rally leadership and support from businesses, cities, regions and investors for a healthy, resilient, zero-carbon recovery.

We have refreshed our position on net-zero greenhouse gas emissions and confirmed our carbon neutral and net-zero commitments using industry adopted definitions that have become available since our original 2020 declarations. We will continue to actively manage our own carbon emissions, specifically to improve our carbon performance management and drive down our carbon emissions in the short, medium and long term by:

- robustly managing carbon consumption through improved data;
- switching to renewable energy supplies;
- reducing intercontinental travel;

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- switching our hired vehicles to a hybrid/electric fleet where fuelling/charging infrastructure exists; and
- maintaining our certification to PAS 2060, the international standard for carbon neutrality.

We are also committed to driving down the need to offset as fast as possible, progressively improving the quality of the offsets we buy, so we lead best practice, and developing partnerships with non-governmental organisations and developing our own projects for offsetting in the longer term (meaning we will no longer pay third parties to cancel our carbon emissions).

We launched new global climate change training as well as working to develop regional-specific sustainability and climate change training for our staff. We continue to improve the sustainability of our offices by improving energy efficiency, switching to renewable energy, minimising our waste and reducing single-use plastics.

Through Our Response to the Impact of Climate Change

We continue, where possible, to help our clients identify, assess, manage and disclose how climate change risks could affect them at the earliest stage of our work. We are a partner of the Coalition for Climate Resilient Investment (CCRI), which is part of Race to Resilience – the sister campaign to Race to Zero. Our engagement with Race to Resilience will build on our role in CCRI and our 'Resilience to the physical impacts of climate change' position paper.

We have joined the Powering Past Coal Alliance – a coalition of national and sub-national governments, businesses and organisations working to advance the transition from carbon emissions-heavy coal power generation to clean energy. This builds on our existing commitment to not work on new coal-fired power projects.

Streamlined energy and carbon reporting

This summary has been prepared as a statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting (SECR) and will cover UK energy use, associated greenhouse gas (GHG) emissions and efficiency actions relating to transport, gas, electricity and other fuels.

Reporting boundary

The reporting boundary is the UK offices of Mott MacDonald Limited (MML) and its subsidiaries, including JN Bentley Limited (JNB). Our organisational boundaries are set according to the control approach, under which MML and JNB account for 100% of greenhouse gas (GHG) emissions from UK operations over which the Group has operational control.

Measurement methodology

The carbon footprint presented within this report in table 1 and table 2 covers the period from 1 January 2021 to 31 December 2021. The inventory methodology for MML and its subsidiaries aligns with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, covering:

- Scope 1: direct emissions from sources owned or controlled by us
  - MML: combustion of fuel from office energy;
  - JNB: combustion of fuel from office energy, company-owned vehicles and stationary equipment;
- Scope 2: indirect emissions from the generation of purchased electricity;
- Scope 3: indirect emissions from car travel on business use:
  - MML: from hire vehicles; and
  - JNB: grey fleet.

Emissions are reported in units of carbon dioxide equivalent (CO_2e), using the most recent conversion factors from the Department for Business, Energy and Industrial Strategy (BEIS, 2021).

Measures to improve our energy and carbon performance

Mott MacDonald Group Limited is proud to have been the first company in our class to be externally certified carbon neutral, globally. The 2019 and 2020 carbon footprints of Mott MacDonald Group Limited were offset through the restoration of peatland in Indonesia. Our 2019 and 2020 global carbon footprints also underwent external verification by the Carbon Trust and were verified ISO 14064 compliant.

In 2020, Mott MacDonald Group Limited also committed to Science Based Targets, aligned with a 1.5°C pathway and to continue to offset its carbon footprint and be carbon neutral. In 2021, MML including JNB have committed to net zero by 2040 and JNB achieved externally certified carbon neutral status.

To achieve these targets, Mott MacDonald Group Limited has a carbon neutral plan which includes the following distinct activities:

- more robust carbon management;
- moving towards renewable energy in our offices globally;
- reduce business travel flights;
- switch hired vehicles to a hybrid/electric fleet;
- investigation of an internal carbon reduction incentivisation scheme;
- investigate alternative sources for procurement to ensure a low carbon supply chain; and
- investigate low carbon choices and mechanisms to ensure staff can reduce their emissions.

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The net-zero plan is due for publication by June 2022.

In addition, JNB aspires to:

- be net zero for our scope 1 and 2 (direct) emissions by 2030;
- be net zero across all our operations (scope 1, 2 and 3 emissions) by 2040;
- switch offices over to renewable energy, where possible, as soon as possible;
- continue to invest in greener plant for the JNB plant fleet;
- continue to work closely with plant hire companies and manufacturers to ensure the plant we utilise on site is the most sustainable available; and
- communicate with the wider business and supply chain on the MMBC electrification road map of how the company vehicle fleet will become fully electric in the coming years.

Table 1: MML (engineering, management and development consultancy business)

Current reporting year: Jan-Dec 2021	Quantity (MML)	
	2021[2]	2020[1]
Total energy consumption (kWh)	**10,916,551**	**12,875,888**
Office energy: electricity and fuel (kWh)	9,265,213	10,185,359
Business travel – car (kWh)	1,651,338	2,690,529
Total associated GHG emissions (tCO_2e)	**1,411**	**1,978**
Scope 1: office fuel and fugitive emissions (tCO_2e)	742	902
Scope 2: market-based electricity (tCO_2e)	157	240
Scope 3: business travel – car (tCO_2e)	512	836
GHG emissions intensity (tCO_2e/FTE[3])	**0.21**	**0.30**

Table 2: JNB (building and civil engineering contracting business)

Current reporting year: Jan-Dec 2021	Quantity (JNB)	
	2021[2]	2020[1]
Total energy consumption (kWh)	**44,549,014**	**48,873,071**
Office energy: electricity and gas (kWh)	631,369	707,586
Company vehicles and plant energy: gas oil, diesel and petrol (kWh)	38,471,674	40,923,282
Grey fleet (kWh)	5,445,971	7,242,203
Total associated GHG emissions (tCO_2e)	**11,481**	**11,490**
Scope 1: office gas (tCO_2e)	35	32
Scope 1: plant energy (tCO_2e)	7,548	9,900
Scope 1: company vehicles[4] (tCO_2e)	2,206	Included in plant energy
Scope 2: market-based electricity (tCO_2e)	0	8
Scope 3: grey fleet (tCO_2e)	1,692	1,550
GHG emissions intensity (tCO_2e/FTE[3])	**7.29**	**7.30**

1 As a result of undergoing the verification of our footprint with the Carbon Trust, increasing the emissions scope and reporting market-based figures, the 2020 footprints in tables 1 and 2 slightly differ to what was reported in the previous years' SECR report.
2 The figures presented for the 2021 footprints in tables 1 and 2 are not finalised at the time the financial statements are produced, but any changes are not expected to be material.
3 Number of full-time equivalent (FTE) employees.
4 Company vehicles: includes fuel used from personal vehicles on business use.

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Business and financial review

Business environment

2021 has been another extraordinary year. In January, disruption from the pandemic lockdown was evident across most of our communities. By the middle of 2021, many of those communities had come out of that lockdown and were looking forward to an economic rebound, only for uncertainty to become evident again towards the end of the year and early 2022 with more disruption to our lives.

Other big disruptors during 2021 included the UK and the EU transitioning to their new trading arrangements, oil and energy prices creating uncertainty for economic recovery and geopolitical pressures impacting relations between China, Russia and the US.

These disruptors held back the speed of economic recovery and created uncertainty for investment and growth. Commercial opportunity and economic progress were varied.

Although infrastructure markets generally remained sluggish, the UK government continued to invest in public and social infrastructure which generally provided work across most of our markets. The threat of a prolonged significant economic slump receded. Markets were competitive and on balance provided good opportunity for the business.

Business response

Despite the ongoing economic disruption and uncertainty, we have delivered another good performance in 2021. The Board and management have continued to manage the business with rigour and have been effective in matching resource to workload and in keeping overheads under control.

New investment and a measured increase in overheads have enabled the business to grow with selective focus in markets where it has had good opportunity to do so and seek reduction in or exit from markets where growth, profit and cash returns have been below expectations. Using that management approach, profit and cash performance have stood up well to business pressures.

Our progress with client engagement, project delivery and societal outcomes provides us with good traction in the market and a platform for progress. We have made good progress this year with profit and cash.

Strategic review

During 2021 the Board carried out a landscape review of its strategy. It assessed the progress made with selective focus in the stronger parts of the business to deliver growth in revenues and profits. It also assessed its focus on those parts of the business where KPIs are below Group targets and where corrective action is needed.

The landscape review also assessed progress with our key business initiatives which are important for us as a responsible corporate and because they are a natural part of our suite of service offerings to clients – climate, carbon, social outcomes, digital, sustainability and other environmental factors.

The landscape review has validated the progress made with the strategy and with the initiatives as key differentiators for future value. However, there is still progress to be made and improvements to deliver in a fast-changing business environment. This is on the Board's agenda for 2022.

Financial review

Revenue and operating profit

The key financial metrics that are used to monitor business performance are revenue growth, operating profit growth and operating profit margin.

Gross revenue of £787m was marginally down from 2020 (£799m). Operating profit of £53m was 23% up on 2020 (£43m), with the margin increasing from 5.4% to 6.7%.

This was an excellent result given the ongoing disruption to the UK economy caused by COVID-19 that created uncertainty for investment and ongoing weakness in the corporate sector generally.

Geographically, business volumes in UK, Europe, Americas and Asia were not significantly different year on year. But in the Middle East, revenues were constrained and volumes allowed to fall significantly to improve profits, margins and cash flow given the general slide in KPIs in recent years. This is part of the Group's selective focus to drive value and to be more selective with resources.

The increase in profit compared with 2020 also came from building on measures taken in 2020 to control overheads and lock efficiencies into work practices. These practices continued in 2021 and helped improve profit by containing costs and improving productivity.

There continues to be a strong focus by management on reviewing lead indicators of future workload, with close monitoring of staff utilisation from the lowest level to the highest level of accountability. Utilisation has been high in 2021 with steps being taken to make sure it is not left to drift too high for too long given the impact on staff wellbeing.

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As a result of all of this focus, all of the UK business units improved profit and margin with Transport, Advisory and Water performing well and Energy and Buildings driving out good results in more challenging markets. The combination of a refreshed Group purpose and a drive on selective focus provided clarity to the management teams in targeting opportunity and improving performance.

The value of gross working capital, trade debtors and positive work in progress (contract assets), was flat year on year in comparison with 2020, reflecting the slight dip in revenue and the focus in 2021 on billings and cash.

The effective tax rate of 13.4% is 8.4% lower than 2020 (21.8% as restated). The decrease is mainly as a result of higher profits in overseas branches which are exempt from UK tax, impact of the change in future tax rate on both the opening deferred tax balances and the spreading of the tax relief on pension contributions, plus the lower disallowed currency revaluations on intercompany balances which are treated as quasi equity for tax purposes.

The nature of the pandemic impacted two of the important non-financial KPIs that we use to manage the business. Average sickness across the company increased from 20.8 hours per person to 31.8. Voluntary staff turnover increased from 5.8% to 9.9%.

Cash

Cash balances increased from £166m to £188m. The business continues to generate adequate cash flow for operational liquidity and organic growth, although the focus on working capital will be increased further in 2022 to drive liquidity higher. The company has no debt.

During the year £45m of additional pension contributions were paid to the UK pension scheme to improve funding. The scheme has moved from a £66m liability at the start of the year to a £29m surplus at the end. The move to surplus came from the cash contributions and an increase in corporate bond yields used to value the scheme's liabilities. The surplus has not been recognised in the financial statements in line with FRS 102 as access to the surplus is not unconditional and is only with trustee agreement.

UK pension schemes

At the year end the pension scheme of the company merged with the scheme of its subsidiary JN Bentley. The merger was aimed at reducing the risk and volatility of the investments in the Bentley scheme and targeting cost savings of up to £200,000 per annum including internal management time, from the scale and efficiencies typically achieved from such mergers. The value of the Bentley scheme was less than 5% of the value of the Mott MacDonald scheme at the time of the merger.

Bank facilities

The parent company, Mott MacDonald Group Limited, started the year with a £90m committed bank facility, in place until December 2022, and a £30m accordion available for use as part of the main facility agreement.

On 17 December 2021, it put a new facility in place for five years up until 17 December 2026, replacing the previous facility in place. The new facility is £125m with three banks, with an accordion of £25m available for use as part of the main facility agreement to take capacity potentially up to £150m.

There are no material changes to the terms of the new facility in comparison with the old one. The financial covenants in the new agreement are unchanged from those in the previous agreement.

The parent company also has facilities in place for Group companies like Mott MacDonald Limited to use to provide tender bonds, performance bonds and advance payment bonds in the normal course of business. During the year it cancelled the £25m UK pension bond that was in place, having made the additional contributions to the UK pension scheme noted previously.

Covenants

The parent company is comfortably in compliance with the covenants in the principal loan facility arrangement with its core relationship banks described above. It is also comfortably in compliance with the covenants it has with the trustees of the UK defined benefit pension scheme.

