



Mott MacDonald Limited

Report and financial statements
31 December 2019

Mott MacDonald Limited

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Strategic report

Managing Director's welcome

I am pleased to present to you our annual report for 2019. Our strategy to focus on core sectors and services is helping us to create a solid, sustainable platform for the business – a platform supported by our technical excellence, our growing digital and data capability, and our commitment to drive better social value from our projects.

We are conscious that, through our business and our projects, we have the opportunity to generate positive social outcomes for all our stakeholders – enhancing social value for the communities in which we operate, creating better value for our clients, and providing rewarding careers for our employees.

This focus on excellence and enhancing social value is shared by many of our clients. It is reflected in many of our exciting project wins during the year, such as the Design Services Framework for Network Rail, Developing a Net Zero Carbon Roadmap by 2030 for Water UK, the Client Support Framework for the Environment Agency and many more.

The importance of data and the opportunities that this brings in our industry continues to grow. To support this, we continue to develop our Digital Ventures business. We are leading the way in enhancing the value of data for our clients through our strong domain knowledge and digital expertise.

Our success is underpinned by being part of an employee-owned group, providing us with independence and a strong culture of ownership, with shareholders committed to the long-term future and a clear purpose.

This creates opportunities for all our employees to grow their expertise and their careers and will ensure we hand over to the next generation a business that is stronger and more sustainable.

We are committed to influencing our industry through thought leadership. In 2019, we established an infrastructure industry partnership to set out the first steps in creating a net-zero economy. To mark Earth Day 2019, we led a consortium appointed by the UK Government's Department for Business, Energy and Industrial Strategy (BEIS) to deliver the International 2050 Calculator energy and emissions model programme. These are just two of many initiatives to combat climate change through our business activities and create a more sustainable future.

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

During the year we adopted the Wates Principles of corporate governance, many of which we already had in place. This reflects the importance we place on management rigour and effective engagement with our clients and wider stakeholders to provide value and build a sustainable business.

During 2019 Keith Howells retired from the Board of this company and the Group. Keith played a major role in building the business we have today, and we are extremely grateful for all his efforts. The directors will continue to build on his strong legacy. As part of a planned transition, Mike Haigh has stepped up to take over as Executive Chair of the Group and I have succeeded him as Managing Director.

On 1 January 2020, Denise Bower joined the Executive Boards of this company and the parent as External Engagement Director. Denise has an impressive career in the infrastructure industry, well known through her roles as the executive director of the Major Projects Association and as a professor in the School of Engineering at the University of Leeds.

Finally, I would like to thank our clients for the opportunities they bring. I also thank all our colleagues for their commitment in the year. It's through their contribution that we make our company stronger. It's through them and our projects that we generate great social outcomes for our clients and our clients' clients.



James Harris, Managing Director
27 February 2020

Strategic report

Corporate responsibility

We seek to make a positive difference to the world we live in and improve people's lives across the communities we work in. We do this by integrating the economic, environmental and social aspects of sustainable development into our culture, our operating model and our deliverables.

The United Nations' Sustainable Development Goals are at the heart of our business and closely aligned to the company's strategy for, and approach to, sustainability.

Making a difference

As part of an independent employee-owned firm, the company embraces the Group's strategy to create commercial success while recognising and mitigating any impact on communities and the environment. We pursue growth but put principle before profit.

The Group's strategy has embraced this wider social purpose for many years, and we have developed a leading position in all aspects of corporate responsibility.

We embed this thinking into the company's operating model and deliverables. In doing so, we have the advantage of being part of a single global family with shared values and a common purpose.

The principles of good corporate responsibility are embedded in our behaviours and our ways of working.

In addition, we carry out many specific activities as part our commitment to good corporate responsibility, providing opportunity for employees to participate in structured corporate activities or pursue personal aims and objectives.

In 2019, we focused on four key initiatives as part of the many things we do:

Tackling climate change

The company recognises its responsibility in setting standards for the delivery of its projects and the solutions to our clients; its role in setting standards in how it runs its own operations generally; and its role in leading debate and discussion in wider industry and using thought leadership to be a catalyst for change. Some of the initiatives in 2019 included:

- A commitment to be carbon neutral and free of single-use plastics across our organisation by the end of 2020.
- Develop a clear position on net-zero by early 2020.
- A commitment to decarbonise the projects we work on for clients.
- A project to enable us to use climate assessment to make informed choices in the work we take on, and engage with clients in how they shape projects.

- Initiating and leading a coalition of clients and partners to support delivery of the UK Government's pledge to have net-zero greenhouse gas emissions by 2050.

Inclusive social outcomes

We are working extensively with clients to think through the social outcomes of projects and use this thinking to drive different approaches to their design and delivery.

We have a Social Practice that focuses on people. It cross-cuts our global sectors and promotes how infrastructure, development, policy and services affect communities and social conditions.

The purpose of the practice is to ensure that all of our projects contribute positively to social development. We want to help our clients deliver growth and outcomes that are socially inclusive, helping to realise fairer, more equitable and more sustainable societies.

Systemic issues in infrastructure

Infrastructure assets and systems have been developed in isolation. But the reality is that they are highly integrated and interdependent. In some cases, this is recognised. However, for the most part, thinking about and management of the built environment is siloed.

As a result, the disruption caused by a cyberattack, physical terrorism or asset failure can cascade rapidly through infrastructure systems for water, energy, mobility and telecoms, causing widespread loss of public services. Such disruption has the potential to cost lives and provoke social unrest.

In most situations there is very limited cross-infrastructure thinking and even less cross-infrastructure governance. It is a large gap and getting larger with the progressive digital transformation in society.

We have been leading some of the thinking in the UK to make improvements in this area and working to bring together stakeholders to make progress. Some examples include:

- Chairing the Digital Framework Task Group. Its remit is to steer the successful development and adoption of the information management framework for the built environment. This will allow more data-driven insight, creation and decision-making in real time for UK infrastructure, reducing cost and driving up resilience.
- Involvement with the UK Collaboratorium for Research on Infrastructure and Cities to facilitate the accommodation of more people in urban areas while consuming fewer resources, improving resilience and achieving enhanced quality of life.

Strategic report

Defining and living our People Promise

In 2019, we reflected on how each of us contributes to our unique culture and working environment, and what attracts people to work for us. This has resulted in our People Promise, a commitment between Mott MacDonald and our employees to create a positive and inclusive environment where we feel valued and at our best.

We are winning a significant number of awards, promoting equality, diversity and inclusion, and supporting colleagues active in their local communities.

Our People Promise is to some degree aspirational, but we are already living it in the company and across the Group, implementing new programmes and initiatives as well as refreshing existing ones. Some of these are:

- An employee assistance programme, providing employees and their families with counselling and other valuable services to support them in their personal and professional lives.
- Continued investment in our practices – internal networks of colleagues joined together by common areas of professional and technical interest help bring world-class expertise to our projects and provide a fertile environment for professional development.
- Our Scholarship Fund, aiming to support leading-edge skills and thought leadership through further specialisation, and the Group Excellence and Innovation Fund, encouraging colleagues to generate new ideas, solutions and approaches.

