

MOTT MACDONALD LIMITED
REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2015

Mott MacDonald Limited

Directors

Keith Howells	Chairman
Ed Roud	Finance Director
Guy Leonard	Strategic Development Director
Mike Barker	
Chris Davis	
Kevin Dixon	
Mike Haigh	

Company Secretary

Joanna Field

Auditor

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Strategic report

Market overview

During 2015, economic recovery continued slowly across most major economies, but global recovery was set back by the slowdown in China and other emerging economies, the decline in the global mining and metals sector, and depressed oil prices which have all contributed to uncertainty and mixed market conditions for private and public infrastructure across the world.

Against that economic landscape, the UK provided opportunities for growth in all of our core sectors, except for energy. The picture in the Middle East was mixed, with oil and gas projects delayed or cancelled due to depressed oil prices; however the market for large infrastructure projects in other sectors held up. Whether this will be sustained in 2016 is uncertain.

Performance

Gross revenue of £642.6m was 11% up on 2014 (£579.3m). The UK business continued to benefit from the government's pursuit of infrastructure projects as an engine for economic growth. The regulated asset-based industries also provided opportunity, as they continued delivery of their investment programmes. Apart from energy, which suffered from poor market conditions and project deferrals, our other core businesses in the UK delivered good growth.

Profit before tax of £40.7m was 11% up on 2014 (£36.7m), the current year benefiting from the upside from organic growth, with the prior year impacted by provisions against intercompany debts. Underlying profit was up on the prior year due to improved utilisation and better control of overheads. An area for improvement for the business in 2016 is to reduce project losses and improve working capital management.

Net interest receivable fell from £9.8m to £7.9m with intercompany interest falling £0.9m and external

interest payable rising by £0.9m, the latter due to a full year's interest on the loan taken out last year to buy Bentley Holdings Limited ('Bentley').

The effective tax rate fell from 26.4% to 18.3% predominantly due to the additional provisions made in 2014 for potential overseas tax charges related to foreign branches that have not been repeated, and a reduction in the tax rate.

The key non-financial indicators that are used to measure performance are set out and described in the corporate responsibility statement.

Statement of financial position

Net assets have decreased slightly from £309.3m to £307.9m. Profit after taxation of £33.3m has been offset by the impact of FRS 102 pension accounting £20.7m, dividends paid of £13.0m and other movements of £1.0m.

Trade debtors and amounts recoverable on contracts have increased 12% from £154.0m to £171.8m. The increase is larger than would be planned or desirable given the organic growth of the business and steps are being taken to correct this through improved project management.

Gearing and cash flow

Despite the challenges in the management of working capital, the business continues to generate more than adequate cash flow to maintain its liquidity at acceptable levels and to fund growth. During the year, it also repaid £15.5m of the bank loans taken out last year to buy Bentley reducing those loans from £55.3m to £39.8m. At the same time cash increased by £9.3m from £35.2m to £44.5m.

Liquidity ratios remain strong and the company has moved from a net debt position of £20.1m at the end of 2014 to a net cash position of £4.7m, a £24.8m swing in a 12 month period. The continued focus on

Strategic report

improving working capital in 2016 will provide more surplus cash to repay another significant portion of the outstanding bank debt.

The parent company, Mott MacDonald Group Limited, has £90m of committed facilities in place until June 2018. It also has bond facilities to provide tender bonds, performance bonds and advance payment bonds in the normal course of business.

Contracted work

The order book during 2015 improved through the year. It is expected that the UK will continue to see good growth. The Middle East is uncertain due to the ongoing issues around oil prices and the impact this has on oil and gas projects and oil revenues used to fund large infrastructure projects.

Principal risks and uncertainties

Business risks

Business risks are managed through appropriate directives, systems and processes. Control is exercised through staff compliance with mandatory directives which require appropriate management authority to be gained before starting activities which may bring risk to the company. In particular, clearance to commit the company to activities which may subject the business to unlimited liability requires the written authority of the relevant regional managing director or the chairman.