Dividend

The company paid an interim dividend of £5m to its parent company Mott MacDonald Group Limited. It does not propose a final dividend. A dividend was not paid in 2020 due to the impact the pandemic was having on broader stakeholders and a need to retain cash in the business.

Shareholders' equity

Shareholders' equity increased from £357m to £409m. The increase mainly came from profit transferred to reserves and from the FRS 102 actuarial gain from the reduction in the pension liability.

Managing risk and uncertainty

The Group's approach to risk management is set out below which is a framework for all business operations to follow in principal but to shape and tailor to their own local requirements given the business environment, risks and control environment they work with.

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Risk Management Framework

The Group's Risk Management Framework enables the identification and review of principal risks that have the most significant impact on our purpose and strategic objectives.

Detailed risk management reviews are carried out across the business to ensure that emerging risks are identified, escalated where necessary and mitigated at the appropriate level in the Group.

The oversight and management of risk is governed through the Group's Risk Committee and its risk sub-committee. Representatives from each of the regions report into the risk sub-committee and individually form regional risk committees to report and manage regional and business unit risk. The risk sub-committee reports into the Risk Committee advising on the risk profile of the business against risk appetite and providing assurance on the effective management of their risks.

The impacts and opportunities of principal risks as well as risk interdependencies are reported to the Risk Committee three times a year.

Risk treatment plans (RTPs)

RTPs are used to document a clear understanding of the nature of the risk, the treatment plan, key metrics and the target risk rating.

The management of risks and risk mitigation measures are managed through the three lines of defence to reduce the likelihood of their occurrence or the magnitude of their impact.

Risk owners work collaboratively across the Group with subject matter experts to review and update the RTPs, serving to address the interdependencies between risks and mitigation measures required. The regional businesses cascade and implement the RTPs across units, divisions and at project level, reporting against the principal risks and managing risk mitigations.

Emerging risks and meteors

Emerging risks and risk meteors (risks that are high impact, high velocity) are tracked and reported by each regional business and its units. Through our reporting process at risk sub-committee meetings, interdependencies between emerging risks and meteors across the regions are presented, identifying correlations between risks, and informing the risk landscape and exposure. This enables the Board to make informed and robust decisions, in line with the Group's risk appetite.

Principal Risks

The management of the Group participate in a thorough and robust process annually to identify and assess its principal risks. The Board assesses the results of the exercise and determines the principal risks that would severely impact future performance, resilience and our ability to deliver our strategy.

From those principal risks, the following primary risks were the most significant ones highlighted for oversight and management review during 2021.

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Major disruption – the continuing market disruption from the COVID-19 pandemic and from Brexit together with disruptions in transport ridership, aviation and energy fundamentals. This is mitigated by contingency plans that have been developed to anticipate the range of actions necessary to manage through disruption. They focus on early warning indicators and risks affecting order book, sales, overheads, staff utilisation, cash and working capital.

Client and opportunity – a diminishing right to win in our core markets. This is mitigated by an account leadership programme and by an understanding and assessment of our primary markets, our key customers and their changing needs. We also track competitor activity and our relative standing and market share. Client engagement plans and regular customer interactions also play a role.

Technology

Information security – the malicious or accidental mishandling, disruption, corruption or theft of information assets. This is mitigated by directives and procedures that are in place to defend against cyberattacks and data theft, risks posed in IT support services and failure of communication systems. Regular training and improvements in raising the cultural awareness of information security are embedded across the Group.

Operations

People and capacity – inability to develop staff to meet client demand. This is mitigated by processes in place to support effective resource management, recruitment, development and succession planning. Performance management and professional development are better supported through our new global enterprise resource planning system (Connect Business) now in the UK, North America and parts of Europe, which has also enhanced our capabilities in resource planning and management.

Financial

The Group is exposed to **liquidity** risk, **credit** risk and **exchange** risk. These are mitigated by a variety of controls and processes to manage these risks and to minimise financial loss. These are described further on page 20 in the directors' report.

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Any material transaction and translation exchange exposure after matching is monitored by management with action taken when required. There is no material interest rate risk. Interest rate exposures are hedged where necessary.

Corporate and project level risk management processes are outlined in the corporate governance report, pages 14 to 16.

Enterprise Risk Management 2022

During 2021, the Group appointed a full-time Chief Risk Officer to report to the Risk Committee. She has worked with its members and the wider management teams in the regional businesses to further develop the Risk Management programme for use in 2022. This has now been approved by the Board for implementation.

The nature of the principal risks faced by the business are unchanged. The focus of the new programme is one of documentation, description, classification and approach to look at risk more holistically and consistently across the business to produce a better quality process, a more informed assessment of risk and more effective mitigation.

S172 Companies Act 2006 – Directors' duties to promote the long-term success of the company

This statement sets out how the directors have satisfied the expectations of S172 Companies Act 2006. The narrative is consistent with the size and complexity of the business and covers matters of strategic significance. The disclosures are set out as S172 expects of the directors in promoting the success of the company.

The governance of the Group is managed and coordinated by the parent Mott MacDonald Group Limited. The matters referred to below relate to those matters relevant to the agenda of the company's directors.

The likely consequences of any decisions in the long term

The directors provide leadership by pursuing success through a strategy and decision-making which put the long-term interests of the company and its stakeholders above short-term expediency.

The principles are focused on maintaining a strong and sustainable business for those who follow in the business after us. This needs to be evident in the company's reputation, its standing with clients and key stakeholders and its financial strength.

The directors pursue growth but their strategy embraces a wider social purpose, and they seek to embed this thinking and the principles of corporate responsibility, in all aspects of our business and in 2021, they:

- carried out a landscape review as part of an exercise to update the Group's five-year strategy with particular emphasis on refining its selective focus on geographies, sectors and subsectors; in 2022 the findings of the landscape review will be taken on board by the regional businesses to shape their views and their strategies; and
- refreshed the company's focus on decarbonisation, climate change, social and environmental outcomes and sustainability. In Board meetings and in management meetings across the Group, the directors engaged with the leaders of these initiatives to focus on long-term trends and drivers. They focused on how our clients and communities need to respond to the challenges across these areas. That is now enabling us to work more effectively to help them deliver their objectives and the right societal outcomes. Our evolving strategies in these areas are set out in the corporate responsibility section on pages 3 to 5.

The interests of the employees

The directors' report explains on page 20 how we engage with our employees to explain the current strategy, current performance and future plans of the company and broader Group, as well as listening to them to understand how to improve their working environment, working practices and development. In particular, the directors are currently:

- putting in place a talent identification system and process so we can assess and develop our diverse talent globally. This supports our ability to identify, attract, reward and retain people;
- introducing a mechanism to manage succession planning, so the business can more easily manage talent pipelines, plan lines of succession and address succession gaps;
- introducing a mentoring system for our early career professionals and recently qualified engineers to benefit from mentoring from our experienced technical specialists; and
- enabling managers and employees to take greater ownership of their learning through a Group-wide learning platform called Connect Learning which houses technical and non-technical learning. This supports their technical excellence through their professional development.

The Group has also implemented a new process for discussions between management and staff on objectives, performance and development. Coupled with that, a revised bonus scheme was introduced that rewards the performance of staff more fairly.

Strategic report

Webinars, presentations and blogs for staff were run internally on matters that can impact the physical or mental wellbeing of staff. Topics in 2021 included the impact of remote working; sleep wellbeing; managing stress at work; the pandemic and our wellbeing; five ways to wellbeing in the workplace; work/life balance; and supporting each other with mental health and its importance. This is a valuable way that staff can access support at the right time, express views and share opinions across the Group.

Business relationships with suppliers, customers and others

A strong and effective beneficial relationship with suppliers, customers, joint venture partners and wider business partners is central to delivering strategy and shareholder value.

The corporate governance report on pages 17 and 18 details the directors' approach to regular and purposeful engagement with stakeholders that is supportive of informed decision-making. The Board took further steps this year to increase the investment in our stakeholder relationships:

- Interviews were conducted with clients as part of the landscape review for our strategic refresh. Specific lines of enquiry were around client-side behaviour, commercial alignment and performance.
- A review of our approach to client classification to confirm it supported our strategic imperative and investment in quality relationships.
- Analysis of customer satisfaction questionnaires as potential indicators of market perception.

The directors remain actively engaged in a management capacity with the sectors and markets we work in. They are also actively engaged with projects, clients, partners and suppliers. That gives them an insight into the benefits to be had from these more engaged relationships.

Impact of the company's operations on the community and environment

The directors' actions in 2021 along with their current strategic priorities and thinking in this area are reflected in the corporate responsibility section on pages 3 to 5, along with the Group's achievements.

Maintaining a reputation for high standards of business conduct

The Board is committed to promoting the highest standards of ethical behaviour. This assists in safeguarding our ethical culture and demonstrating that we are a responsible organisation. In addition, we need to ensure that we meet the minimum regulatory requirements and stakeholder expectations in relation to our ethics and compliance risks. Together these are delivered through the Mott MacDonald Ethics and Compliance Programme which was modified this year to keep it relevant to the prevailing business environment.

We also updated our commitment to acting with integrity and our expectations of all colleagues and those we work with. Our Code – Delivering with PRIDE challenges us to work with each other, our partners, clients and communities in a way that builds trust and mutual respect. It sets out our standards and expectations on the issues that matter to us – it is a guide to making good choices.

The governance around ethics, business conduct, risk and reputation is described in the corporate governance report on pages 14 to 16.

Looking forward

We are pleased with the 2021 results and the progress made delivering our strategy. The order book is at a healthy level. Our strategy of selective focus has led to profitable growth in our stronger markets while we focus on margin improvement elsewhere. Overall, this is leading to improved profits and better margins.

2022 will bring more challenges but we remain confident in our ability to win work in competitive markets through our strategy of selective focus.

We also remain confident in our abilities in technical excellence and thought leadership. That enables meaningful engagement with clients and stakeholders on innovative solutions that deliver on societal outcomes.

Our key responsibilities in 2022 will be in the areas of net-zero carbon, climate change and sustainability, societal outcomes and environmental excellence. Our expertise across these areas is a differentiator we can use to deliver a strong value proposition for clients and ensure we meet our responsibilities for wider stakeholders.

Approved by the Board of Directors and signed on its behalf:

Mike Haigh, Executive Chair
11 April 2022

Ed Roud, Finance Director
11 April 2022

Corporate governance report

Governance

Mott MacDonald Group Limited, the parent company, sets the governance framework for its subsidiaries to comply with when conducting business.

Some of that governance is designed and delivered through directives, processes and systems that are rolled out across the Group for use by the business operations in the Group's trading subsidiaries, like Mott MacDonald Limited.

The Executive Board of Mott MacDonald Group Limited has formally adopted a corporate governance framework for large private companies, appropriate for the size and purpose of the company. The Wates Principles are voluntary principles for large private companies that demonstrate an 'apply and explain' approach over six pillars of corporate governance:

1. Purpose and leadership
2. Board composition
3. Director responsibilities
4. Opportunity and risk
5. Remuneration
6. Stakeholder relationships and engagement

As a large private company and in line with Mott MacDonald Group Limited's direction, Mott MacDonald Limited is also following the Wates Principles as described in the Group's principles set out below:

Principle 1 – Purpose and leadership

An effective board develops and promotes the purpose of the company and ensures that its values, strategy and culture align with that purpose.

Our **purpose** is to improve society by considering social outcomes in everything we do; relentlessly focusing on excellence and digital innovation, transforming our clients' businesses, our communities and employee opportunities.

Underpinning our purpose is our **proposition**, 'Opening opportunities with connected thinking'. This is our statement of intent – how we do what we do in delivering our purpose.

We demonstrate **leadership** as part of an employee-owned group by pursuing success through a strategy and decision-making processes which put the long-term interests of clients, employees, external stakeholders and employee shareholders above short-term expediency.

Our leadership principles are focused on passing on a stronger, better and more sustainable business to those who follow us, and to maintain intergenerational fairness.

Underpinning those leadership principles are our values: **Progress, Respect, Integrity, Drive and Excellence (PRIDE)**.

They guide our behaviour, shape our culture, and inform our relationships with our clients, our stakeholders and each other. They are the platform from which we deliver our purpose and underpin our employee-ownership model.

We put into practice our values and demonstrate leadership through our actions and behaviours. These, together with health and safety and wellbeing, are embedded in how we conduct ourselves in running and managing the business and how we value our employees.

The reputation and future success of our business are built on integrity and trust. We provide annual training on ethical and compliance behaviour to all staff and enhanced workshop training for staff most at risk of encountering ethical issues.

The culture of our business is defined by the top-level leadership and by local line management. Our corporate values inform what is expected of employees' attitudes and behaviours.

Employees are encouraged to report any behaviours that are not in line with our values through their HR representatives, management or through our independent whistleblowing hotline. These are all investigated and then acted on where necessary.

We seek feedback from staff through a biennial survey which allows our leadership to monitor trends, gauge how well policies are being implemented and collect employee views. We put in place action plans to address common issues.

The projects we deliver centre on improving people's lives but can have adverse impacts on communities and the environment. We recognise those impacts and mitigate them by embedding sustainability and social outcomes into our project delivery.