2020 will be a defining moment in the implementation of the main component parts of our People strategy that will deliver this promise.

Managing risk and uncertainty

Business risks

Business risks are managed through directives, systems and processes. Control is exercised through compliance with directives, which require appropriate management authority before starting activities that bring risk to the company. The company's appetite for risk shapes its activities. Key risks for the company are:

Reputational risk – Directives and procedures cover matters such as ethics, code of conduct, conflict of interest, whistleblowing and anti-fraud; and there are clear procedures for undertaking due diligence on suppliers and customers. Our strategy determines the markets, countries and sectors we work in and the clients we work with. Risk management starts upfront in advance of doing any work.

IT and digital – Directives and procedures are in place to mitigate cyberattacks and data theft, risks posed in IT support services and failure of communication systems. This helps ensure the quality of our information security systems. This area is constantly undergoing reassessment of risk, controls and investment due to the changing nature of technological risk.

Major market downturn – Contingency plans are used for recession or rapid decline or loss of a core market. They focus on early warning performance indicators and risks affecting order book, sales, overheads, staff utilisation and working capital. They provide insight on managing risk.

Brexit – We have developed risk assessments and contingency plans for various scenario models. We believe that this risk-driven scenario planning, together with our geographic, sector and services diversity, will prepare us for the markets that evolve in the UK and Europe going forward.

The leadership team managing this risk reviews the position regularly and provides updates for business managers and staff. Communication and support are essential for staff across the UK and Europe who are affected by uncertainty.

High-level operational risk – Directives and procedures are in place to manage how we target, bid and carry out work that may carry a higher level of risk, such as uncapped liability, uninsured liability, disproportionate high value of liabilities, liquidated damages, fitness-for-purpose clauses and environmental consequences. Working in markets where a high level of economic and political risk may exist, including sanctions, is managed with procedures and approvals required for taking on and delivering work.

Business growth risk – This is managed largely by the Group's ownership model and by a strategy of pursuing growth focused on better quality work, in better quality markets with better quality clients. We have no external shareholders driving for growth beyond our capacity and which could create reputational or financial pressures.

People – We aim to attract and retain the best people. Our PRIDE values (see page 7) and ownership culture create an environment of fairness and equal opportunity. Our suite of policies and initiatives on equality, diversity and inclusion, mobility, anti-bullying, agile working and individual and team identity contribute to an environment where people can thrive, develop and take the opportunity to drive their careers.

A new people agenda is being rolled out in 2020 to provide improvement in the quality of training, development, career planning and succession planning.

Strategic report

Financial risks

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

- Investments – 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 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.
- Mitigating controls in working capital management operate to manage billings, receipts and payments to control liquidity and prevent a credit downgrade or a material reduction of our bank facilities in order to 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.

These corporate and project level risk management processes are set out in the corporate governance report, pages 9 and 10.

Directors' duties – S172 Companies Act 2006

Directors' duties to promote the long-term success of the company

The directors of the company act, behave and carry out their activities to promote the long-term success of the company for the benefit of its shareholders, employees, clients and stakeholders. In doing so, they focus on the company and on passing on a stronger, better and more sustainable business to those who follow, while maintaining intergenerational fairness.

They engage with shareholders, employees, clients and stakeholders to reflect their insights and views when making decisions on strategy, delivering operational effectiveness, making plans and initiatives, and committing to deliver social value and social outcomes in the communities the company operates in.

The culture and values promoted by the directors creates a focus across the Group to observe and maintain the highest standards of business conduct in promoting the long-term success of the company.

The strategic report, the corporate governance report and the directors' report highlight how the directors have observed these principles and engaged with shareholders, employees, clients and stakeholders in decision-making and in promoting the long-term success of the company.

For more information, please see Mott MacDonald Group Limited financial statements or visit our website (www.mottmac.com).

Business and financial review

Market and business environment

The UK remained the company's largest market 2019. It was sluggish and offered little scope for real growth in infrastructure, mainly due to economic uncertainty stemming from Brexit and a challenging political landscape.

The international development market offered little opportunity for real growth due to political reassessment of priorities in the UK, government budget constraints and slow procurement processes.

Middle East infrastructure remained a tough market. The oil price, poor contract terms and slow payments depressed appetite for growth.

The Advisory, Energy and Transport sectors provided the best opportunities for the UK business pursuing projects outside the UK.

Results

Results in the year were resilient given the challenging business environment. Gross revenue grew modestly, up 4.2%.

Scope for good quality growth was scarce given the lack of good quality opportunities.

Operating profit was 23% up on 2018, with a combination of volume, overhead savings and reduced project losses all contributing to the increase. Despite the increase in profit, the operating margin is still modest at 2%.

The underlying profit performance in all sectors was satisfactory given the markets.

Strategic report

The company's effective tax rate for the year (14%) was higher than 2018 (8%). The increase is largely due to prior year adjustments benefiting last year's tax charge as well as a reduction of branch profits.

Working capital remains under firm control. Good progress was made addressing some older contract issues. Net working capital days of 27 are well within business and market norms.

Gearing and cash flow

The company operates continuous improvement plans on working capital to optimise cash, liquidity and ROCE. Although cash balances were down £14m at £44m, that was after a bank loan repayment of £7m and a significant IT spend of £13m on renewal of licenses for a three-year period. There has also been a significant spend on digital innovation and our people and sector initiatives, as we respond to the external factors driving change across the business.

The business continues to generate adequate cash flow for operational liquidity and organic growth. Over the past five years, £40m of loan repayments have been made out of free cash.

Net gearing remained at nil throughout the year. The parent company, Mott MacDonald Group Limited, has a £90m committed multicurrency bank facility in place until December 2022, with a £30m accordion feature available for use as part of the agreement. At 31 December 2019, £19m of this was utilised across the Group on historic acquisitions, leaving plenty of capacity for use in 2020 if needed.

The parent company also has facilities in place for Group subsidiaries like Mott MacDonald Limited to use to provide tender bonds, performance bonds and advance payment bonds in the normal course of business. It also has a pension bond in place as security for the UK pension scheme.

Covenants

The Group is comfortably in compliance with its financial KPI covenants, with both its core relationship banks and the UK pension scheme. For the latter, the company has an agreed funding plan in place with the trustees to settle the pension obligation.

Contracted work

Despite the current uncertainty, the order book and contracted work are stronger than 12 months ago.

Looking forward

Infrastructure markets in the UK continue to be affected by political and economic uncertainty. Technology also continues to shape our business and its markets, as well as influence the development of our operating model and our services and deliverables for clients.

We remain confident and proud of our reputation for technical excellence and thought leadership. That enables meaningful engagement with clients and stakeholders on today's innovation for tomorrow's markets.

Our strategy of selective focus on our core sectors is complemented by our expertise in market differentiators like BIM, smart infrastructure, climate resilience, cities and sustainability. Our strong narrative on social outcomes means we deliver a strong value proposition for our clients – economic value and social value.


This focus and expertise put us in a good position to deal with market uncertainty and to meet the future challenges and aspirations of our clients and stakeholders.