The Business Management System (BMS) is designed to be fully compliant with international ISO standards or British standards where international standards are not yet available. These standards cover quality, safety, ethics, security and environment. Operational risk control was further enhanced during 2015 by the continued roll out and development of process management software, which is mandatory in its application across the Group, and should greatly improve process control across our activities.

Overarching the directives, systems and process control, are the risk management committees at both Group and business unit level. These committees consider the effectiveness of our directives and systems, and the likelihood and impact of risks facing the business. Mitigation measures are developed by these committees and cascaded throughout the business.

We have comprehensive professional indemnity, public liability and employers' liability insurance policies in place to mitigate the impact of risk realisation.

Financial risks

The company is exposed to liquidity risk, credit risk and exchange risk which are effectively managed by a variety of controls and processes to help mitigate any adverse impact. The more important aspects are:

- For investments, all counterparties must meet a minimum credit rating of A-1 long term and P-1 short term.
- There is no speculative use of derivatives, currency or other instruments.
- In evaluating transaction exchange rate risk, the company matches currency earnings with currency costs, with the net exposure hedged with forward currency contracts where possible.
- Strong credit control procedures operate at the bidding stage and for the duration of the contracts.
- Working capital and cash flow management operates daily with weekly reporting to the executive team and monthly reporting to the Board, including monthly targets and rolling forecasts.

The transaction exposure after matching is not material to risk management. The company hedges interest rate exposures where necessary.

Strategic report

Looking forward

The company is well positioned for growth in its core markets. The current global macroeconomic pressures will continue to create uncertainty for infrastructure markets. Those markets may well be further affected by the additional political and economic uncertainty that may come from the impending vote on whether Britain should remain in the EU. However, the continuing, albeit slow, recovery of the UK economy will provide a platform for growth given the strength of our core sectors.

Approved by the board of directors and signed on its behalf:



Ed Roud
Finance Director
2 March 2016

Corporate responsibility

The company has strategies, policies and initiatives which are driven from the Group's overall approach to corporate responsibility.

Running a responsible, sustainable business

Running a business responsibly is key to its long term sustainability; we recognise that the decisions we make, whether regarding the governance and strategy of our company or the planning, design and delivery of projects, have consequences. Taking sustainability into account helps us to ensure better outcomes for our customers, for the environment, for the communities we work in, and for ourselves.

We have a long and proud ethos of pursuing continuous improvement across a number of key measures: customer satisfaction, environmental performance, staff engagement, community benefit and risk management. We recognise the importance of transparency, honesty, integrity and trust in our business dealings, and the behaviours on which corporate sustainability is built are enshrined in our PRIDE values of Progress, Respect, Integrity, Drive, Excellence.

Non-financial key performance indicators which we measure are summarised below.

Better outcomes for customers

- Our overall customer satisfaction score held steady at 83%.
- We maintained ISO 9001 and ISO 14001 certification for quality management and environmental management.
- Building Information Modelling (BIM) is now standard for delivering large engineering projects, contributing to stronger performance against cost, time, carbon and safety indicators. We are BIM Level 2 capable, signifying our ability to manage information through design and construction, and hand it on to assist asset management.
- Our ongoing IT transformation ('Go digital') is making it easier for staff to collaborate and share information.
- We promote technical excellence and innovation through six Group-level internal awards schemes. Fifty external awards were won in 2015.

- We have increased the number of client engagement events we run, addressing key issues affecting the sectors we work in, advancing innovative thinking, promoting best practice and enabling knowledge transfer.

Environmental performance

Through our project work, we are involved in realising improvements across all of our core engineering disciplines.