We seek feedback from our clients and wider stakeholders on our impact, behaviours and effectiveness. We have various forms of interactive communication channels and thought leadership to share ideas and opinions, promote knowledge and innovation, focus on social outcomes in our project delivery, and promote technical and professional excellence.

Corporate governance report

Principle 2 – Board composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of the board should be guided by the scale and complexity of the company.

Composition 2021

During 2021, the Board comprised five executive directors. The structure comprised a mix of executive directors working as Chair, Managing Director, Strategy Director, Finance Director and External Engagement Director. The directors have a broad range of skills and experience with differential as well as complementary skill sets. The blend of skills is a key feature determining the Board's effectiveness.

Appointments to the Board of the company are drawn from the directors of the parent company to ensure an effective and efficient governance structure for the company and the Group.

Appointments to the Board of the parent company follow a formal process, with the Board deciding what components of the process to use given the circumstances of the appointment. The process is robust and is described in detail in the governance statement of the parent company.

Cathy Travers was appointed as a director of the Board on 1 January 2022. The resulting Board composition for 2022 is set out at the end of this principle. Also set out is the assessment carried out to determine that the resulting structure and composition of the Board for 2022 continues to have the right balance of competencies and skills, with appropriate experience, knowledge and governance.

Evaluation

Board members' strengths and development areas are reviewed from time to time using the Financial Reporting Council Guidance on Board Effectiveness as the framework, and through peer review of knowledge, skills and experience, using the same criteria as for new applicants.

The Board of the parent company works with external organisations to provide development for directors and leadership training on an individual and collective basis.

That assessment covers their roles and responsibilities as directors of the global business, including the parent company and their responsibilities for other Group undertakings where applicable.

The Board's effectiveness is periodically reviewed by independent external assessors, as part of succession planning. The conclusions summarise effectiveness and highlight where complementary or differential skill sets could be better blended to make the Board stronger as a team. An independent review of and development programme for the Board as a team was carried out in 2019 and again in 2021.

A self-assessment by directors of their own individual performance and attributes and an assessment of those of their fellow directors was carried out in 2018 and 2019 and reviewed again in 2021. The results were shared with Board members at a Board meeting and with the Shareholders' Committee to assist them with their ongoing assessment of Board performance and effectiveness.

Diversity

Although the Board is reasonably diverse in terms of knowledge, skills, experience and age, its balance in terms of gender and race can be improved. Changes in our own corporate culture as well as in the wider industry are slowly improving the retention and career progression of a more diverse workforce. However, the Group recognises its role to improve opportunity and outcomes at all levels, and for leading change.

The Board is committed to diversity and is taking steps to improve practices and processes across the Group. Significant progress on gender and race has already been made across the business up to senior management and leadership positions.

This approach is being developed to deliver a sustainable model for diversity of representation in key senior positions up to and including Board level; the Shareholders' Committee of the parent company already has a broad range of nationalities, cultures and gender.

Composition 2022

Cathy Travers was appointed to the Board in January 2022 bringing the number of directors to six. The Articles of Association require between four and eight directors. From 1 January 2022, Cathy will retain her role as General Manager of the UK and European business as well as being an Executive Board director.

A broader review of the Board responsibilities will take place over the first six months of 2022. In the meantime, a skills and competency assessment has been carried out given the change. The Executive Chair, the Group Head of People and an external advisor analysed the 2022 Board.

Corporate governance report

The analysis and results are set out below:

- Competency Framework – an analysis has been carried out of the collective Board attributes. The analysis shows that there is no material overall difference between 2021 and 2022. The competency framework was developed based on: Lane4 interviews with senior staff; Lane4 advice; the IoD competency framework, Institute of Directors 2016; the Competency Framework for Governance Professionals, The Governance Institute 2019 and The Successful Executives Handbook, PDI 1993. Competencies were evaluated as 360° by peers and individual self-assessments.
- Talent Q Dimensions Report analysis carried out by Lane4. The analysis demonstrates that the new Board in 2022 will not be materially affected in terms of composite performance.

Principle 3 – Director responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

As with principle 2 above, the governance structure reflects the governance in place for the Executive Board of the parent company who carry out their roles and responsibilities as directors of the parent company and certain material trading subsidiaries of which Mott MacDonald Limited is one.

Accountability and effective decision-making

The roles of the directors are as described in principle 2. Significant decisions of the Board are generally made by reaching a consensus. Decisions can also require ratification or subsequent approval from the Board of the parent company or the Shareholders' Committee of the parent company, whenever required by our internal management governance or the parent company's Articles of Association.

The Shareholders' Committee of the parent company represents the long-term interests of current and future shareholders of the Group. It advises on key issues and approves significant decisions and actions of the Board of the parent company. It is responsible for oversight and supervision of that Board. It is chaired by a member of the Shareholders' Committee. Board directors are not members of this committee.

Information and advice

The Board is provided with information in a timely manner on matters that need to be considered in running the business. Directors have access to the advice of the Group General Counsel and Company Secretary, who are responsible for advising the Board of the parent company and the Group's business operations on material governance matters. Directors can seek independent advice on the performance of their duties.

The Board also receives assurances from various in-house technical specialists that the company's financial reporting, risk management, governance and internal control processes, including policies mandating procedural requirements and standards, are operating effectively. It is the Board's responsibility to make sure that this assurance is delivered and that the means to deliver it is adequately resourced and effectively managed.

Discharging responsibilities

The directors delegate day-to-day management and decision-making to senior management. However, delegation is subject to financial limits and other restrictions, above which matters must be referred back to the Board. The directors maintain oversight of performance and ensure that management acts in line with the strategy and plans agreed by the Board and its delegated authorities.

This governance framework sets out how we do business across the Group and captures our values, policies and processes, together with clear levels of delegated responsibility. It is aimed at ensuring that all employees and businesses act in a clear, accountable and consistent manner.

Our policies and processes embrace our operating practices. Managers have the authority to make decisions and that authority is delegated as far as is practicable – but with clear accountabilities. Some matters involving risk are escalated in accordance with clear guidelines on evaluation and authority to approve.

The company operates a business management system, STEP, which sets out the policies and procedures of the company and the decision-making and authority framework. This determines our levels of delegated authority and operated workflows.

Principle 4 – Opportunity and risk

The board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and by establishing oversight to identify and mitigate risks.

As noted in the introduction to governance above, Mott MacDonald Group Limited, the parent company, sets the governance framework for the Group's business operations to comply with when conducting business through the trading subsidiaries of the Group.

Corporate governance report

The narrative set out below is a summary of the Group's general risk management process that is used by Mott MacDonald Limited.

Opportunity and value

The Group creates value through developing information for our clients. The processes for developing information are maintained in our STEP business management system. The information we develop takes many forms but typically we generate reports, models and designs. We also support clients by managing programmes of work and providing assurance with respect to the work of others.

We select the markets we seek to work in, through selective focus and where we assess we can build long-term value. Our approach is to focus on clients that offer sustained addressable opportunity in our chosen sectors. We assign client account leaders to have oversight of the clients' development plans and to maintain high levels of client satisfaction through our services.

The Board has responsibility for determining the nature and extent of the risk it is willing to take. This is recorded in the Group Risk Appetite. It is also responsible for ensuring that risks are managed effectively.

Managing business risk

Business risks are treated by the Board's Risk Committee. Each business risk is managed by the Three Lines of Defence Model and mitigations recorded by individual risk treatment plans. The Group's principal risk themes are noted on pages 9 and 10.

The newly appointed Chief Risk Officer reports to the Board's Risk Committee on risk exposure in the business three times a year. In addition, risks related to health, safety and ethics are reported at each meeting of the Board.

An Ethics and Compliance Officer for the Group, who reports through the Group General Counsel to the Executive Chair, has oversight of investigations into alleged breaches of our code of conduct and any significant process failure.

In addition to Board oversight, the Shareholders' Committee has an Audit and Risk Assurance sub-committee which requires an assessment of risks to be presented at each of its three meetings a year and a report on any ethical matters arising.

Managing project risks before contract

Managing project risk starts at the work-winning stage. Achieving the appropriate balance between risk and opportunity is first assessed at the decision to invest in a relationship, secondly at decision to pursue a potential prospect and finally at the point of a decision to submit a proposal for a specific opportunity. These judgements are based upon assessments by client account leaders who build a good understanding of clients' business plans, culture and likely fit with our own risk appetite.

We then assess each prospect for its complexity to identify the level of control that is required for project delivery and the required competence of the project leadership team. That determines the right mix of project controls specialists and commercial managers needed in the team to support the project manager and project principal. For more complex projects, the project principal is supported by an oversight board.

We undertake due diligence on our supply chain before contracting with them. Where risks related to technical competence, business ethics, modern slavery, sanctions, export controls or safeguarding are high, further work is carried out to seek to ensure that the association with the supplier will enhance, not damage, our reputation.

The Group identifies attributes related to material technical and commercial risks for which special approvals are required to take the risk before a tender can be submitted.

Managing project risk after contract

Project risk is managed through STEP which is ISO 9001:2015 compliant. It defines our approach to project delivery and is mandated for all projects in the Group. STEP is compliant with ISO standards for health and safety, environment, anti-bribery management, risk, information security and collaborative working.

Our new ERP system, Connect Business, now covers two thirds of the Group's global operations by revenue. Connect Business supports improved risk management, providing an integrated risk register within each project. During delivery, the register is live, giving improved visibility of current risks and improved project management. The improved visibility can also inform project support requirements and improve business planning through aggregated views of risks.

Monthly project review meetings together with annual project reviews are carried out by the project teams. They monitor risk and uncertainty and update the risk register, project budget and project delivery plan.

Performance is also monitored at a senior management level using exception reports, which identify anomalies that need to be investigated, evaluated and followed up.

Corporate governance report

Compliance with our quality systems is managed through our quality in-house specialists, who carry out audits and reviews of the application of our system, and through external auditors, who are currently DNV. We have a single contract for our global operations and receive consistent assessment of the quality of our compliance to STEP.

The Group's external and internal auditors consider the effectiveness of controls in this area, with matters for improvement reported to the Board and the Audit and Risk Assurance sub-committee.

Principle 5 – Remuneration

The board should promote executive remuneration structures aligned to the long-term sustainable success of the company, taking into account pay and conditions elsewhere in the company.

Consistency and control

We operate a consistent and equitable approach to remuneration. We reward our employees fairly and participate in industry benchmarking to ensure individuals are paid competitively and that their pay progresses fairly and in line with our markets and locations as their careers advance.

Benchmarking means that we can minimise retention risks and ensure we can make attractive and competitive offerings in our chosen markets and locations, which are essential for attracting and retaining the best talent.

Remuneration management, governance and oversight is run through our regional structures with central advice, support and counsel provided by our Group Head of Reward. Oversight of the regional teams and governance for recommendations and proposals, such as the annual pay review, sit with the Executive Board of the parent company

Remuneration and Equity sub-committee

A Remuneration and Equity sub-committee which reports to the Shareholders' Committee reviews and approves Board proposals on remuneration and equity, including:

- percentage pay review amounts by geography and/or sector;
- the size and allocation of the discretionary bonus pool for employees and the criteria for awarding bonuses;
- compensation proposals for the Directors of the Board;
- annual share allocations to business units to use to offer shares to their employees to buy;
- annual share offers to the executive directors of the company to buy; and
- the annual dividend and the size and allocation of discretionary bonus pools to distribute to employee shareholders.

All proposals are based on the performance of the Group, the business segment and the individual.

Performance is defined with agreed goals and targets and measured via metrics such as revenue growth, profit growth, profitability, working capital, ethics and collaboration, as well as the development and demonstration of professional and technical excellence. Goals are reviewed quarterly via a quarterly review process called 'Connected Conversations'.

Directors and independent members

The sub-committee reviews the remuneration of Executive Directors, as well as the allocation of shares for them to buy in the parent company. That provides an effective control over their remuneration and equity, ensuring a measured and justified value proposition. Their remuneration and shares allocation (to buy) are based on the same performance principles as those used for staff.

The sub-committee also reviews and appraises the Board's current policies and mechanisms for reward and considers proposals by the Board to change them for the better interests of the company, its employees and stakeholders.

The company has no independent directors or members. Governance is managed from the parent company and the position with independent members of the parent company is described and disclosed in the financial statements of that company.

Equality, diversity and inclusion (EDI)

We support the UK government's move to address the gender pay gap and although we are confident that men and women are paid equally for doing the same jobs across our UK business, we also recognise the need to address the gender pay gap and are resolute in doing so. We apply those principles and that objective across the Group.

Our ambition is to create a diverse and inclusive workplace and culture and to attract and retain a wide diversity of talent across the Group. We also provide advice, support and counsel to our leaders so they can support greater EDI via regional EDI networks and our Group Head of EDI.

EDI dashboards provide detailed data and insights into the full employee lifecycle. The dashboards support us in our aim for our EDI efforts to be data-driven and intelligence-led across all aspects of diversity. These tools allow us to tailor our efforts to the unique nature of our different business units and focus activity where it will have the most impact. We are also using the dashboard data to inform unit EDI action plans.