We enter 2020 with a strong order book and a good contracted work position.

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



James Harris, Managing Director
27 February 2020



Ian Galbraith, Operations Director
27 February 2020

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.

Some of that governance is also managed by Mott MacDonald Group Limited, which as parent, has responsibility to oversee, approve or authorise practices and decisions by its trading subsidiaries, such as Mott MacDonald Limited.

The Executive Board of Mott MacDonald Group Limited has formally adopted a corporate governance framework for large private companies, appropriate for our size and purpose. 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

These corporate governance arrangements were adopted with effect from 1 January 2019. They embrace our existing governance framework, which already contained or addressed many of the principles and themes contained in Wates.

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 below:

Principle 1 – Purpose and leadership

An effective board develops and promotes the purpose of the company, ensuring 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 independent employee-owned group by pursuing success through

a strategy which puts the long-term interests of clients, employees, external stakeholders and employee shareholders above short-term expediency.

Our leadership principles focus on passing a stronger and more sustainable business to those who follow us, while seeking to maintain intergenerational fairness at all times.

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, safety and wellbeing, are embedded in how we run 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 behaviour to all staff and enhanced workshop training for staff most at risk of encountering ethical issues.

The culture of our geographically dispersed business is defined both 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 do not align with our values through their HR representatives or through our independent whistle-blowing hotline. These are investigated and then acted on if 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.

The Board comprises six executive directors, who bring a range of skills and experience. In the financial statements, the directors are listed on page 13. Their biographies are on the parent company's website (www.mottmac.com).

Composition

The structure comprises a mix of executive directors working as Chair, Managing Director, Strategy Director, Operations 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 in 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.

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 trading companies 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 and development programme on the Board members as a team was carried out in 2019. 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.

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. This is a feature of the engineering sector that is slowly changing with each generation of graduates entering. That, and 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 in improving 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. That is being developed to deliver a sustainable model for diversity of representation in key senior positions up to and including the Board.

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 for 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.

Corporate governance report

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.

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

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and 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.

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 company 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, computer models and designs. We also provide clients with resources to manage programmes of work or to supervise the work of others, which may include construction.

The narrative in the governance statement of the parent company describes how the business operations use a strategy of selective focus to target opportunity and create value.

The Executive Board of the parent company has responsibility for determining the nature and extent of the risk it is willing to take and this is recorded in the Group Risk Appetite. That then provides guidance and limits on what risks are acceptable for the business operations across the trading subsidiaries of the Group.

Managing business risk

Business risks are treated by the Risk Committee of the Executive Board of the parent company. This committee has representatives on it from the business operations of the trading subsidiaries, including Mott MacDonald Limited.

Each business risk has three levels of escalation identified in a risk treatment plan. The Group's principal risks and uncertainties are noted on pages 4 and 5, and these are the main risks and uncertainties relevant to Mott MacDonald Limited. The Group's Risk Principal reports directly to the Group's Operations Director and reports three times a year to the Risk Committee of the parent company on the level of risk in the business.

In addition, risks related to health, safety and security are reported to the Executive Board of the parent company at each Board meeting and the Risk Principal prepares a report on business ethics for that Board for six meetings a year.

An overall risk report, which summarises salient points for information and action, is prepared for that Board once a year.

Given the fundamental importance of risk management to the company and the Group, the direct reporting lines to the Executive Board of the parent company ensure that there is visibility and understanding of live risk matters by senior Group management and directors with action taken as appropriate.

Corporate governance report

To strengthen our approach, during the year, the Group appointed a Compliance Officer who has oversight of investigations into any alleged breaches of our code of conduct and any significant process failure anywhere across the Group. That position reports to the Group's General Counsel, with a reporting channel to the Executive Chair on exceptional matters.

In addition to Board oversight, the Shareholders' Committee of the parent company has an Audit and Risk Assurance sub-committee, which requires an assessment of risk to be presented at each of its quarterly meetings as well as access to all internal audit reports issued during the year.

Managing project risk before contract

Managing project uncertainty starts at the work-winning stage. Client account leaders build a good understanding of clients' business plans, culture and commercial approach and what they want out of their projects.

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 the more complex projects, the project principal is supported by an oversight board.

We undertake due diligence on our supply chain before we contract with them. Where risks related to technical competence, business ethics, modern slavery 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 before a tender can be submitted.

Managing project risk after contract

Project uncertainty 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.

The narrative in the governance statement of the parent company describes the detail of how STEP is used to manage risk and uncertainty at this stage through risk registers, project delivery plans, project budgets, and project review meetings and senior management reviews.

Performance

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-GL. We have a single contract for the global operation and receive consistent assessment of the quality of our compliance to STEP.

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

Principle 5 – Remuneration

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

Consistency and control

We operate a consistent and equitable approach to remuneration, focusing on reward industry benchmarking to ensure individuals are paid competitively and that their pay progresses fairly as their careers advance.

Benchmarking means that we can make compelling and competitive offerings in our chosen markets and locations, which is essential for attracting and retaining the best talent.

Remuneration management is run through our regional business structures. Direction, oversight and governance are provided from regional management teams. 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

To assist with this process, there is a Remuneration and Equity sub-committee in the parent company which reports to the Shareholders' Committee of that company. This sub-committee is responsible for reviewing and approving Board proposals on remuneration and equity, including but not limited to the following:

- Annual staff salary increments by geography and/or sector.
- The size and allocation of the discretionary bonus pool for employees and the criteria for awarding such bonuses.
- Compensation proposals (salary and benefits) for the directors of the Executive Board of the parent company.
- Annual share allocations to different parts of the business to use to offer shares of the parent company to employees and directors to buy.
- Annual dividend and increase in value of company shares.
- The size and allocation of discretionary bonus pools to distribute to employee shareholders.

Corporate governance report

All such proposals are based on the performance of the Group, the business segment and the individual. Performance is defined and measured with metrics such as revenue growth, profit growth, profitability, working capital, ethics, collaboration and technical excellence. Metrics are commonly measured on a multiyear averaged basis to prevent short-termism.

The sub-committee is typically chaired by an independent member of the Shareholders' Committee of the parent company, wherever possible, and it meets three times a year to consider proposals from the Board of the parent company. The proposals are largely related to the matters set out above, which cover key decision-making areas for this company.

Directors and independent members

The sub-committee reviews the remuneration of executive directors as well as the allocation of shares to them to buy in the parent company. That provides effective control over their remuneration and equity, ensuring a measured and justified value proposition. Their remuneration is driven by the same performance principles used for staff.

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 accounts 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 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.

EDI dashboards launched in early 2019 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.

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.

The directors promote effective engagement with stakeholders to inform them of the company's strategies, plans and initiatives and seek feedback on them. This includes thought leadership and other forms of interactive communication to access views and opinions from

shareholders of the parent company and employees, clients and stakeholders of the company.

The directors use these communications to be informed of views, opinions and perceptions of the company, its activities and its strategy, and of wider social issues which are relevant to the company and society.