In addition, we have acted to promote the core messages of the UK Government's Infrastructure Carbon Review (ICR), and fulfil our ICR pledges to:

- **Show industry leadership in influencing customers and partners to reduce carbon:** we held our third 'Carbon Crunch' event introducing the new specification for carbon management, PAS 2080, which we are co-writing for the British Standards Institution.
- **Champion lean solutions including BIM and offsite construction:** we are currently working on two major 'exemplar' infrastructure projects and many smaller schemes using BIM and Design for Manufacture and Assembly (DfMA). We have created a library of BIM objects and a global BIM design centre to enable the benefits of BIM working to be better realised.
- **Reduce energy use and carbon through green procurement:** overhauling heating, ventilation, air conditioning and building management controls, and installing LED lighting at Mott MacDonald House in Croydon, UK, has resulted in a 25% reduction in energy use at the Group's largest office. We are using green energy across all our large and medium-sized offices in the UK, where our tenancy agreements enable us to buy this directly. Standardising office furniture in the UK has delivered space savings, cutting our per capita office carbon emissions. This is now being discussed for implementation in overseas offices. The Carbon Trust was appointed to audit our UK property portfolio to meet compliance obligations under the Energy Savings Opportunity Scheme (ESOS). The ESOS reports will inform future facilities procurement. We have agreements with car hire firms in the UK and

Corporate responsibility

South Africa to use low emissions vehicles. These firms are also providing data on our vehicle carbon usage. Older IT equipment is gradually being replaced by lower energy use alternatives.

Our 2014 carbon footprint was 2.41tCO₂e per employee. Our data collection and methods for analysing carbon emissions are being improved year on year, which resulted in a slight upward adjustment of our emissions figure for 2013. Against this revised figure, we achieved a 3.9% per capita reduction in 2014. Our carbon management strategy and climate risk assessment were submitted to the Carbon Disclosure Project and awarded a score of 92D, well ahead of our principal competitors.

Developing talent, taking care of our people

We are continuing to roll out training to equip managers with the skills and techniques for identifying, nurturing and harnessing talent.

- We are launching Emerging Leaders – a global development initiative that will identify and accelerate the development of future senior leaders.
- We are enabling global staff mobility through practical advice and assistance, allowing our people to grow professionally by working in new environments and cultures.
- We are providing added focus on awareness and management of work-related stress, safe driving and cycling.
- Our 'Advance' network in the UK continues to actively promote equality, diversity and inclusion through its regional champions, training, awareness building and other activities.
- We are now a proud member of The 5% Club, a campaign focused on creating momentum behind the recruitment of apprentices and graduates into the UK workforce. By joining the club, we have committed to ensuring that 5% of our UK workforce are apprentices, graduates or sponsored students on structured programmes.

Contributing to our communities

- Our Community Support Programme provides financial support for up to three projects selected by our staff and on which they voluntarily

contribute technical or management expertise. Ongoing projects include construction of a grain store in Uganda, installation of solar power at a remote school in Thailand, and provision of a community centre for a scavenger community in Cambodia.

- We nurture new talent and encourage young people to consider careers in our industries:
 - Senior staff contribute to academic programmes and research at numerous universities across the globe.
 - In the UK, we sponsor two students per year through the Institution of Civil Engineers' Quest programme.
 - We provided 127 summer internships and 31 industrial placements in 2015.
 - We recruited 29 apprentices through the Engineering Technician Apprenticeships Programme in 2015, bringing the number of young people recruited as apprentices to date to 80.
 - Each year we organise work experience placements for schoolchildren, and we are working with schools and non-governmental organisations to promote science, technology, engineering and mathematics subjects. Many staff devote time to attending school careers events.
- With customers and delivery partners we seek opportunities to create local employment, improved access to jobs, better health and education, skills training and transfer, and environmental improvements.
- In 2015 we further increased use of our Transparent Economic Appraisal Model (TEAM) to measure the gross value added through infrastructure projects.