Corporate governance report

Principle 6 – Stakeholder relationships and engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Regular engagement with stakeholders ensures that our strategy, plans and initiatives continue to work in the best interest of the Group, and the clients, communities and individuals it serves.

We continue to draw on the insight of our clients, advisors, peers and colleagues (employees and employee shareholders) to inform decision-making. Among other activity highlighted in the following summary, we also engaged a large cross-section of stakeholders, both internal and external to the business, in creating the landscape to use to refresh our corporate strategy in 2022.

The climate conference in Glasgow in November 2021 also presented an opportunity for us to join world leaders to agree immediate, practical steps to halve global emissions over the next decade. With our clients and broader stakeholders, we engaged in the Resilience Hub, partnered with one of the largest business-focused side events in the Sustainable Innovation Forum and supported the UK Green Building Council and World Green Building Council. In line with our pledge to be net zero by 2040 or earlier, we committed to making sure that the opportunities provided by COP26 are leveraged to their fullest.

With our employees

The directors have regular engagement with employees to ensure that they are informed of the Group's strategic direction and are aware of its performance. We are extremely proud that Connected Conversations – our new global approach for supporting progress, performance and development – saw greater than 95% adoption right across the business in its first year. Details of employee engagement are required to be set out in the directors' report and can be found on page 20.

With our employee shareholders

The Board maintains a schedule of engagement with shareholders who, apart from the Employee Trust, are all employees and the only shareholders in the business. There are no external shareholders and there is no external funding from indirect ownership or influence. We are an independent privately owned company. The purpose of engagement with shareholders is to align their interests with the Group's interests, and to keep them briefed on the Group's performance, the delivery of strategy, material initiatives and company news.

It also helps to ensure that the directors take their views into account in making decisions to act in the best interests of the company, its shareholders and wider stakeholders, promoting its long-term success in doing so. This includes the directors providing:

- quarterly business reviews for shareholders to brief them on the company's progress, highlighting success and areas for improvement. The purpose is to recognise their contribution and improve performance;
- an annual review for shareholders to highlight results for the year and areas for improvement. The purpose is to improve business performance and provide more effective engagement;
- a summarised strategy for shareholders. The purpose is to improve their knowledge of our objectives and value proposition, and enrich the quality of local client and stakeholder engagement;
- three virtual shareholder meetings during the year covering the annual results and business review, strategy and major engagements and initiatives. This includes a 'question and answer' session with the Board; and
- regional forums for shareholders as senior employees. The purpose is to engage with them in recent developments and initiatives either for the Group or their business. This improves engagement and drives better performance and unity.

With our clients

Our ability to understand and respond to the needs of our clients and our clients' clients is core to our business. The directors' strategic and integrated approach to external engagement ensures that we are proactively managing our relationships with the outside world and using intelligence gained to inform decision-making and enable excellence.

In support of this, the senior leadership maintains a diverse programme of engagement with our clients for productive, long-term relationships. The Group external engagement programme includes, but is not limited to, our clients and our clients' clients. It is core to our business. Our external engagement ensures that the directors:

- engage with the broader industry to help steer our business and test our positions as a business;
- progress thought leadership across areas that matter to our clients and Mott MacDonald;
- roll a programme of executive-to-executive engagement with key clients to inform our understanding of potential changes to client needs or client-side behaviour;
- visit key business locations or use alternative engagement such as e-comms, to meet clients and employees, to get an informed view of local markets, the local business and the quality of our brand;

Corporate governance report

- run client satisfaction questionnaires for individual clients to get their views on service provision supporting us to learn, improve and pull their feedback into our development plans; and
- participate in the pursuit of major prospects and the management of key clients via regional panels or client-facing activity.

With our partners

The directors maintain regular engagement with partners such as suppliers, business partners and other market players or academic bodies to discuss key specific issues with them. This enables all parties to better understand and address key issues and initiatives for the benefit of all concerned and improve decision-making for better quality outcomes on both sides. This includes the directors:

- meeting with our relationship banks during the year to brief them on strategy, performance and markets, to give them assurance on the quality of our management, performance and strategy;
- meeting with the advisers and trustees of our pension schemes to share updates on pension funding and to brief the trustees on the Group's performance and prospects;
- meeting with larger suppliers on a regular basis to ensure that there is a fair value proposition for both parties while maintaining quality and rigour in our working arrangements;
- participating in the activities of academic institutions through governing and advisory boards, and staying in touch with academics relevant to the activities of the business;
- meeting with our key joint venture partners to ensure strong relationships are maintained; and
- meeting with key government bodies to establish and maintain strong relationships and to help inform future strategy.

With wider stakeholders

The directors maintain regular engagement with wider stakeholders to enhance market focus and promote the company effectively. In 2021 we launched our 'This is the future' campaign hub. This purpose-driven campaign seeks to challenge us and our stakeholders to think about how we can bring the widest possible benefit – from the projects we work on, the relationships we build and the ways we invest. It sets out what we see as the big opportunities for transformative change and the areas where we want to engage our stakeholders in inclusive discussion.

Other activities include:

- updating our corporate positions and commitments related to global issues to reflect changes in global targets, aligning either with global campaigns or an improved understanding;
- using different media, contributing our colleagues' knowledge and expertise to discussion and debate on key issues impacting markets and stakeholders;
- maintaining the Mott MacDonald corporate website and other websites that communicate with clients, stakeholders and wider society to promote our purpose, capabilities and values; and
- by participating in platforms that seek to influence global agendas such as the Race to Zero, the Coalition for Climate Resilient Investment (CCRI), the Powering Past Coal Alliance and as a platform partner of the World Economic Forum – which includes our champion level recognition in the Alliance of CEO Climate Leaders.

Further, specific examples of how the directors have engaged with employees, clients and wider stakeholders in the course of their duties and having regard to this engagement and their views in making decisions and ensuring the success of the company are set out in the S172 statement in the strategic report on pages 10 and 11.

Mike Haigh, Executive Chair
11 April 2022

Ed Roud, Finance Director
11 April 2022

Directors' report

The directors present their report, together with the audited financial statements of the company for the year ended 31 December 2021.

Registration

Mott MacDonald Limited is a company registered in England and Wales with registered number 01243967.

Results and dividends

The profit for the year after taxation amounts to £51.7m (2020 – £41.0m). The directors propose an interim dividend of £5.0m (2020 – £nil). The directors do not recommend the payment of a final dividend.

Principal activities

Mott MacDonald is one of the world's leading engineering, management and development consultancies. Its core business sectors are advisory, built environment, energy, international development, transport and water.

Directors

The following were directors of the company during the year ended 31 December 2021:

Denise Bower
Ian Galbraith
Mike Haigh
James Harris
Ed Roud

Cathy Travers was appointed as a director on 1 January 2022.

Directors' and officers' indemnities and liability insurance

The directors have the benefit of an indemnity under the Articles of Association to the extent permitted by law in respect of liability incurred as a result of their office. The ultimate parent company of the Group, Mott MacDonald Group Limited, purchased and maintained directors' and officers' liability insurance during the year. However, this does not cover dishonest or fraudulent acts or omissions.

Statement of corporate governance arrangements

Mott MacDonald Limited continues its strong commitment to our existing corporate governance framework adopted by the Executive Board of Mott MacDonald Group Limited during 2021. Our detailed governance framework is applied throughout the Group and sets out how the company conducts business across the Group. It captures our values, policies and processes together with clear levels of delegated responsibility aimed at ensuring that our employees and businesses act in a clear, accountable and consistent manner. The adopted framework is in line with the legislative requirements under the Companies (Miscellaneous Reporting) Regulations 2018 and Section 172 of the Companies Act 2006.

The corporate governance report on pages 12 to 18 demonstrates how we have satisfied the requirements for governance under the Companies (Miscellaneous Reporting) Regulations 2018 throughout the year ended 31 December 2021.

For more information please see the financial statements of Mott MacDonald Group Limited or visit our website mottmac.com/corporate-governance.

Shareholder engagement

Mott MacDonald Limited is the main trading entity of the Mott MacDonald group and is controlled by the ultimate parent company Mott MacDonald Group Limited. Different ways of engagement with shareholders of the ultimate parent company, who are also employees of the company, are disclosed in the corporate governance report on page 17.

Employment policies

The company actively encourages employees to play a part in developing the company's business and in enhancing its performance. Increasing share ownership worldwide in the ultimate parent undertaking, Mott MacDonald Group Limited, is a key element of this policy. In addition, the company recognises individual contributions through performance bonuses and annual awards. We refreshed our internal awards in 2021 to reflect our purpose and rescheduled them across the year to allow enhanced opportunity to celebrate colleagues' achievements.

We introduced a new Social Outcomes Award and strengthened our Sustainability and Climate Change Award to recognise exemplary work in responding to societal issues. We celebrate excellence through our Milne Innovation, Thought Leadership and Digital Delivery Awards. The importance of great project management and global teamwork are celebrated by our Project Manager of the Year and One Mott MacDonald Awards respectively.

We recognise the achievements of colleagues who bring all of this to life for our clients through our Client Engagement Award.

Equal opportunities

Company policy is to employ, develop and promote staff based solely on aptitude, ability and work ethic. As a result, our staff come from a wide diversity of backgrounds. The company wishes to ensure that no discrimination occurs, either directly or indirectly, against individuals with a disability on the grounds of that disability in relation to recruitment, promotion, training, benefits, terms and conditions of employment and dismissal. Wherever possible, reasonable adjustments will be made to either the workplace, workstation or working environment to help employees cope with disabilities.

Directors' report

We apply the same standards and protocols to other areas where discrimination may exist in the workplace and our current initiatives in equality, diversity, inclusion (EDI) and racial justice are set out in the corporate responsibility statement on page 4.

Engagement with employees

The directors deliver a structured programme of engagement with employees. The purpose is to ensure that they are informed of the Group's strategy and plans and are aware of its performance. They are engaged to share their views and ideas on initiatives, work practices, behaviours, the workplace and policies. This also extends to external themes relevant to the company and its employees.

The aim of the engagement is to ensure that the directors listen to employees on matters which impact them and listen to their views, opinions and ideas in making decisions. This helps to ensure that they act in the best interests of the company and promote its long-term success. It also aligns employees to that success and encourages them to contribute to it.

This includes the directors:

- creating a mechanism for employees who do not hold shares to benefit from the company's success by using bonus schemes to distribute profit to them based on performance and behaviours;
- using corporate emails or media presentations to brief employees on important matters impacting the company. The aim is to brief them and use their feedback to improve policy or decisions;
- briefing employees on other matters of importance that impact on them, their jobs, the company or society;
- issuing quarterly performance reports to employees setting out key metrics on financial performance. The aim is to make them aware of how they can play their part in replicating success and improving performance;
- using the intranet or social media to access employee opinions on matters affecting them in the workplace and matters impacting their employment. The directors can use these views in decisions to improve the quality of the workplace or work practices;
- using the intranet or social media to make employees aware of significant operational matters and strategic plans of the company that will shape its success. The aim is to engage them to respond to the challenges;
- running 'town hall' sessions with employees in offices the directors visit to give them an understanding of what is happening elsewhere in the business with an opportunity for Q&A sessions;
- running staff councils in local offices for management and staff to discuss issues in the company or the workplace. The aim is for the company and employees to benefit from a better and more productive work environment;
- providing 'Speak Up' hotlines for anonymous reporting of concerns over ethical/behavioural matters. This gives staff the opportunity to anonymously advise the business of things they become aware of that concern them and allows the business to formally investigate any issues; and
- running staff engagement surveys. This allows management to hear back from employees about their thoughts and feelings, and their excitements and disappointments. This allows the directors to focus on matters needing change, development or improvement.

Statement of engagement with suppliers, customers and others in a business relationship with the company

Details of how the directors have engaged with employee shareholders, clients, partners and wider stakeholders are set out in the corporate governance report on pages 17 and 18.

Energy consumption and carbon information

The relevant information on energy and carbon is set out in the strategic report on pages 5 and 6.

Principal risks and uncertainties

Business risks and measures to mitigate these risks are described in the strategic report on pages 8 to 10. The financial risks and mitigation measures are set out below:

The company is exposed to liquidity risk, credit risk and exchange risk and has a variety of controls and processes in place to manage these risks to minimise financial loss. Key aspects are:

- investments – where viable, counterparties must meet a minimum credit rating of A-1 long term and P-1 short term;
- the company does not undertake any speculative trades;
- transactional exchange rate risk – the net exposure would be hedged with foreign exchange forward contracts, where necessary, but only after using natural hedging;
- translational exchange rate risk – the company does not use hedging instruments;
- credit control procedures are carried out on prospective clients during the bidding period and for the duration of the contracts and longer-term relationships;
- working capital and cash flow targets are monitored and managed daily, with weekly and monthly reporting to the Executive Board; and
- mitigating controls are in place to prevent a credit downgrade or a material reduction of our bank facilities in order to avoid or minimise business disruption.

Any material transaction and translation exposure after matching is monitored by management with action taken as necessary. There is no material interest rate risk at the year end. Interest rate exposures are hedged where necessary.