This enables the directors to take these views into account in running the business and to reflect them where appropriate in their decision-making to ensure they promote the company's long-term success.

Employees

The directors have regular engagement with employees to ensure that they are informed of the Group's strategy, of which the company is a major part. They also engage with them to understand their views and ideas on the Group's and company's policies, processes, initiatives, work practices and behaviours in the workplace.

Details of this engagement process are set out in the directors' report, pages 13 and 14.

Employee shareholders

The directors also maintain regular engagement with employee shareholders where those employees work for the company and hold shares in the parent company of the Group.

The purpose is to align them with the Group's interests and keep them regularly briefed on the Group's performance, delivery of strategy, material initiatives and company news.

This enables the Board to keep shareholders informed and seek their views and feedback as part of corporate decision-making.

It helps to ensure that the directors act in the best interests of the company, promoting its long-term success in doing so. This includes the directors providing:

- Quarterly business reviews for shareholders to brief them on the Group's progress, highlighting areas of success and areas for improvement.
- An annual performance report for shareholders to highlight results for the year and areas for improvement. It connects business performance, investment and shareholder return.
- A summarised strategy for shareholders, highlighting its key features and the value proposition to deliver to benefit clients and stakeholders and drive the Group's and company's success.
- A presentation at the AGM of the annual results, plans for the coming year and updates on Group initiatives. The aim is to help shareholders understand the plans of the Group and company, relating them to the needs of clients and stakeholders.

Corporate governance report

- Presentations to shareholders after the AGM to provide interactive updates of initiatives. The aim is to brief shareholders on initiatives that will provide future value for employees, clients and stakeholders.
- A summarised form of the AGM in regional offices to shareholders and management across the Group not able to attend the AGM. This fosters engagement and commitment.
- Regional forums for senior employees and shareholders. The aim is to engage them in the most recent developments and plans in their local business and across the Group.

Clients

The directors maintain a programme of regular engagement with clients to foster long-term relationships for mutual benefit. The purpose is to better understand their plans, needs and aspirations to make sure that the company's strategy and decision-making is aligned with their aims and objectives. That helps the directors act in the best interests of the company and promote its long-term success. This includes the directors establishing:

- Account leaders for key clients. Their role is to understand the client's business and ensure that their views and plans are front and centre to our strategy and decision-making.
- Client engagement plans for effective relationship management, allowing us to align our plans to areas of mutual common interest and benefit for clients.
- Information is targeted at selected clients. This includes printed and digital publications on specific subjects, project case studies and thought leadership. The aim is to promote discussion of industry initiatives and areas of topical interest.
- Visits by the Board to key business locations to meet clients and employees, to get an informed view of local markets, the local business and the quality of our brand. The aim is to enhance focus and performance.
- Satisfaction surveys for individual clients to get their views on service provision. They provide comparative feedback of our standing against our competitors. This enables us to learn, improve and pull their feedback into our development plans and strategies for them.
- Directors' participation in the management of key clients. The aim is to fully understand how we can build their views and thinking into our decisions for future development and to match their aspirations.

Stakeholders


The directors maintain regular engagement with clients and wider stakeholders such as suppliers, business partners, and other market players or academic bodies. This enables them to enhance market focus, improve decision-making and promote the long-term success of the company more effectively.

This includes the directors:

- Using PR and social media to share our experts' views and thought leadership on industry topics.
- Issuing the Mott MacDonald Corporate Prospectus, which profiles global issues, and our responding capabilities and project delivery.
- Maintaining the Mott MacDonald corporate website and other websites that communicate with clients, stakeholders and wider society to promote our purpose, capabilities and values.
- Running client-focused publications and webinars that profile clients' needs and their views on our project creation and delivery.
- Running client and stakeholder events that provide the opportunity to engage with clients and partners. We use them to build knowledge of future activities and to understand the needs and views of our clients.
- Meeting our relationship banks during the year to brief them on strategy, performance and business themes to give them assurance on the quality of our business performance and our financial bank covenants.
- Meeting the trustees of our larger pension schemes to keep updated on pension funding, the current performance of scheme investments and the sensitivity of economic indicators impacting funding. In return, the directors brief the trustees on the company's performance and prospects.
- Meeting large suppliers on a regular basis to ensure there is a healthy and fair value proposition for both parties, while maintaining quality and rigour in our working arrangements.



James Harris, Managing Director
27 February 2020



Ian Galbraith, Operations Director
27 February 2020

Directors' report

The directors present their report, together with the audited financial statements of the company for the year ended 31 December 2019.

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 £22.0m (2018 – £23.3m). The directors recommended an interim dividend of £12.5m (2018 – £14.2m) and this was paid on 16 December 2019. The directors do not propose 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 2019:

Ian Galbraith
 Mike Haigh
 James Harris
 Keith Howells (resigned on 30 June 2019)
 Guy Leonard
 Ed Roud

Denise Bower was appointed as a director on 1 January 2020.

Directors' and officers' indemnities and liability insurance

The directors have the benefit of an indemnity under the Articles of Association and 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 and omissions.

Statement of corporate governance arrangements

The Executive Board of Mott MacDonald Group Limited has put in place a detailed governance framework, applied throughout the Group, which sets out how the company conducts business. 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. Mott MacDonald Limited adhered fully with the adopted framework.

The Wates corporate governance principles were adopted with effect from 1 January 2019. They embrace our existing governance framework, which already contained many of the principles to satisfy the new legislative requirements under the Companies (Miscellaneous Reporting) Regulations 2018.

We have set out in the corporate governance report on pages 7 to 12 how we have satisfied these new legislative requirements.

Shareholder engagement

As the main trading entity of the Mott MacDonald Group, the company is controlled by the ultimate parent. The ultimate parent company has disclosed in the Group financial statements different ways of engagement with shareholders who are also employees of the company.

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 bonuses and annual awards.

The company proactively informs staff on general, financial and economic factors influencing the company, as well as on all matters affecting them directly. This is achieved through our intranet, staff councils and briefings, emails from the Executive Chair, local and regional staff newsletters, and copies of all the company's corporate magazines and reports.

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, and 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.

Engagement with employees

The directors deliver a well-structured programme of engagement with employees at the Group level, which were reported in the Group financial statements. It includes the following:

- Creating a mechanism for employees who do not hold shares to benefit from the company's success by using bonus schemes to distribute profits to them based on their performance and behaviours.

Directors' report

- Using corporate emails or media presentations to brief employees on important matters impacting the company. The aim is to brief them and use 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 all 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 they 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 Group 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.
- 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.

Principal risks and uncertainties

Business risks, financial risks and factors to mitigate the risks are described in the strategic report on pages 4 and 5.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, which includes the strategic report, the corporate governance report, directors' report and financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors 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 judgments and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- 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:

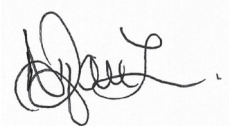
- So far as each director is aware, there is no relevant audit information of which the company's auditor is unaware.
- They have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of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

Grant Thornton UK LLP offer themselves for reappointment as auditor in accordance with Section 485 of the Companies Act 2006.