Managing risk, safety and ethics

- Our chairman is the board director responsible for promoting our culture of zero tolerance of unethical behaviour within the Group, and provides industry leadership on upholding strong ethical values.
- Our global approach to managing risks related to anti-bribery and corruption is certificated to be compliant with British Standard 10500.
- Business ethics training is a mandatory

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component of the induction process for all staff.

- All reports received through our whistle-blowing process are treated confidentially and are fully investigated and documented. The service provided by ExpoLink for the Group is confidential.
- Our country managers are selected on the basis of their local knowledge of ethical risks in-country and their ability to promote our zero tolerance approach to potential customers.
- Our 'CLASS' risk management approach has been communicated afresh to all staff.
- In terms of health and safety, 632 near misses were logged in 2015, up from 519 in 2014, while the number of accidents reported rose from 200 to 279. These figures show significant year on year improvement in awareness of health and safety issues. 159 days were lost due to 20 accidents in 2015, an improvement over 2014. There were 71 reported cases of work-related ill health resulting in 857 lost days. Action to monitor and reduce the impact of work-related ill health is a key focus for 2016.
- The Group's approach to all areas of risk management adopts many aspects of ISO 31000.
- We comply with national legislation and regulations in the countries where we deliver projects.
- We are committed to developing successful projects that generate sustainable solutions.
- Our health and safety manager was a key contributor to new UK industry guidance, is deputy chair of the Association for Consultancy & Engineering's Health and Safety Group, and led the creation of a Consultants' Health & Safety Forum in India.
- Information quality and security are supported through our integrated management system and aligned with ISO 27001, the international standard for information management.



Keith Howells
Chairman
2 March 2016

Directors' report

The directors present their report, together with the audited financial statements of the company for the year ended 31 December 2015.

Registration

Mott MacDonald Limited is a company registered in England and Wales with registered number 1243967.

Results and dividends

The profit for the year after taxation amounts to £33.3m (2014 – £27.0m, as restated for FRS 102). The directors recommended an interim dividend of £13.0m (2014 – £23.3m) and this was paid on 18 December 2015. 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 buildings, communications, education, environment, health, industry, international development, oil and gas, power, transport, urban development and water.

Directors

The following were directors of the company during the year ended 31 December 2015:

Mike Barker
Chris Davis
Kevin Dixon
Mike Haigh
Keith Howells
Guy Leonard
Ed Roud
Kevin Stovell
Richard Williams

Richard Williams resigned as a director on 31 March 2015 and Kevin Stovell resigned as a director on 27 November 2015.

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, chairman's emails, 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 very wide diversity of backgrounds.

The company wishes to ensure that no discrimination occurs, either directly or indirectly, against individuals with a disability on the grounds of that disability in relation to recruitment, promotion, training, benefits, terms and conditions of employment and dismissal. Wherever possible, reasonable adjustments will be made to either the workplace, workstation or working environment to help employees cope with disabilities.

Principal risks and uncertainties

Business risks, financial risks and factors to mitigate the risks are described in the strategic report.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report which includes the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. 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

Directors' report

unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

The directors confirm that:

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



Joanna Field
Company Secretary
2 March 2016

Independent auditor's report

to the members of Mott MacDonald Limited

We have audited the financial statements of Mott MacDonald Limited for the year ended 31 December 2015 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

Stephen Maslin
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
2 March 2016

Mott MacDonald Limited

Statement of comprehensive income for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Gross revenue	5	642,610	579,295
Cost of sales		(390,761)	(355,995)
Gross profit		251,849	223,300
Administrative expenses		(215,829)	(195,271)
Operating profit	6	36,020	28,029
Provision for impairment of investments	14	(1,785)	(392)
Income from other fixed asset investments		35	35
Fair value adjustments	14	935	1,182
Dividends received from subsidiary undertakings		–	600
Profit on ordinary activities before interest		35,205	29,454
Net interest receivable	9	7,915	9,781
Other finance cost	25	(2,400)	(2,500)
Profit on ordinary activities before taxation		40,720	36,735
Tax on profit on ordinary activities	10(a)	(7,454)	(9,690)
Profit on ordinary activities after taxation		33,266	27,045
Other comprehensive loss			
Actuarial loss on pension scheme	25	(21,300)	(23,800)
Deferred tax on actuarial loss	10(c)	3,834	4,760
Deferred tax on additional pension contributions	10(c)	(2,430)	(2,240)
Deferred tax rate change on opening pension scheme deficit	10(c)	(776)	–
Total other comprehensive loss		(20,672)	(21,280)
Total comprehensive income for the year		12,594	5,765