Directors' report

Post balance sheet events

There were no post balance sheet events requiring disclosure.

Future developments

The various markets of the company are likely to continue to be impacted by the COVID-19 situation and from the resultant economic disruption for the rest of 2022 and the early part of 2023. The main impact is likely to come through any implications for government funding for infrastructure programmes. Business activity levels continue to be sustained at present. Management continues to focus on lead indicators of business activity such as business confidence, business prospects and the order book in order to anticipate market trends and to be ready to respond to growth or shrinkage as it occurs.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report which includes the strategic report, corporate governance report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland').

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 and profit or loss of the company for that period.

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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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 the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

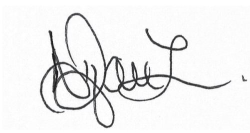
- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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.

Auditor

Following recent government-led consultations on plans to introduce reforms to strengthen corporate governance and company audits, the Executive Board, in consultation with the Shareholders' Committee and the Audit and Risk Assurance sub-committee of the parent company, have reviewed the length of time that Grant Thornton UK LLP has been the independent auditor of the company's financial statements. As a result of that review, Grant Thornton UK LLP is not to be reappointed, following the conclusion of the 31 December 2021 audit, and BDO LLP is being appointed to undertake the audit of the company's financial statements for the year ended 31 December 2022.

Approved by the Board of Directors and signed on its behalf:



Diana Zivko, Company Secretary
11 April 2022

Independent auditor's report

to the members of Mott MacDonald Limited

Opinion

We have audited the financial statements of Mott MacDonald Limited (the 'company') for the year ended 31 December 2021, which comprise the income statement and statement of comprehensive income, the statement of financial position, the statement of changes in equity and the notes to the financial statements, 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 Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (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

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- obtaining management's assessment of the appropriateness of continuing to adopt the going concern basis of preparation of the financial statements;
- obtaining management's base case cash flow forecasts covering the period from 1 January 2022 to 31 December 2023, assessing how these cash flow forecasts were compiled and considering their appropriateness by challenging those assumptions;
- confirming the facilities in place during the period of review and any covenants that attach to those;
- assessing the accuracy of management's past forecasting by comparing management's forecasts for last year to the actual results for last year and considering the impact on the base case cash flow forecast;
- obtaining management's range of alternative potential cash flow projections, where management modelled what they consider to be unlikely downside scenarios. These were prepared by management to assess the potential impact of significant falls in cash receipts on the business. We evaluated management's assumptions regarding the impact on the business of a reduction in revenue. We considered whether the assumptions are consistent with our understanding of the business derived from other audit work undertaken;
- assessing the impact of the mitigating actions set out by management as being both available to them and ones they were prepared to and could implement if required to do so as to address a potential cash deterioration in a way that avoided covenant or facility breach; and
- assessing the adequacy of related disclosures within the annual report.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the company's business model including effects arising from macro-economic uncertainties such as Brexit and COVID-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

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 of at least twelve months from when the financial statements are authorised for issue.

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.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Independent auditor's report

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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.

Matter on which we are required to report under the Companies Act 2006

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 material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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.

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities, 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.

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

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 material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

Independent auditor's report

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (Financial Reporting Standard 102, the Companies Act 2006 and the Wates Principles for Corporate Governance).
- We assessed the susceptibility of Mott MacDonald Limited's financial statements to material misstatement, including how fraud might occur, by making enquiries of management, those charged with governance, internal legal counsel, internal audit and the audit and risk assurance sub-committee. We utilised internal and external information to corroborate these enquiries and to perform a fraud risk assessment for the company. We considered the risk of fraud to be higher within highly judgemental areas of the recognition of revenue, the valuation of certain unquoted pension scheme assets and through the potential for management override of controls. Audit procedures performed by the engagement team included:
  - evaluation and testing of the operating effectiveness of management's project take on controls designed to prevent and detect irregularities;
  - challenging assumptions and judgements made by management within the revenue recognition of contracts deemed significant by the engagement team;
  - performing substantive reviews of service auditors' reports to support the valuation of pension scheme assets;
  - identifying and testing journal entries considered by the engagement team to carry a higher risk of fraud.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the company's operations, including the nature of its revenue sources and revenue recognition policy, the assessment of material judgements made by management and the design of the control environment for the overall financial reporting process for Mott MacDonald Limited;
  - the company's control environment, including the policies and procedures implemented to comply with the requirements of Financial Reporting Standard 102, the Companies Act 2006 and the Wates Principles for Corporate Governance, the adequacy of procedures for authorisation of transactions within the business and the regularity of management's review of management accounts for indicators of material misstatement.
- We enquired of management, those charged with governance, internal legal counsel, internal audit and the audit and risk assurance sub-committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud;
- Where any instances of non-compliance with laws and regulations and/or fraud, we assessed their potential impact and followed up where appropriate;
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the industry in which the client operates;
  - understanding of the requirements of Financial Reporting Standard 102, the Companies Act 2006 and the Wates Principles for Corporate Governance and the application of the legal and regulatory requirements of these to Mott MacDonald Limited.

Use of our report

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

Peter Gamson, Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
11 April 2022

Income statement and statement of comprehensive income

for the year ended 31 December 2021

Income statement	Notes	2021 £000	Restated* 2020 £000
Gross revenue	5	**787,195**	799,142
Cost of sales		**(462,165)**	(501,654)
Gross profit		**325,030**	297,488
Administrative expenses		**(272,308)**	(254,730)
Operating profit	6	**52,722**	42,758
Fair value adjustments on investment in parent undertaking	14	**259**	198
Profit on ordinary activities before interest		**52,981**	42,956
Net interest receivable	9	**7,249**	10,993
Other finance cost	23	**(500)**	(1,500)
Profit on ordinary activities before taxation		**59,730**	52,449
Tax on profit on ordinary activities	10(a)	**(7,999)**	(11,455)
Profit on ordinary activities after taxation		**51,731**	40,994

The company's gross revenue and operating profit relate to continuing operations.

Statement of comprehensive income	Notes	2021 £000	Restated* 2020 £000
Profit for the financial year		**51,731**	40,994
Actuarial gain on pension scheme	20, 23	**35,900**	2,200
Tax on actuarial gain	20	**(6,821)**	(418)
Deferred tax rate change on opening pension scheme deficit	10(c), 20	**–**	2,304
Restriction of pension asset recognised – gross	20, 23	**(28,790)**	–
Restriction of pension asset recognised – tax thereon	10(c), 20	**5,470**	–
Total other comprehensive income		**5,759**	4,086
Total comprehensive income for the year		**57,490**	45,080

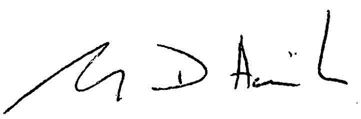
*This refers to a change in accounting policy. Refer to note 10(d).

Statement of financial position

at 31 December 2021

	Notes	**2021 £000**	2020 £000
Fixed assets			
Intangible assets	12	**11,872**	13,054
Tangible assets	13	**8,652**	9,115
Investments	14	**77,196**	82,697
		97,720	104,866
Current assets			
Debtors	15	**493,395**	493,943
Cash at bank and in hand		**187,573**	166,075
		680,968	660,018
Creditors: amounts falling due within one year	16	**(365,498)**	(332,284)
Net current assets		**315,470**	327,734
Total assets less current liabilities		**413,190**	432,600
Provisions for liabilities	18	**(4,181)**	(9,887)
Net assets excluding pension liability		**409,009**	422,713
Pension liability	23	**–**	(66,194)
Net assets including pension liability		**409,009**	356,519
Capital and reserves			
Called up share capital	19	**10,000**	10,000
Profit and loss account	20	**399,009**	346,519
Shareholders' equity		**409,009**	356,519

These financial statements were approved by the Board of Directors on 11 April 2022.



Mike Haigh, Executive Chair

Statement of changes in equity

for the year ended 31 December 2021

	Notes	Called up share capital £000	Profit and loss account £000	Total £000
At 1 January 2020		10,000	301,439	311,439
Profit for the year	20	–	40,994	40,994
Other comprehensive income/(loss):				
Actuarial gain on pension scheme	20, 23	–	2,200	2,200
Tax on actuarial gain	20	–	(418)	(418)
Deferred tax rate change on opening pension scheme deficit	10(c), 20	–	2,304	2,304
Total other comprehensive income for the year		–	4,086	4,086
At 31 December 2020/1 January 2021		**10,000**	**346,519**	**356,519**
Profit for the year	20	**–**	**51,731**	**51,731**
Other comprehensive income/(loss):				
Actuarial gain on pension scheme	20, 23	**–**	**35,900**	**35,900**
Tax on actuarial gain	20	**–**	**(6,821)**	**(6,821)**
Restriction of pension asset recognised – gross	20, 23	**–**	**(28,790)**	**(28,790)**
Restriction of pension asset recognised – tax thereon	10(c), 20	**–**	**5,470**	**5,470**
Total other comprehensive income for the year		**–**	**5,759**	**5,759**
Dividends paid	11, 20	**–**	**(5,000)**	**(5,000)**
At 31 December 2021		**10,000**	**399,009**	**409,009**

Notes to the financial statements

at 31 December 2021

1. Company information

Mott MacDonald Limited is a company registered in England and Wales with registered number 01243967. The registered office is: Mott MacDonald House, 8-10 Sydenham Road, Croydon, Surrey CR0 2EE, United Kingdom.

2. Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The company is exempt from preparing consolidated financial statements on the grounds that it qualifies as an intermediate parent company under Section 400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The company has adopted the exemption from disclosing a statement of cash flows and the related notes in accordance with Section 1.11 of FRS 102. The equivalent disclosure is included in the consolidated financial statements of the company's ultimate parent undertaking, Mott MacDonald Group Limited.

Mott MacDonald Employee Trust

Mott MacDonald Limited is the sponsoring entity for the Mott MacDonald Employee Trust ('Employee Trust').

The Employee Trust has been in place since 1986. Its purpose is to support the framework of employee share ownership in the ultimate parent company, Mott MacDonald Group Limited. The Employee Trust acts as a warehouse to ensure that the internal market for shares in the parent company, Mott MacDonald Group Limited, can operate fluidly during the year. The Employee Trust sells shares to employees when they are given the opportunity to buy shares at fair value in the parent company and the Employee Trust buys shares in the parent company at fair value when they are sold by employee shareholders.

The results, assets and liabilities of the Employee Trust have been included in these financial statements.

Going concern

The directors have a reasonable expectation that the Group and company have adequate resources to continue in operational existence for the foreseeable future, and at least for a period of 12 months from the date the financial statements are signed.

On 17 December 2021, the Group put a new bank facility in place for five years up until December 2026, replacing the previous facility in place. The new facility is for £125m with an accordion of £25m available to use as part of the main facility agreement to take the capacity potentially to £150m, compared with the £120m maximum possible with the previous facility. There are no material changes to the terms of the new facility in comparison to the old one and the financial covenants in the new agreement remain the same as those in the previous agreement.

The Group has performed detailed analysis on future cash flow projections through to the end of December 2023, including both a base case and hypothetical downside scenarios that may result from the negative impact of COVID-19 or a severe global recession on future trading and cash flow. The analysis demonstrates that there would be sufficient headroom within the banking covenants and liquidity, even if revenues and cash receipts reduced substantially. The scenario analysis allows for measures that would be implemented as part of a response plan to preserve cash, many of which were already implemented effectively during 2020. The directors are therefore satisfied that the Group and the company have sufficient financial resources and a robust response plan in the event of a severe economic downturn. For these reasons, the directors continue to adopt the going concern basis in preparing the financial statements.

Ultimate parent undertaking

The company's ultimate parent undertaking is Mott MacDonald Group Limited, a company registered in England and Wales. Copies of the Group financial statements can be obtained from the company's website, mottmac.com. The largest and smallest group of undertakings for which group financial statements have been drawn up is that headed by Mott MacDonald Group Limited.

Notes to the financial statements

at 31 December 2021

3. Significant judgements and estimates

When preparing the financial statements, management makes a number of estimates, judgements and assumptions about the recognition and measurement of assets, liabilities, revenue and expenses. Management base their assessment for estimates and judgements on historical experience, market insights and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Those which have the most significant effect are summarised below.

Critical accounting judgements in applying the company's accounting policies that have the most significant effect on amounts recognised in the 2021 financial statements are as follows:

Revenue from contracts

Where a change in the scope of work occurs, judgement is exercised to determine if the criteria for revenue recognition are met.

Provisions

From time to time the company receives claims from clients with regards to work performed on projects. The company insures itself against such claims through policies written by the Group's captive insurance subsidiary and through the external insurance market. Significant judgement is required to determine whether a provision should be put in place for these claims, including considering their merits.