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



Diana Zivko, Company Secretary
27 February 2020

Independent auditor's report

Opinion

We have audited the financial statements of Mott MacDonald Limited (the 'company') for the year ended 31 December 2019, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and 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 2019 and of its profit for the year then ended.
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- Have been prepared in accordance with the requirements of the Companies Act 2006.

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business model, including effects arising from Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least 12 months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the strategic report, corporate governance report and directors' report set out on pages 2 to 14 and the five year summary 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.

Independent auditor's report

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, the corporate governance 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, the corporate governance 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 directors' responsibilities statement set out on page 14, 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.

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 ACA, Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
27 February 2020

Statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Gross revenue	5	771,067	740,215
Cost of sales		(493,288)	(475,248)
Gross profit		277,779	264,967
Administrative expenses		(264,451)	(254,171)
Operating profit	6	13,328	10,796
Fair value adjustments	14	290	579
Dividends received from subsidiary undertakings		3,500	2,500
Profit on ordinary activities before interest		17,118	13,875
Net interest receivable	9	10,208	13,110
Other finance cost	25	(1,800)	(1,600)
Profit on ordinary activities before taxation		25,526	25,385
Tax on profit on ordinary activities	10(a)	(3,563)	(2,048)
Profit on ordinary activities after taxation		21,963	23,337
Other comprehensive loss			
Net actuarial loss in pension scheme	22, 25	(27,400)	(14,800)
Deferred tax on net actuarial loss	10(c), 22	4,658	2,516
Deferred tax on additional pension contributions	10(c), 22	(2,720)	(2,635)
Total other comprehensive loss		(25,462)	(14,919)
Total comprehensive (loss)/income for the year		(3,499)	8,418

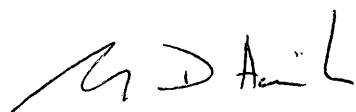
The company's gross revenue and operating profit relate to continuing operations.

Statement of financial position

at 31 December 2019

	Notes	2019 £000	2018 £000
Fixed assets			
Intangible assets	12	12,474	12,894
Tangible assets	13	10,332	10,413
Investments	14	80,286	80,354
		103,092	103,661
Current assets			
Debtors	15	568,259	564,826
Cash at bank and in hand		44,175	58,018
		612,434	622,844
Creditors: amounts falling due within one year	16	(317,519)	(314,407)
Net current assets		294,915	308,437
Total assets less current liabilities		398,007	412,098
Creditors: amounts falling due after more than one year	17	–	(7,000)
Provisions for liabilities	20	(2,074)	(2,241)
Net assets excluding pension liability		395,933	402,857
Pension liability	25	(84,494)	(71,394)
Net assets including pension liability		311,439	331,463
Capital and reserves			
Called up share capital	21	10,000	10,000
Profit and loss account	22	301,439	321,463
Shareholders' equity		311,439	331,463

These financial statements were approved by the board of directors on 27 February 2020.



Mike Haigh, Executive Chair

Statement of changes in equity

for the year ended 31 December 2019

	Notes	Called up share capital £000	Profit and loss account £000	Total £000
At 1 January 2018		10,000	327,348	337,348
Profit for the year	22	–	23,337	23,337
Other comprehensive loss:				
Net actuarial loss in pension scheme	22, 25	–	(14,800)	(14,800)
Deferred tax on net actuarial loss	10(c), 22	–	2,516	2,516
Deferred tax on additional pension contributions	10(c), 22	–	(2,635)	(2,635)
Total other comprehensive loss for the year		–	(14,919)	(14,919)
Dividends paid	11, 22	–	(14,198)	(14,198)
Distributions to fellow subsidiary undertakings	22	–	(105)	(105)
At 31 December 2018/1 January 2019		10,000	321,463	331,463
Profit for the year	22	–	21,963	21,963
Other comprehensive loss:				
Net actuarial loss in pension scheme	22, 25	–	(27,400)	(27,400)
Deferred tax on net actuarial loss	10(c), 22	–	4,658	4,658
Deferred tax on additional pension contributions	10(c), 22	–	(2,720)	(2,720)
Total other comprehensive loss for the year		–	(25,462)	(25,462)
Dividends paid	11, 22	–	(12,530)	(12,530)
Distributions to fellow subsidiary undertakings	22	–	(3,995)	(3,995)
At 31 December 2019		10,000	301,439	311,439

Notes to the financial statements

at 31 December 2019

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 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

After considering the company’s future prospects, its cash flow forecasts and bank facilities available, the directors have full expectation that the company has adequate resources to continue in operational existence for the foreseeable future and at least for a period of twelve months from the date of approval of these financial statements. For this reason they 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 at a nominal cost from the registered office, Mott MacDonald House, 8-10 Sydenham Road, Croydon CR0 2EE, United Kingdom.

The largest and smallest group of undertakings for which group financial statements have been drawn up is that headed by Mott MacDonald Group Limited.

3. Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Notes to the financial statements

at 31 December 2019

3. Significant judgements and estimates (continued)

Contract accounting and recoverability of receivables

The company's contract 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 projected outcomes of projects. These forecasts require assessments and judgements to be made on changes in work scopes, changes in costs, costs to completion and recoverability of debts, for example. While the assumptions made are based on professional judgements, subsequent events may mean that estimates calculated prove to be inaccurate, with a consequent effect on the reported results.

Goodwill and other intangible assets

The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Where there are indicators of impairment of individual assets, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five to ten years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Goodwill and other intangibles are disclosed in note 12.

Claims

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 company and through the external insurance market. Provision is made for such claims by considering the merits of the claims and estimating the likely outflow utilising both internal and external sources, as well as the result of past experience. Any reimbursable that the company is virtually certain to receive with respect to the likely outflow is recognised as a separate asset but limited to the value of the likely outflow.

Defined benefit pension scheme

The cost of defined benefit pension plans is determined 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. Further details are given in note 25.

Impairment of investments and intercompany balances

The company determines whether there are indicators of impairment of investments in subsidiaries on at least an annual basis. Where there are indicators of impairment, the company performs impairment tests which require an estimation of the value-in-use of the relevant cash-generating units ('CGUs') to which investments in subsidiaries are allocated. Estimating a value-in-use amount requires management to make an estimation of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Recoverability of intercompany balances is also considered at least annually, taking into account the expected future cash flows of the relevant CGUs.

Notes to the financial statements

at 31 December 2019

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 acquirer's interest in 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 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 statement of comprehensive income 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 capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. 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.

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 the Companies Act 2006, Section 474.

Notes to the financial statements

at 31 December 2019

4. Principal accounting policies (continued)

Gross revenue (continued)

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 statement of comprehensive income 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.

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 clients.

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

Amounts recoverable on contracts 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 payments on account.

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.

Research and development

Research and development costs are charged to the statement of comprehensive income in the year that they are incurred.

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 statement of comprehensive income.

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.

Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Notes to the financial statements

at 31 December 2019

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 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 2019

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 statement of comprehensive income.

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 and finance charges in the statement of comprehensive income 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 statement of comprehensive income 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 25.