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

Mott MacDonald Limited

Statement of financial position

at 31 December 2015

	Notes	2015 £000	2014 £000
Fixed assets			
Intangible assets	12	142	254
Tangible assets	13	9,027	7,970
Investments	14	77,954	92,638
		87,123	100,862
Current assets			
Debtors	15	531,238	520,619
Cash at bank and in hand		44,541	35,221
		575,779	555,840
Creditors: amounts falling due within one year	16	(229,295)	(217,012)
Net current assets		346,484	338,828
Total assets less current liabilities		433,607	439,690
Creditors: amounts falling due after more than one year	17	(39,800)	(55,300)
Provisions for liabilities	20	(1,047)	(440)
Net assets excluding pension liability		392,760	383,950
Pension liability	25	(84,894)	(74,695)
Net assets including pension liability		307,866	309,255
Capital and reserves			
Called up share capital	21	10,000	10,000
Profit and loss account	22	297,866	299,255
Shareholders' equity		307,866	309,255

These financial statements were approved by the board of directors on 2 March 2016.



K J Howells
Chairman

Mott MacDonald Limited

Statement of changes in equity for the year ended 31 December 2015

	Notes	Called up share capital £000	Profit and loss account £000	Total £000
At 1 January 2014		10,000	314,270	324,270
Profit for the year	22	–	27,045	27,045
Other comprehensive loss:				
Actuarial loss on pension scheme	25	–	(23,800)	(23,800)
Deferred tax on actuarial loss	10(c), 22	–	4,760	4,760
Deferred tax on additional pension contributions	10(c), 22	–	(2,240)	(2,240)
Total other comprehensive loss for the year		–	(21,280)	(21,280)
Dividends paid	11	–	(23,255)	(23,255)
Distributions to fellow subsidiary undertakings		–	(458)	(458)
Capital contribution on conversion of investment by fellow subsidiary undertaking to a branch of the company		–	2,933	2,933
At 31 December 2014/1 January 2015		10,000	299,255	309,255
Profit for the year	22	–	33,266	33,266
Other comprehensive loss:				
Actuarial loss on pension scheme	25	–	(21,300)	(21,300)
Deferred tax on actuarial loss	10(c), 22	–	3,834	3,834
Deferred tax on additional pension contributions	10(c), 22	–	(2,430)	(2,430)
Deferred tax rate change on opening pension scheme deficit	10(c), 22	–	(776)	(776)
Total other comprehensive loss for the year		–	(20,672)	(20,672)
Dividends paid	11	–	(12,964)	(12,964)
Distributions to fellow subsidiary undertakings		–	(1,019)	(1,019)
At 31 December 2015		10,000	297,866	307,866

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

1. Company information

Mott MacDonald Limited is a company registered in England and Wales with registered number 1243967. 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.

This is the first year in which the financial statements have been prepared under FRS 102. An explanation of the transition is given in note 28.

The company has adopted the exemption from disclosing a statement of cash flows and the related notes. 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.

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. 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.

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

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:

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 and costs to completion, 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 reporting 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 asset's 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

The company from time to time receives claims in respect of professional service matters. It defends such claims where appropriate and makes provision for the possible amounts considered likely to be payable, up to the amount deductible under the company's related insurance arrangements. A different assessment of the likely outcome of each case or of the possible cost involved may result in a different provision and cost.