Allocation of tax relief on pension contributions

Section 29 of FRS 102 does not specify whether tax relief on pension contributions is recognised in the income statement or goes through changes in other comprehensive income. There are therefore a number of potential treatments permitted. Whilst the treatment adopted in prior years of recognising current tax relief in the income statement is permitted, the extent of the additional pension scheme contributions made this year to address past actuarial losses on schemes closed to future accrual of benefits caused management to revisit the judgement around the treatment. We consider that allocating the majority of the current tax relief to the statement of other comprehensive income provides more relevant and reliable information as the tax impact in the income statement and other comprehensive income is then better matched to the gains and losses to which it relates. We have therefore opted to change our accounting policy and as a result, have retrospectively applied this policy to the prior period, resulting in a restatement of comparatives as disclosed in note 10(d). The financial impact to other comprehensive income in the current year is a credit of £5.6m and this is the amount that would have impacted the income statement if the accounting policy had not been changed.

Estimates that may carry a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are considered as follows:

Revenue from contracts

The company's revenue accounting policy is central to how the company values the work it has carried out in each financial year. This policy requires forecasts to be made on the current percentage of completion and the projected outcomes of projects. The key estimates relating to determining the revenue and profitability of projects and related assets or liabilities within the company's financial statements are:

- percentage of completion – usually calculated by taking actual cost incurred as a percentage of forecast total cost. Estimation is required in determining the forecast cost;
- profitability of a project – project teams use their judgement to estimate the costs to complete a project. These include an assessment of the cost of anticipated potential future expenses; and
- pain/gain share – should contracts contain clauses that give rise to reductions in the amounts billable (pain) or additional upside fees billable (gain), project teams use their judgement to estimate their share of any pain/gain and include the impact of such in the percentage of completion assessment, which therefore impacts revenues recognised.

These estimates impact the carrying values of contract assets £58,847,000 (2020 − £57,926,000) and contract liabilities £109,441,000 (2020 − £100,802,000), see notes 15 and 16 respectively. While the estimates made are based on professional judgements, subsequent events may mean that estimates calculated prove to be inaccurate with a consequent effect on the reported result. The company considers that the level of estimation uncertainty in the financial statements as a whole is mitigated by the size of the company's portfolio of contracts, which are of various types and at different stages of completion at any point in time.

Notes to the financial statements

at 31 December 2021

3. Significant judgements and estimates (continued)

Defined benefit pension scheme

The cost of defined benefit pension plans is determined annually using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, inflation, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty, with the valuation being most sensitive to the discount and inflation rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes in these may have a significant impact on the valuation of the defined benefit pension obligations. The assumptions in relation to the scheme are set out in note 23, including sensitivity analysis on the two most critical estimates.

Other significant estimates were disclosed in the 2020 financial statements but, having reassessed, management have concluded that they no longer meet the requirements for disclosure.

4. Principal accounting policies

Business combinations

Acquisitions of businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the company in exchange for control of the acquiree plus costs directly attributable to the business combination.

Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities is recognised as goodwill. If the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the excess is recognised separately on the face of the statement of financial position immediately below intangible assets as negative goodwill.

Goodwill and intangible assets

Positive goodwill acquired on each business combination is capitalised, classified as an asset on the statement of financial position and amortised on a straight line basis over its estimated useful life.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each cash generating unit that is expected to benefit from the synergies of the combination.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the income statement is taken into account in determining the profit or loss on sale or closure.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Intangible assets, including software, acquired separately from a business are capitalised at cost where they meet the capitalisation criteria of FRS 102.

Intangible assets acquired as part of an acquisition of a business are only recognised separately from goodwill if they meet the following three conditions:

- future economic benefits are probable and the cost or value of the asset can be reliably measured;
- the intangible asset arises from contractual or other legal rights; and
- the intangible asset is separable.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred, unless the asset will generate probable future economic benefits and the costs can be reliably measured.

Notes to the financial statements

at 31 December 2021

4. Principal accounting policies (continued)

Goodwill and intangible assets (continued)

Subsequent to initial recognition, goodwill and intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Goodwill and intangible assets are amortised on a straight line basis over their estimated useful lives. The net book value of goodwill and intangible assets is reviewed for impairment if events or changes in circumstances indicate the net book value may not be recoverable. The useful economic lives of goodwill and intangible assets are as follows:

Goodwill	5 to 20 years
Software	2 to 10 years

Tangible fixed assets

Tangible fixed assets are measured at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost less estimated residual value of all tangible fixed assets over their expected useful lives, using the straight line method. The useful economic lives of tangible fixed assets are as follows:

Freehold buildings	50 years
Fixtures, fittings and equipment	3 to 10 years
Motor vehicles	3 to 4 years
Leased assets	duration of lease (3 to 10 years)

Gross revenue

The term ‘gross revenue’ used in these financial statements is the same as the statutory definition of turnover contained in Section 474 of the Companies Act 2006.

Gross revenue represents the fair value of the consideration receivable in respect of services provided during the year, inclusive of direct expenses incurred but excluding Value Added Tax. Where the company receives and disburses funds on behalf of clients under an agency arrangement but earns no margin, such receipts and disbursements are offset with each other in the financial statements.

Gross revenue is recognised in the income statement by reference to the stage of completion of the contract at the statement of financial position date, provided that a right to consideration has been obtained through performance; or by reference to the value of services performed as at the year end date, depending on the underlying nature of the contract.

Consideration accrues as contract activity progresses by reference to the value of work performed, which coincides with costs incurred, and this is estimated by reference to costs incurred to date compared to expected lifetime costs. Hence the proportion of revenue recognised in the year equates to the proportion of costs incurred to total anticipated contract costs less amounts recognised in previous years where relevant.

Contract variations and claims are included in revenue where it is probable that the amount, which can be measured reliably, will be recovered from the client.

Full provision is made for losses on all contracts in the year in which they are first foreseen.

Contract assets represent the excess of revenue earned by reference to work done over the amounts invoiced at the year end. Where the progress payments received and receivable exceed the value of revenue earned to date, the excess is shown within creditors as contract liabilities.

Jointly controlled operations

The company has certain contractual arrangements with other participants to engage in joint activities that do not give rise to a jointly controlled entity. The company includes its share of the assets in such joint ventures, together with the liabilities, revenues and expenses arising jointly or otherwise from those operations. All such agreements are measured in accordance with the terms of each arrangement.

Notes to the financial statements

at 31 December 2021

4. Principal accounting policies (continued)

Research and development

Research and development costs required to complete projects during the normal course of business are immediately expensed to the income statement. Development costs incurred in developing assets for ongoing use in the business are assessed for capitalisation against the criteria of FRS 102. Where such assets meet the required criteria, they are capitalised and amortised over their estimated useful lives.

Fixed asset investments

Investments in subsidiary undertakings are recognised initially at fair value which is normally the transaction price (including transaction costs). Subsequently, they are measured at cost less any provision for impairment.

Investment in the parent undertaking, Mott MacDonald Group Limited, is measured at fair value with changes in fair value recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets

Basic financial assets, including trade debtors, other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the income statement, except for investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably which are measured at cost less impairment.

Financial assets are derecognised when:

- the contractual rights to the cash flows from the asset expire or are settled; or
- substantially all the risks and rewards of the ownership of the asset are transferred to another party; or
- despite having retained some significant risks and rewards of ownership; control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade creditors, other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Notes to the financial statements

at 31 December 2021

4. Principal accounting policies (continued)

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 economic resources will be required from the company and amounts can be estimated reliably. Provisions are measured as the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Provisions are discounted to their present values, where the time value of money is material. No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

Any reimbursement that the company is virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Taxation

Current tax, including UK corporation tax, is provided on amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the company is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date and that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in the income statement, statement of comprehensive income or equity depending on the transaction that resulted in the tax expense (income). Where additional pension contributions paid relate to past actuarial losses, the deferred tax movement thereon is recorded in other comprehensive income.

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the company has a legally enforceable right to offset current tax assets against current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to the financial statements

at 31 December 2021

4. Principal accounting policies (continued)

Dividends

Dividends are only reflected in the financial statements to the extent that at the statement of financial position date, they are declared and paid or declared as a final dividend in a general meeting.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Foreign operations which are conducted through foreign branches are accounted for in accordance with the nature of the business operations concerned. Where such a branch operates as a separate business with local finance, it is accounted for using the closing rate method. Where the foreign branch operates as an extension of the company's trade and its cash flows have direct impact upon those of the company, the temporal method is used.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the statement of financial position and depreciated over the shorter of the lease term and the asset's useful life. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the statement of financial position. Lease payments are apportioned between the reduction of the lease liability in the statement of financial position and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Employee benefits

Short-term employee benefits and contributions to defined contribution pension plans are recognised as an expense in the period in which they are incurred.

Pensions

The company has operated a number of pension schemes in the UK. These are described more fully in note 23. Pension costs charged against operating profit for the defined contribution scheme are the contributions payable in respect of the accounting period. The defined benefit scheme is now closed to future accrual of benefits and the surplus or deficit is determined by the actuary.

Scheme assets are measured at fair values. Fair value is based on market price information and in the case of quoted securities is the published bid price. Scheme liabilities are measured on an actuarial basis using the 'Projected Unit' method and are discounted at appropriate high quality corporate bond rates. The surplus or deficit is presented separately from other assets and liabilities on the statement of financial position, with the corresponding deferred tax asset or liability disclosed within debtors or provisions for liabilities. A surplus is recognised only to the extent that it is recoverable by the company.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur, the changes in the present value of the scheme liabilities and the fair value of the plan assets reflect the gain or loss which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate at the start of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the income statement as other finance income or cost. Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income or loss in the period in which they occur. Remeasurements are not reclassified to the income statement in subsequent periods.

Notes to the financial statements

at 31 December 2021

4. Principal accounting policies (continued)

Derivative financial instruments

The company uses foreign exchange forward contracts to reduce exposure to foreign exchange rates. The company also uses interest rate swaps to adjust interest rate exposures.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the foreign exchange forward contracts is calculated by reference to current foreign exchange forward contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by calculating the present value of the estimated future cash flows based on observable yield curves.

5. Gross revenue

Gross revenue is attributable to one continuing activity, the provision of consulting services.

Gross revenue by destination:	2021 £000	2020 £000
Europe and Africa	**637,502**	626,608
Middle East and South Asia	**114,451**	137,391
Asia Pacific and Australasia	**19,335**	17,431
Americas	**15,907**	17,712
	787,195	799,142

6. Operating profit

This is stated after charging/(crediting):	2021 £000	2020 £000
Auditors' remuneration – audit services – principal auditor for audit of company	**378**	336
– associates of principal auditor for audit of branches	**50**	29
	428	365
– non-audit services		
taxation	**–**	156
other	**3**	4
	3	160
Past service credit (including curtailments) in pension scheme (note 23)	**–**	(1,100)
Foreign exchange losses	**2,313**	6,063
Depreciation (note 13)	**2,893**	3,517
Amortisation of software (note 12)	**4,093**	3,614
Operating lease rentals – land and buildings	**11,820**	12,204

Notes to the financial statements

at 31 December 2021

7. Directors' remuneration

	2021 £000	2020 £000
Emoluments (excluding pension contributions)	**3,123**	3,601

The emoluments (excluding pension contributions) of the highest paid director were £820,068 (2020 − £827,306).

During the year £42,748 (2020 − £52,476) of contributions were paid to the Master Trust in respect of 4 directors (2020 − 4), of which £9,318 (2020 − £nil) related to the highest paid director. Some of these directors also have benefits under the closed defined benefit section of the Mott MacDonald Pension Scheme ('MMPS'). The accrued pension at 31 December 2021 for the highest paid director was £30,928 (2020 − £nil).

The Scheme provides an option to commute part of this pension for a lump sum, which amounted to £168,829 at 31 December 2021 (2020 − £nil) for the highest paid director. The lump sum is calculated in accordance with HM Revenue & Customs rules using a Scheme-specific formula.

8. Staff costs

	2021 £000	Restated 2020 £000
Salaries	**361,901**	350,358
Social security costs	**36,725**	32,901
Other pension costs	**50,487**	46,549
	449,113	429,808

Other pension costs in 2020 have been restated from £63.0m to £46.5m to exclude contributions paid to closed defined benefit schemes as these payments are allocated against the pension liability rather than being charged to the income statement.

The average number of persons employed by the company (including directors) during the year was made up as follows:

	No.	No.
Management	**705**	644
Technical staff	**5,498**	5,456
Administrative staff	**804**	823
	7,007	6,923
The actual number of permanent staff at 31 December was:	**7,295**	6,731

Notes to the financial statements

at 31 December 2021

9. Net interest receivable

	2021 £000	2020 £000
Interest receivable:		
Interest due from parent undertaking	**5,171**	5,984
Interest due from fellow subsidiary undertakings	**2,265**	5,841
Other interest	**59**	266
	7,495	12,091
Interest payable:		
Bank interest	**(1)**	(692)
Interest due to parent undertaking	**(54)**	(139)
Interest due to fellow subsidiary undertakings	**(185)**	(216)
Other interest	**(6)**	(51)
	(246)	(1,098)
Net interest receivable	**7,249**	10,993

10. Tax

(a) Tax on profit on ordinary activities

	2021 £000	Restated 2020 £000
The taxation charge is made up as follows:		
Current tax:		
UK corporation tax	**7,763**	9,522
Non-UK tax	**1,025**	959
Capital gains tax – Mott MacDonald Employee Trust	**108**	121
	8,896	10,602
Adjustments in respect of previous years:		
UK corporation tax	**83**	(631)
Non-UK tax	**(30)**	902
Capital gains tax – Mott MacDonald Employee Trust	**–**	(18)
Total current tax	**8,949**	10,855
Deferred tax:		
Origination and reversal of timing differences	**(401)**	237
Effect of increased tax rate on opening balance	**(883)**	347
Adjustments in respect of previous years	**334**	16
Total deferred tax (credit)/charge (note 10(c))	**(950)**	600
Tax on profit on ordinary activities (note 10(b))	**7,999**	11,455

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is a charge of £1,351,000 (2020 − £1,886,000 credit).