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 change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the statement of comprehensive income during the period in which it occurs.

Notes to the financial statements

at 31 December 2019

4. Principal accounting policies (continued)

Pensions (continued)

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 statement of comprehensive income 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 in subsequent periods.

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:

	2019	2018
	£000	£000
Europe and Africa	599,436	579,528
Middle East and South Asia	149,513	136,324
Americas	15,366	14,847
Asia Pacific and Australasia	6,752	9,516
	771,067	740,215

Notes to the financial statements

at 31 December 2019

6. Operating profit

This is stated after charging/(crediting):

	2019	2018
	£000	£000
Auditors' remuneration – audit services – principal auditor for audit of company	406	316
– associates of principal auditor for audit of branches	28	20
	434	336
– other non-audit services		
taxation	144	133
other	24	3
	168	136
Past service cost in pension scheme (note 25)	–	2,100
Settlement gain in pension scheme (note 25)	(100)	–
Foreign exchange losses	5,376	1,367
Depreciation (note 13)	3,767	3,868
Amortisation of software (note 12)	2,704	542
Operating lease rentals – vehicles and equipment	–	6
– land and buildings	11,864	11,670

7. Directors' remuneration

	2019	2018
	£000	£000
Emoluments (excluding pension contributions)	3,382	3,210

The emoluments (excluding pension contributions) of the highest paid director were £765,636 (2018 – £789,783).

During the year £41,506 (2018 – £52,281) of contributions were paid to the Master Trust in respect of 3 directors (2018 – 3), of which £nil (2018 – £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').

Notes to the financial statements

at 31 December 2019

8. Staff costs

	2019 £000	2018 £000
Salaries	349,164	331,156
Social security costs	32,369	30,863
Other pension costs	61,928	59,538
	443,461	421,557

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

	No.	No.
Management	606	555
Technical staff	5,511	5,387
Administrative staff	831	794
	6,948	6,736
The actual number of permanent staff at 31 December was:	7,166	6,902

9. Net interest receivable

	2019 £000	2018 £000
Interest receivable:		
Interest due from parent undertaking	7,056	6,694
Interest due from fellow subsidiary undertakings	3,935	7,135
Other interest	394	171
	11,385	14,000
Interest payable:		
Bank interest	(513)	(495)
Interest due to parent undertaking	(366)	(241)
Interest due to fellow subsidiary undertakings	(207)	(152)
Other interest	(91)	(2)
	(1,177)	(890)
Net interest receivable	10,208	13,110

Notes to the financial statements

at 31 December 2019

10. Tax

(a) Tax on profit on ordinary activities

	2019 £000	2018 £000
The taxation charge is made up as follows:		
Current tax:		
UK corporation tax	2,357	947
Non-UK tax	705	1,260
Capital gains tax – Mott MacDonald Employee Trust	176	214
	3,238	2,421
Adjustments in respect of previous years:		
UK corporation tax	868	(1,379)
Non-UK tax	32	1,230
Capital gains tax – Mott MacDonald Employee Trust	(2)	(29)
	4,136	2,243
Deferred tax:		
Origination and reversal of timing differences	(553)	(496)
Adjustments in respect of previous years	(20)	301
	(573)	(195)
Total deferred tax credit (note 10(c))	(573)	(195)
Tax on profit on ordinary activities (note 10(b))	3,563	2,048

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £4,658,000 credit (2018 – £2,516,000 credit). In addition deferred tax on additional pension contributions paid amounting to a cost of £2,720,000 (2018 – £2,635,000) is recorded in other comprehensive income.

Notes to the financial statements

at 31 December 2019

10. Tax (continued)

(b) Factors affecting tax charge for the year

The tax provided for the year is lower than the amount computed at the average rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below.

A reduction in the UK corporation tax rate, from 19% to 17% with effect from 1 April 2020, was substantively enacted on 15 September 2016. This reduction has been taken into account in calculating the deferred tax assets and liabilities included in the statement of financial position.

	2019	2018
	£000	£000
Profit on ordinary activities before taxation	25,526	25,385
Profit on ordinary activities before taxation multiplied by the average rate of corporation tax in the UK of 19% (2018 – 19%)	4,850	4,823
Effects of:		
Net higher tax on non-UK earnings	705	1,260
Non-UK branch profits	(160)	(623)
Adjustments in respect of previous years	878	123
Non-taxable expense/(income) (foreign exchange loss/(gain) on foreign branches)	442	(201)
Non-taxable income (UK dividends received)	(665)	(475)
Expenses not deductible for tax purposes	303	222
Research and development relief	(778)	(1,254)
Pension contribution and other items	(3,040)	(2,945)
Effect of rate change	65	58
Effect of group reliefs	(1,747)	(1,607)
Tax attributable to Mott MacDonald Employee Trust	176	214
Other permanent differences	2,534	2,453
Tax on profit on ordinary activities (note 10(a))	3,563	2,048

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 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 (2018 – £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 2019

10. Tax (continued)

(c) Deferred tax

	2019 £000	2018 £000
The deferred tax included in the statement of financial position is as follows:		
Included in debtors (note 15)	17,411	14,904
The elements of deferred taxation are as follows:		
Excess of book depreciation over tax allowances on fixed assets	2,757	2,334
Other timing differences	290	433
Pension liability (notes 15, 25)	14,364	12,137
	17,411	14,904
The movement in the year was:		
At 1 January	14,904	14,824
Deferred tax credit recognised in income (note 10(a))	573	195
Deferred tax credit/(charge) recognised in other comprehensive loss		
– on net actuarial loss in pension scheme (note 22)	4,658	2,516
– on additional pension contributions made during the year (note 22)	(2,720)	(2,635)
Exchange and other adjustments	(4)	4
At 31 December	17,411	14,904
The amount of the net reversal of deferred tax expected to occur next year is £nil (2018 – £nil).		

11. Dividends

	2019 £000	2018 £000
The following dividends were paid during the year:		
Interim dividend paid	12,530	14,198

Notes to the financial statements

at 31 December 2019

12. Intangible fixed assets

2019	Goodwill £000	Software £000	Total £000
Cost:			
At 1 January	2,496	14,733	17,229
Exchange adjustments	–	(4)	(4)
Additions	–	2,285 ¹	2,285
At 31 December	2,496	17,014	19,510
Amortisation:			
At 1 January	2,496	1,839	4,335
Exchange adjustments	–	(3)	(3)
Provided during the year	–	2,704	2,704
At 31 December	2,496	4,540	7,036
Net book value:			
At 31 December	–	12,474	12,474
At 1 January	–	12,894	12,894

¹ During the year, £1,568,000 has been capitalised in relation to costs of development of a new IT system. The cumulative amount capitalised to 31 December 2019 is £13,471,000.