Notes to the financial statements

at 31 December 2021

10. Tax (continued)

(b) Factors affecting tax charge for the year

The tax provided for the year is lower (2020 − higher) than the amount computed at the standard rate of corporation tax in the UK of 19% (2021 − 19%). The differences are explained below.

An increase in the UK corporation tax rate, from 19% to 25% with effect from 1 April 2023, was announced in the UK Budget speech on 3 March 2021 and was substantively enacted on 24 May 2021. This increase has been taken into account in calculating the deferred tax assets and liabilities included in the statement of financial position.

	2021	Restated 2020
	£000	£000
Profit on ordinary activities before taxation	**59,730**	52,449
Profit on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2020 − 19%)	**11,349**	9,965
Effects of:		
Net higher tax on non-UK earnings	**1,025**	958
Non-UK branch profits	**(1,060)**	(731)
Adjustments in respect of previous years	**387**	269
Non-tax deductible expense (foreign exchange (gain)/loss on foreign branches)	**(78)**	612
Expenses not deductible for tax purposes	**258**	308
Research and development relief	**(842)**	(826)
Effect of rate change	**(1,905)**	270
Effect of group reliefs	**(1,446)**	(1,583)
Tax attributable to Mott MacDonald Employee Trust	**108**	121
Other permanent differences	**203**	2,092
Tax on profit on ordinary activities (note 10(a))	**7,999**	11,455

Adjustments in respect of previous years include the effects of changes in tax legislation or interpretations and revisions of estimates used in establishing prior year tax provisions.

Other permanent differences include permanent tax reliefs and non-deductible items.

The items listed above, which explain why the tax charge for the current year is lower than the standard corporation tax rate in the UK, are likely to impact on tax charges of future years as well, although their exact quantum will vary with time and circumstances.

The company has no tax losses (2020 − £nil) that are available indefinitely for offset against future taxable profits in those countries in which the losses arose.

Notes to the financial statements

at 31 December 2021

10. Tax (continued)

(c) Deferred tax

	2021 £000	Restated 2020 £000
The deferred tax included in the statement of financial position is as follows:		
Included in debtors (note 15)	**10,615**	15,635
The elements of deferred taxation are as follows:		
Excess of book depreciation over tax allowances on fixed assets	**3,390**	3,336
Pension spreading	**7,822**	–
Other timing differences	**(597)**	(278)
Pension liability (notes 15 & 23)	**–**	12,577
	10,615	15,635
The movement in the year was:		
At 1 January	**15,635**	17,411
Deferred tax credit/(charge) recognised in the income statement (note 10(a))	**950**	(600)
Deferred tax (charge)/credit recognised in other comprehensive income		
– on actuarial gain in pension scheme	**(6,821)**	(3,477)
– on additional pension contributions made during the year	**(5,555)**	–
– due to effect of rate change on opening balance of pension scheme (note 20)	**–**	2,304
– due to restriction of pension scheme surplus (note 20)	**5,470**	–
Transfer from subsidiary undertaking	**934**	–
Exchange and other adjustments	**2**	(3)
At 31 December	**10,615**	15,635

The amount of the net reversal of deferred tax expected to occur next year is £3,100,000 (2020 − £nil).

(d) Impact of change in policy on allocation of current tax relief on pension contributions

As stated in the significant judgements and estimates section (note 3), the company has changed its policy on allocation of current tax relief on pension contributions between the income statement and other comprehensive income. The comparative figures have therefore been restated. The impact of this is that the tax charge for 2020 in the income statement has increased from £7,086,000 to £11,455,000 and the deferred tax charge on additional pension contributions in other comprehensive income has reduced from £3,135,000 to £nil due to the current tax relief on pension contributions being allocated against this charge. The credit in other comprehensive income for 2020, relating to the impact of the tax rate change from 17% to 19%, has also increased from £1,070,000 to £2,304,000.

Overall, the impact is a presentation adjustment between income statement and other comprehensive income with no change to the net assets in the statement of financial position as at 31 December 2020.

11. Dividends

	2021 £000	2020 £000
The following dividends were paid during the year:		
Interim dividend paid	**5,000**	–

Notes to the financial statements

at 31 December 2021

12. Intangible fixed assets

2021	Goodwill £000	Software £000	Total £000
Cost:			
At 1 January	**2,496**	**21,206**	**23,702**
Additions	**–**	**2,911** [1]	**2,911**
Disposals	**–**	**(72)**	**(72)**
At 31 December	**2,496**	**24,045**	**26,541**
Amortisation:			
At 1 January	**2,496**	**8,152**	**10,648**
Provided during the year	**–**	**4,093**	**4,093**
Disposals	**–**	**(72)**	**(72)**
At 31 December	**2,496**	**12,173**	**14,669**
Net book value:			
At 31 December	**–**	**11,872**	**11,872**
At 1 January	–	13,054	13,054

[1]During the year, £1,949,000 was spent on the development of a new HR IT system and £491,000 has been capitalised in relation to an ERP system. The carrying value at 31 December 2021 of the HR IT System was £4,076,000 (2020 − £2,769,000) and the ERP was £6,733,000 (2020 − £8,985,000).

Notes to the financial statements

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13. Tangible fixed assets

2021	Motor vehicles £000	Fixtures, fittings & equipment £000	Total £000
Cost:			
At 1 January	**1,024**	**55,559**	**56,583**
Exchange adjustments	**10**	**35**	**45**
Additions	**–**	**2,639**	**2,639**
Disposals	**(704)**	**(15,243)**	**(15,947)**
At 31 December	**330**	**42,990**	**43,320**
Depreciation:			
At 1 January	**1,006**	**46,462**	**47,468**
Exchange adjustments	**9**	**26**	**35**
Provided during the year	**7**	**2,886**	**2,893**
Disposals	**(704)**	**(15,024)**	**(15,728)**
At 31 December	**318**	**34,350**	**34,668**
Net book value:			
At 31 December	**12**	**8,640**	**8,652**
At 1 January	18	9,097	9,115

Notes to the financial statements

at 31 December 2021

14. Investments

2021	Investment in parent undertaking at fair value £000	Investments in subsidiary undertakings at cost £000	Other fixed asset investments at cost £000	Total £000
At 1 January	**16,996**	**71,997**	**275**	**89,268**
Additions	**9,922**	**–**	**–**	**9,922**
Disposals	**(15,682)**	**–**	**–**	**(15,682)**
Fair value adjustments	**259**	**–**	**–**	**259**
At 31 December	**11,495**	**71,997**	**275**	**83,767**
Amounts provided:				
At 1 January and at 31 December	**–**	**6,296**	**275**	**6,571**
Net book value:				
At 31 December	**11,495**	**65,701**	**–**	**77,196**
At 1 January	16,996	65,701	–	82,697

The profit on disposal of shares in the parent undertaking was £nil (2020 − £nil).

The historical cost of the investment in the parent undertaking was £11,105,000 (2020 − £16,474,000).

Notes to the financial statements

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14. Investments (continued)

Subsidiary undertakings and other fixed asset investments

A full list of undertakings is given below:

Name of undertaking	% held of ordinary share capital 2021	2020	Registered office key
Subsidiary undertakings			
Bentley Holdings Limited	**100**	100	**A**
Cambridge Education Associates Limited	**100**	100	**B**
Cambridge Education Consultants Limited	**100**	100	**B**
Courtyard Group UK Limited	**100**	100	**B**
Franklin & Andrews International Limited	**100**	100	**B**
Franklin Osprey Services Limited	**100**	100	**B**
Fulcrum First Limited	**100**	100	**B**
HLSP Limited	**100**	100	**B**
JBA Bentley Limited[1]	**75**	75	**A**
JN Bentley Limited[1]	**100**	100	**A**
MMG Consulting Limited	**100**	100	**B**
Mott MacDonald Bentley Limited[1]	**100**	100	**A**
Mott MacDonald Colombia SAS	**100**	100	**C**
Mott MacDonald Gas Experts Limited	**100**	100	**B**
Multi Design Consultants Limited	**100**	100	**B**
Osprey PMI Limited	**100**	100	**B**
Power Ink Limited	**100**	100	**B**
Procyon Oil & Gas Limited	**100**	100	**B**
Schema Associates Limited (formerly Project Management International Limited)	**100**	100	**B**
Other fixed asset investments			
BMM JV Limited	**50**	50	**D**
Environments for Learning Leeds PSP Limited	**–**	24	
M2 (Water) LLP	**50**	50	**B**

[1]Investment held wholly or partly through subsidiary undertaking.

Registered office	
Snaygill Industrial Estate, Keighley Road, Skipton, North Yorkshire BD23 2QR, United Kingdom	**A**
Mott MacDonald House, 8-10 Sydenham Road, Croydon CR0 2EE, United Kingdom	**B**
Calle 93B No. 12-48, Oficina 308, Edificio Futura, Bogota D.C., Colombia	**C**
St James House, Knoll Road, Camberley, Surrey GU15 3XW, United Kingdom	**D**

Notes to the financial statements

at 31 December 2021

15. Debtors

	2021 £000	2020 £000
Trade debtors	**69,409**	70,670
Contract assets	**58,847**	57,926
Amount owed by parent undertaking	**250,000**	250,000
Amounts owed by fellow subsidiary undertakings	**71,105**	64,983
Deferred taxation (note 10(c))	**10,615**	15,635
Taxation recoverable	**2,840**	1,699
Other debtors	**6,578**	11,764
Prepayments and accrued income	**24,001**	21,266
	493,395	493,943

Trade debtors are shown net of a provision for impairment of £17,326,000 (2020 − £21,970,000).

Amount owed by parent undertaking of £250,000,000 is a loan from Mott MacDonald Limited to Mott MacDonald Group Limited. Interest on this loan was charged at a rate of LIBOR + 2% up to 31 December 2021. Following the replacement of LIBOR, interest on this loan will be charged at a rate based on SONIA plus a margin.

The intention is that amounts owed by parent undertaking and fellow subsidiary undertakings will not be called up at short notice if doing so would mean that the parent or subsidiary undertaking would be unable to meet its liabilities as they fall due.

Included within deferred taxation is a balance of £nil (2020 − £12,577,000) in relation to the pension liability (notes 10(c), 23). Deferred taxation is recoverable after more than one year.

16. Creditors: amounts falling due within one year

	2021 £000	2020 £000
Contract liabilities	**109,441**	100,802
Amount due to parent undertaking	**59,614**	55,871
Amounts due to fellow subsidiary undertakings	**38,718**	40,881
Trade creditors	**22,699**	14,583
Current UK corporation tax	**1,585**	2,510
Non-UK taxation	**8,192**	6,922
Other taxes	**7,115**	6,234
Social security	**8,836**	8,644
Other creditors	**9,885**	8,966
Accruals	**99,413**	86,871
	365,498	332,284

Interest is paid on amounts owed to parent and fellow subsidiary undertakings based on the Bank Rate.

Notes to the financial statements

at 31 December 2021

17. Obligations under leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings	
	2021	2020
	£000	£000
Amounts payable:		
Within one year	**11,803**	12,527
In two to five years	**30,589**	38,185
Over five years	**31,026**	32,494
	73,418	83,206

18. Provisions for liabilities

2021	**Provision for losses on contracts £000**	**Other provisions £000**	**Total £000**
At 1 January	**3,712**	**6,175**	**9,887**
Exchange adjustments	**3**	**–**	**3**
Arising during the year	**2,025**	**6,151**	**8,176**
Reversed during the year	**(346)**	**–**	**(346)**
Utilised	**(1,763)**	**(11,776)**	**(13,539)**
At 31 December	**3,631**	**550**	**4,181**

Due to the nature of provision for losses on contracts and other provisions, the timing of their utilisation varies with the size and complexity of the underlying facts and circumstances. It is not unusual for such matters to take up to five years to be resolved, sometimes longer.

Other provisions are mainly in respect of outstanding claims. No separate disclosure is made of the detail of such claims as to do so could seriously prejudice the position of the company.

19. Share capital

	2021 No.	2020 No.	**2021 £000**	2020 £000
Authorised				
Ordinary shares of £1 each	**260,000,000**	260,000,000	**260,000**	260,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	**10,000,000**	10,000,000	**10,000**	10,000

Notes to the financial statements

at 31 December 2021

20. Reserves

Profit and loss account	2021 £000	Restated 2020 £000
At 1 January	**346,519**	301,439
Profit on ordinary activities after taxation	**51,731**	40,994
Dividends (note 11)	**(5,000)**	–
Actuarial gain on pension scheme (note 23)	**35,900**	2,200
Tax on actuarial gain	**(6,821)**	(418)
Deferred tax rate change on opening pension scheme deficit (note 10(c))	**–**	2,304
Restriction of pension asset recognised – gross (note 23)	**(28,790)**	–
Restriction of pension asset recognised – tax thereon (note 10(c))	**5,470**	–
At 31 December	**399,009**	346,519

Included in this profit and loss account is an undistributable profit of £57,190,000 relating to the profit on transfer of the company's investment in Mott MacDonald International Limited in 2005 to Mott MacDonald Group Limited at market value.

21. Capital commitments

There were no capital commitments contracted and not provided for in the financial statements.

22. Contingent liabilities

	2021 £000	2020 £000
Guarantee of bank loans and overdrafts in respect of other group companies	**9,229**	9,145

In addition, in the normal course of business, down payment, performance and tender bonds have been given by the company. In the opinion of the directors, these are not expected to give rise to any significant liability.

The company is a party to claims and litigation arising in the normal course of operations. Due to the inherent uncertainties of litigation or the early stage of certain proceedings, it is not possible to predict the final outcome of all ongoing claims and litigation at any given time or to determine the amount of any potential losses, if any. The company monitors all claims and takes appropriate insurance to mitigate its risk. No separate disclosure is made of the detail of such claims as to do so could seriously prejudice the position of the company.

Notes to the financial statements

at 31 December 2021

23. Pensions and other retirement benefits

The company has operated a number of pension schemes in the UK. The Mott MacDonald Pension Scheme ('MMPS') is trust based which, from 1 January 2001 until 31 December 2011, had both defined benefit and defined contribution sections. On 1 May 2000, the defined benefit section was closed to new entrants. From 1 January 2001, all members were transferred to the defined contribution section. This section was contracted into the State Second Pension, formerly known as the State Earnings Related Pension Scheme ('SERPS') and was closed to new members on 31 December 2004.

From 1 January 2005, new employees were entitled to join the Mott MacDonald Stakeholder Pension Scheme, a contract based scheme. From 1 April 2011, all Stakeholder members were transferred to the Group Personal Pension Plan ('GPP').

From 1 January 2012, all defined contribution members were transferred to the GPP. Contribution structures in MMPS continued in the GPP. From 1 January 2012, all active defined benefit members were made deferred by removing the salary link and offering sliding scale enhancements to their pensions.

From 1 June 2017, all GPP members were transferred to a Master Trust and new employees are now contractually enrolled into the Master Trust. The minimum Master Trust employee contribution level is 4.5%.

On 31 December 2021, the JN Bentley Pension and Life Assurance Scheme (JNBPS) was merged with MMPS. JNBPS is a defined benefit scheme which was sponsored by JN Bentley Limited, a wholly owned subsidiary of the Bentley Holdings Limited group, which is also closed to new members and future accrual of benefits.

The Company contributes to the Master Trust, at the rates specified in the rules of the scheme. From 1 January 2014, all new employees are contractually enrolled. To comply with auto-enrolment law, all current employees who were not in the GPP were contractually enrolled in May 2016, and subsequently a re-enrolment exercise was carried out in the Master Trust in May 2019. Total pension contributions were £47.2m (2020 − £42.3m).

Costs relating to the remaining defined benefit section of MMPS were £65.6m (2020 – £17.3m). These costs include both administrative expenses relating to MMPS and instalments totalling £64.5m (2020 – £16.5m) to reduce the deficit. Members' pensions were increased during the year according to the rules of MMPS.

MMPS is funded by means of assets which are held in trustee-administered funds, separated from the company's own resources. The contributions to MMPS are determined with the advice of an independent qualified actuary on the basis of triennial valuations using the 'Projected Unit' method and a funding agreement between the trustees and the company.

The following key assumptions were used to assess the funding level at the last actuarial valuation:

Date of valuation	1 January 2021
Future investment return per annum – pre-retirement	Discount rate yield curve*
– post-retirement	Discount rate yield curve*

*This is equal to the yield on UK government fixed interest gilts at different terms on the yield curve, with an outperformance allowance of 1.4% over the period to 31 December 2023, 0.9% in 2024 and 0.5% thereafter.

At the last actuarial valuation on 1 January 2021, the market value of assets was £672m and the level of funding based on market value of assets was 86%. The level of funding is the value of the assets expressed as a percentage of MMPS liabilities after allowing for revaluation of benefits to normal pension date.

The valuation position of MMPS was updated to 31 December 2021 by a qualified independent actuary for the purpose of producing these financial statements in accordance with FRS 102.

It should be noted that the calculations and methods under FRS 102 are different from those used by the actuary to determine the funding level of MMPS. The company and the trustees regularly review the funding level of MMPS with the advice of the actuary.

Notes to the financial statements

at 31 December 2021

23. Pensions and other retirement benefits (continued)

During 2021, minimum contributions of £19.5m were paid to MMPS in accordance with the latest recovery plan. Under the current funding plan, minimum contributions will be £19.5m in 2022 and 2023.

In agreeing the latest recovery plan with the trustees of the defined benefit pension scheme, in June 2021 the company made an accelerated special contribution of £35m and removed the £25m bank guarantee that had been in place. In December 2021, the company made a further £10m additional contribution, including £5m as part of agreement of merger of JNBPS with MMPS.

The assets and liabilities of MMPS as at 31 December are analysed below:	2021 £m	2020 £m
Change in defined benefit obligation		
Defined benefit obligation at 1 January	**(736.7)**	(691.3)
Interest cost on MMPS liabilities	**(10.1)**	(13.5)
Actuarial gains/(losses) on MMPS liabilities	**50.9**	(66.2)
Benefits paid	**33.0**	33.2
Past service credit (including curtailments)	**–**	1.1
Transfer from JNBPS	**(20.5)**	–
Defined benefit obligation at 31 December	**(683.4)**	(736.7)
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	**(683.4)**	(736.7)
Change in plan assets		
Fair value of plan assets at 1 January	**670.5**	606.8
Interest income on MMPS assets	**9.6**	12.0
Actuarial (losses)/gains on MMPS assets	**(15.0)**	68.4
Employer contributions	**64.5**	16.5
Benefits paid	**(33.0)**	(33.2)
Transfer from JNBPS	**15.6**	–
Fair value of plan assets at 31 December	**712.2**	670.5
Pension asset/(liability) (excluding tax)	**28.8**	(66.2)
Pension surplus not recognised (excluding tax)*	**(28.8)**	–
Pension liability recognised in the statement of financial position (excluding tax)	**–**	(66.2)
Related deferred tax asset included within debtors (notes 10(c), 15)	**–**	12.6

*Since the company does not have an unconditional right to the surplus, it has not been recognised.

Components of pension income/(cost)

Year to 31 December	2021 £m	2020 £m
Past service credit (including curtailments)	**–**	1.1

Past service credit (including curtailments) of £1.1m in 2020 related to the bulk pension increase exchange (PIE) exercise which was completed in early 2020.

Notes to the financial statements

at 31 December 2021

23. Pensions and other retirement benefits (continued)

Components of pension income/(cost) (continued)

Year to 31 December	2021 £m	2020 £m
Interest cost on MMPS liabilities	(10.1)	(13.5)
Interest income on MMPS assets	9.6	12.0
Net interest cost recognised in other finance cost in the income statement	(0.5)	(1.5)
Actuarial gains/(losses) on MMPS liabilities	50.9	(66.2)
Actuarial (losses)/gains on MMPS assets	(15.0)	68.4
Net actuarial gains recognised in other comprehensive income	35.9	2.2

Plan assets

The weighted average asset allocation at the year end was as follows:	2021 %	2020 %
Asset category		
Liability driven investment	81	75
Diversified growth funds	5	14
Corporate bonds	5	5
Equities	5	5
Cash and other	4	1
	100	100

Actual return on plan assets

Year to 31 December	2021 £m	2020 £m
Interest income on MMPS assets	9.6	12.0
Actuarial (losses)/gains on MMPS assets	(15.0)	68.4
Actual return on plan assets	(5.4)	80.4

The key financial assumptions used to determine the pension liability at 31 December are:

	2021 %	2020 %
RPI inflation	3.2	2.8
Discount rate for scheme liabilities	2.0	1.4
CPI inflation	2.5	2.1
Pension increases (inflationary increases with a maximum of 5% p.a.)	2.5	2.1
Salary increases	n/a	n/a

Notes to the financial statements

at 31 December 2021

23. Pensions and other retirement benefits (continued)

Weighted average life expectancy for mortality tables used to determine benefit obligations at 31 December:

	2021		2020	
	Male Years	**Female Years**	Male Years	Female Years
Member age 60 (current life expectancy)	**27.9**	**29.5**	27.8	29.1
Member age 40 (life expectancy at age 60)	**28.6**	**30.3**	29.0	30.6

Sensitivity to the significant actuarial assumptions

Comparatively small changes in the assumptions used for measuring the defined benefit obligations for MMPS may have a significant effect on the company's income statement and statement of financial position.

The following table shows the sensitivity of the defined benefit deficit to reasonably possible changes in the key assumptions underlying the valuation, with all other assumptions remaining unchanged.

Change in assumption	**Impact on MMPS liabilities**
0.1% decrease in discount rate	increase in obligations in the range £6.8m to £13.7m
0.1% increase in inflation rate	increase in obligations in the range £3.4m to £6.8m

24. Related party transactions

The company has taken advantage of the provisions in Section 33.1A of FRS 102 which exempt subsidiary undertakings from disclosing transactions with other wholly owned subsidiary undertakings within the Group.

During the year, the company made sales of £2,142,000 (2020 − £4,239,000) to non-wholly owned fellow subsidiary undertakings and purchases of £2,474,000 (2020 − £2,338,000) from non-wholly owned fellow subsidiary undertakings. The net balance owed by non-wholly owned fellow subsidiary undertakings at 31 December 2021 was £38,814,000 (2020 − £42,012,000).

Notes to the financial statements

at 31 December 2021

25. Financial assets and liabilities

	2021 £000	2020 £000
Financial assets at fair value through profit or loss		
Investment in parent undertaking (note 14)	**11,495**	16,996
Financial assets that are debt instruments measured at amortised cost[1]		
Trade debtors (note 15)	**69,409**	70,670
Amount owed by parent undertaking (note 15)	**250,000**	250,000
Amounts owed by fellow subsidiary undertakings (note 15)	**71,105**	64,983
Other debtors (note 15)	**6,578**	11,764
Financial liabilities measured at amortised cost[1]		
Trade creditors (note 16)	**22,699**	14,583
Amounts due to parent undertaking (note 16)	**59,614**	55,871
Amounts due to fellow subsidiary undertakings (note 16)	**38,718**	40,881
Other creditors (note 16)	**9,885**	8,966

There were no derivative financial instruments at the year end (2020 − £nil).

[1]Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount (calculated using the effective interest method).

Five-year summary

This page does not form part of the audited financial statements

Years ended 31 December	2021 £000	2020 £000	2019 £000	2018 £000	2017 £000
Gross revenue	**787,195**	799,142	771,067	740,215	707,964
Operating profit	**52,722**	42,758	13,328	10,796	13,311
Profit on ordinary activities before taxation	**59,730**	52,449	25,526	25,385	29,482
Tax on profit on ordinary activities	**(7,999)**	(11,455)*	(3,563)	(2,048)	(1,391)
Dividends	**(5,000)**	–	(12,530)	(14,198)	(13,414)
Distributions to fellow subsidiary undertakings	**–**	–	(3,995)	(105)	(709)
Retained profit	**46,731**	40,994	5,438	9,034	13,968
Consolidated statement of financial position					
Fixed assets	**97,720**	104,866	103,092	103,661	102,881
Current assets	**680,968**	660,018	612,434	622,844	629,301
Creditors: amounts falling due within one year	**(365,498)**	(332,284)	(317,519)	(314,407)	(312,793)
Net current assets	**315,470**	327,734	294,915	308,437	316,508
Total assets less current liabilities	**413,190**	432,600	398,007	412,098	419,389
Creditors: amounts falling due after more than one year	**–**	–	–	(7,000)	(12,000)
Provisions for liabilities	**(4,181)**	(9,887)	(2,074)	(2,241)	(1,647)
Net assets excluding pensions liability	**409,009**	422,713	395,933	402,857	405,742
Pension liability	**–**	(66,194)	(84,494)	(71,394)	(68,394)
Net assets including pension liability	**409,009**	356,519	311,439	331,463	337,348
Capital and reserves					
Called up share capital	**10,000**	10,000	10,000	10,000	10,000
Profit and loss account	**399,009**	346,519	301,439	321,463	327,348
Shareholders' equity	**409,009**	356,519	311,439	331,463	337,348
Net funds					
Cash at bank and in hand	**187,573**	166,075	44,175	58,018	49,330
Bank loans	**–**	–	–	(7,000)	(12,000)
	187,573	166,075	44,175	51,018	37,330

*2020 has been restated following a change in accounting policy related to tax relief on pension contributions (see notes 3 and 10(d) for further details). This has only impacted on tax on profit on ordinary activities and other comprehensive income, with no change to capital employed. Earlier years have not been restated for this change.

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