13. Tangible fixed assets

2019	Motor vehicles £000	Fixtures, fittings & equipment £000	Total £000
Cost:			
At 1 January	1,224	53,929	55,153
Exchange adjustments	(30)	(289)	(319)
Additions	–	3,712	3,712
Disposals	(127)	(3,265)	(3,392)
At 31 December	1,067	54,087	55,154
Depreciation:			
At 1 January	1,154	43,586	44,740
Exchange adjustments	(21)	(276)	(297)
Provided during the year	23	3,744	3,767
Disposals	(127)	(3,261)	(3,388)
At 31 December	1,029	43,793	44,822
Net book value:			
At 31 December	38	10,294	10,332
At 1 January	70	10,343	10,413

Notes to the financial statements

at 31 December 2019

14. Investments

2019	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	14,650	71,680	–	86,330
Additions	12,905	94	275	13,274
Disposals	(13,357)	–	–	(13,357)
Fair value adjustments	290	–	–	290
At 31 December	14,488	71,774	275	86,537
Amounts provided:				
At 1 January	–	5,976	–	5,976
Provided during the year	–	–	275	275
At 31 December	–	5,976	275	6,251
Net book value:				
At 31 December	14,488	65,798	–	80,286
At 1 January	14,650	65,704	–	80,354

The profit on disposal of shares in the parent undertaking was £nil (2018 – £nil).

The historical cost of the investment in the parent undertaking was £13,703,000 (2018 – £13,424,000).

Notes to the financial statements

at 31 December 2019

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		Registered office key
	2019	2018	
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	E
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
Project Management International Limited	100	100	B
Other fixed asset investments			
BMM JV Limited	50	50	C
Environments for Learning Leeds PSP Limited	24	24	D
M2 (Water) LLP	50	50	B

¹Investment 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, Surrey CR0 2EE, United Kingdom	B
St James House, Knoll Road, Camberley, Surrey GU15 3XW, United Kingdom	C
c/o Albany Spc Services Limited, 3rd Floor, 3-5 Charlotte Street, Manchester M1 4HB, United Kingdom	D
Calle 93B No. 12-48, Oficina 308, Edificio Futura, Bogota D.C., Colombia	E

Notes to the financial statements

at 31 December 2019

15. Debtors

	2019 £000	2018 £000
Trade debtors	94,049	96,464
Amounts recoverable on contracts	65,549	74,487
Amount owed by parent undertaking	250,000	250,000
Amounts owed by fellow subsidiary undertakings	107,569	99,389
Amounts owed by other fixed asset investments	1,597	528
Deferred taxation (note 10(c))	17,411	14,904
Taxation recoverable	2,322	6,742
Other debtors	4,137	4,706
Prepayments and accrued income	25,625	17,606
	568,259	564,826

Trade debtors are shown net of a provision for impairment of £25,584,000 (2018 – £25,425,000).

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 is charged at a rate of LIBOR + 2%.

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 £14,364,000 (2018 – £12,137,000) in relation to the pension liability (notes 10(c), 25). Deferred taxation is recoverable after more than one year.

16. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Payments on account	99,978	104,329
Amount due to parent undertaking	54,279	51,483
Amounts due to fellow subsidiary undertakings	34,970	30,436
Trade creditors	12,332	15,182
Current UK corporation tax	388	422
Non-UK taxation	6,243	8,345
Other taxes	8,254	8,344
Social security	8,710	7,669
Other creditors	10,415	8,817
Accruals	81,950	79,380
	317,519	314,407

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

17. Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Unsecured bank loans (note 18)	–	7,000

Notes to the financial statements

at 31 December 2019

18. Loans

Loans repayable, included within creditors, are analysed as follows:

	2019 £000	2018 £000
Wholly repayable within five years (note 17)	–	7,000

The £7.0m loan related to amounts drawn down on the multi-currency revolving facility agreement which is in place until 15 December 2022 and incurred a market floating rate of interest based on LIBOR.

19. Obligations under leases

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

	Land and buildings		Other	
	2019 £000	2018 £000	2019 £000	2018 £000
Amounts payable:				
Within one year	12,394	12,008	–	3
In two to five years	41,835	41,396	–	–
Over five years	32,136	38,696	–	–
	86,365	92,100	–	3

20. Provisions for liabilities

Provision for losses on contracts:	2019 £000
At 1 January	2,241
Exchange adjustments	(29)
Arising during the year	1,118
Utilised	(1,256)
At 31 December	2,074

Due to the nature of provisions for losses on contracts, 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.

21. Share capital

	2019 No.	2018 No.	2019 £000	2018 £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 2019

22. Reserves

Profit and loss account	2019		2018	
	Excluding pension deficit £000	Pension deficit £000	Including pension deficit £000	Including pension deficit £000
At 1 January	379,942	(58,479)	321,463	327,348
Profit on ordinary activities after taxation	21,963	–	21,963	23,337
Dividends (note 11)	(12,530)	–	(12,530)	(14,198)
Distributions to fellow subsidiary undertakings	(3,995)	–	(3,995)	(105)
Transfer in respect of additional pension contributions (net of deferred tax)	(13,280)	13,280	–	–
Deferred tax on additional pension contributions (note 10(c))	(2,720)	–	(2,720)	(2,635)
Net actuarial loss in pension scheme (note 25)	–	(27,400)	(27,400)	(14,800)
Deferred tax on net actuarial loss (note 10(c))	–	4,658	4,658	2,516
Other finance cost (net of deferred tax)	1,494	(1,494)	–	–
Gain on settlement (net of deferred tax)	(83)	83	–	–
At 31 December	370,791	(69,352)	301,439	321,463

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.

The pension deficit of £69,352,000 above differs from the pension liability in the statement of financial position of £84,494,000. This difference relates to the deferred tax asset of £14,364,000 in debtors plus the pre-divisionalisation element of the pension deficit in Multi Design Holdings Limited of £778,000.

23. Capital commitments

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

24. Contingent liabilities

	2019 £000	2018 £000
Guarantee of bank loans and overdrafts in respect of other group companies	19,250	25,518

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. There are also bank guarantees in respect of the pension scheme as disclosed in note 25.

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.

Notes to the financial statements

at 31 December 2019

25. Pensions and other retirement benefits

The company has operated a number of pension schemes in the UK. The Mott MacDonald Pension Scheme ('MMPS') is a 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%.

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 May 2019. Total pension contributions were £41.4m (2018 – £39.6m).

Costs relating to the remaining defined benefit section of MMPS were £16.8m (2018 – £16.2m). These costs include both administrative expenses relating to MMPS and an instalment of £16.0m 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 2018
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 1.6% over the period to 31 December 2020, 1.4% over the period from 1 January 2021 to 31 December 2023, 0.9% in 2024 and 0.5% thereafter.

At the last actuarial valuation on 1 January 2018, the market value of assets was £595m 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 2019 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. During 2019 minimum contributions of £16.0m were paid to MMPS. Under the current funding plan these will be £16.5m in 2020 and are then predicted to increase at 3.9% per annum.

Notes to the financial statements

at 31 December 2019

25. Pensions and other retirement benefits (continued)

In agreeing the latest recovery plan with the trustees of the defined benefit pension scheme, the company has agreed with the trustees to provide a minimum security of £19m and a maximum security of £35m throughout the period of the recovery plan.

The level of security is agreed annually with the pension scheme trustees and at 31 December 2019 the level of security in place was £25m in the form of bank guarantees which are renewable on an annual basis.

The security can be called on by the trustees in the event of the company defaulting on its contributions to MMPS or in the event of a change in control of the company or it being placed in administration. In the view of the directors, such possible events are remote.

The assets and liabilities of MMPS as at 31 December are analysed below:	2019	2018
	£m	£m
Change in defined benefit obligation		
Defined benefit obligation at 1 January	(629.9)	(663.2)
Interest cost	(17.7)	(16.8)
Actuarial (losses)/gains	(79.3)	17.5
Benefits paid	31.0	34.7
Settlements	4.6	–
Past service cost	–	(2.1)
Defined benefit obligation at 31 December	(691.3)	(629.9)
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	(691.3)	(629.9)
Change in plan assets		
Fair value of plan assets at 1 January	558.5	594.8
Interest income	15.9	15.2
Actuarial gains/(losses)	51.9	(32.3)
Employer contributions	16.0	15.5
Benefits paid	(31.0)	(34.7)
Settlements	(4.5)	–
Fair value of plan assets at 31 December	606.8	558.5
Pension liability (excluding deferred tax)	(84.5)	(71.4)
Related deferred tax asset included within debtors (notes 10(c), 15)	14.4	12.1

Components of pension (cost)/income

Year to 31 December	2019	2018
	£m	£m
Past service cost	–	(2.1)
Settlement gain	0.1	–
Total pension income/(cost) recognised in administrative expenses in arriving at operating profit	0.1	(2.1)

Past service cost of £2.1m in 2018 related to a provision for the impact of Guaranteed Minimum Pension (GMP) equalisation and the £0.1m settlement gain in 2019 relates to the bulk transfer exercise carried out during the year.

Notes to the financial statements

at 31 December 2019

25. Pensions and other retirement benefits (continued)

Components of pension (cost)/income (continued)

Year to 31 December	2019 £m	2018 £m
Interest cost on MMPS liabilities	(17.7)	(16.8)
Interest income on MMPS assets	15.9	15.2
Net interest cost recognised in other finance cost in the statement of comprehensive income	(1.8)	(1.6)
Actuarial (losses)/gains on MMPS liabilities	(79.3)	17.5
Actuarial gains/(losses) on MMPS assets	51.9	(32.3)
Net actuarial losses recognised in other comprehensive loss	(27.4)	(14.8)

Plan assets

The weighted average asset allocation at the year end was as follows:	2019 %	2018 %
Asset category		
Liability driven investment	74	74
Diversified growth funds	14	14
Corporate bonds	6	6
Equities	5	5
Cash and other	1	1
	100	100

Actual return on plan assets

Year to 31 December	2019 £m	2018 £m
Interest income on MMPS assets	15.9	15.2
Actuarial gains/(losses) on MMPS assets	51.9	(32.3)
Actual return on plan assets	67.8	(17.1)

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

	2019 %	2018 %
RPI inflation	3.1	3.3
Discount rate for scheme liabilities	2.0	2.9
CPI inflation	2.1	2.2
Pension increases (inflationary increases with a maximum of 5% p.a.)	2.1	2.2
Salary increases	n/a	n/a

Notes to the financial statements

at 31 December 2019

25. Pensions and other retirement benefits (continued)

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

	2019		2018	
	Male Years	Female Years	Male Years	Female Years
Member age 60 (current life expectancy)	27.7	28.9	27.9	29.0
Member age 40 (life expectancy at age 60)	28.8	30.4	29.0	30.6

26. 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 £22,460,000 (2018 – £21,656,000) to non-wholly owned fellow subsidiary undertakings and purchases of £3,011,000 (2018 – £2,524,000) from non-wholly owned fellow subsidiary undertakings. The net balance owed by non-wholly owned fellow subsidiary undertakings at 31 December 2019 was £52,418,000 (2018 – £53,898,000).

27. Financial assets and liabilities

	2019 £000	2018 £000
Financial assets at fair value through profit or loss		
Investment in parent undertaking (note 14)	14,488	14,650
Financial assets that are debt instruments measured at amortised cost¹		
Trade debtors (note 15)	94,049	96,464
Amount owed by parent undertaking (note 15)	250,000	250,000
Amounts owed by fellow subsidiary undertakings (note 15)	107,569	99,389
Amounts owed by other fixed asset investments (note 15)	1,597	528
Other debtors (note 15)	4,137	4,706
Financial liabilities measured at amortised cost¹		
Trade creditors (note 16)	12,332	15,182
Amount due to parent undertaking (note 16)	54,279	51,483
Amounts due to fellow subsidiary undertakings (note 16)	34,970	30,436
Other creditors (note 16)	10,415	8,817
Loans (note 18)	–	7,000

There were no derivative financial instruments at the year end (2018 – £nil).

¹Amortised 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

Years ended 31 December	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Gross revenue	771,067	740,215	707,964	675,105	642,610
Operating profit	13,328	10,796	13,311	35,444	36,020
Provision for impairment of investments	–	–	–	(2,114)	(1,785)
Income from other fixed asset investments	–	–	–	–	35
Fair value adjustments	290	579	622	962	935
Dividends received from subsidiary undertakings	3,500	2,500	6,000	6,000	–
Profit on ordinary activities before interest	17,118	13,875	19,933	40,292	35,205
Net interest receivable	10,208	13,110	12,049	9,683	7,915
Other finance cost	(1,800)	(1,600)	(2,500)	(3,000)	(2,400)
Profit on ordinary activities before taxation	25,526	25,385	29,482	46,975	40,720
Tax on profit on ordinary activities	(3,563)	(2,048)	(1,391)	(5,129)	(7,454)
Profit on ordinary activities after taxation	21,963	23,337	28,091	41,846	33,266
Dividends	(12,530)	(14,198)	(13,414)	(15,246)	(12,964)
Distributions to fellow subsidiary undertakings	(3,995)	(105)	(709)	(381)	(1,019)
Retained profit	5,438	9,034	13,968	26,219	19,283
Employment of capital					
Fixed assets	103,092	103,661	102,881	90,251	87,123
Net current assets less provisions	292,841	306,196	314,861	340,555	345,437
Excluding pension liability	395,933	409,857	417,742	430,806	432,560
Pension liability (excluding deferred tax)	(84,494)	(71,394)	(68,394)	(95,494)	(84,894)
Including pension liability	311,439	338,463	349,348	335,312	347,666
Capital employed					
Creditors falling due after more than one year	–	7,000	12,000	22,000	39,800
Capital and reserves excluding pension liability	395,933	402,857	405,742	408,806	392,760
Excluding pension liability	395,933	409,857	417,742	430,806	432,560
Pension liability (excluding deferred tax)	(84,494)	(71,394)	(68,394)	(95,494)	(84,894)
Including pension liability	311,439	338,463	349,348	335,312	347,666
Net funds					
Cash at bank and in hand	44,175	58,018	49,330	49,523	44,541
Bank loans	–	(7,000)	(12,000)	(22,000)	(39,800)
	44,175	51,018	37,330	27,523	4,741

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