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.

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Notes to the financial statements

at 31 December 2015

3. Significant judgements and estimates (continued)

Investment in parent undertaking

Management determines the fair value of shares bought by employees from the Employee Trust and sold by its employees to the Employee Trust in accordance with the parent company's Articles of Association. Management uses its judgement to verify this value is a reasonable estimate of the fair value of the parent company's shares.

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 date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the company in exchange for control of the acquiree plus costs directly attributable to the business combination.

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

Goodwill

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

Intangible assets, including software licences, acquired separately from a business are capitalised at cost.

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.

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

4. Principal accounting policies (continued)

Intangible assets (continued)

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

Software licences	2 to 5 years
Goodwill	5 to 20 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.

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 funds are excluded from gross revenue. Similarly, disbursements are excluded from cost of sales.

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 revenue represents the cost appropriate to the stage of completion of each contract plus attributable profits, less amounts recognised in previous years where relevant.

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

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

4. Principal accounting policies (continued)

Gross revenue (continued)

Amounts recoverable on contracts represent the excess work done to date including attributable profit over cumulative progress payments received and receivable. Where the progress payments received and receivable exceed the value of the work done 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, which approximates to fair value.

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.

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 statement of financial position date, except as otherwise indicated.

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

4. Principal accounting policies (continued)

Deferred taxation (continued)

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 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).

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 set off 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.

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 a direct impact upon those of the company, the temporal method is used.

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

4. Principal accounting policies (continued)

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 assets' useful lives. 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.

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 in the period in which they occur. Remeasurements are not reclassified in subsequent periods.

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

4. Principal accounting policies (continued)

Derivative financial instruments

The company uses foreign exchange forward contracts to reduce exposure to foreign exchange rates.

The company also uses interest rate swaps to adjust interest rate exposures.

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

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

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

5. Gross revenue

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

Gross revenue by destination:

	2015	2014
	£000	£000
Europe and Africa	477,982	433,462
Middle East and South Asia	143,010	123,366
Asia Pacific and Australasia	14,287	15,587
Americas	7,331	6,880
	642,610	579,295

6. Operating profit

This is stated after charging/(crediting):

	2015	2014
	£000	£000
Auditor's remuneration – audit services	270	266
– non-audit services		
taxation	–	12
other	61	220
	61	232
Foreign exchange losses/(gains)	5,283	(671)
Depreciation (note 13)	4,568	3,721
Amortisation of goodwill	–	156
Amortisation of software licences (note 12)	304	310
Impairment of goodwill	–	287
Operating lease rentals – vehicles and equipment	20	27
– land and buildings	12,466	10,859

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

7. Directors' remuneration

	2015 £000	2014 £000
Emoluments (excluding pension contributions)	4,821	3,897

The emoluments (excluding pension contributions) of the highest paid director were £1,231,312 (2014 – £764,797).

During the year £138,642 (2014 – £128,729) of contributions were paid to the Group Personal Pension Plan in respect of 4 directors (2014 – 6), of which £nil related to the highest paid director. Some of the directors also have benefits under the closed defined benefit section of the Mott MacDonald Pension Scheme ('MMPS').

During the year, £471,950 (2014 – £nil) was paid to the highest paid director on taking early retirement.

8. Staff costs

	2015 £000	2014 £000
Salaries	294,897	263,867
Social security costs	25,308	24,435
Other pension costs	49,049	44,709
	369,254	333,011

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

	No.	No.
Management	472	430
Technical staff	5,038	4,790
Administrative staff	891	866
	6,401	6,086
The actual number of permanent staff at 31 December was:	6,654	6,164

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

9. Net interest receivable

	2015 £000	2014 £000
Interest receivable:		
Interest due from parent undertaking	6,439	6,352
Interest due from fellow subsidiary undertakings	3,374	4,284
Other interest	141	78
	9,954	10,714
Interest payable:		
Bank interest	(1,224)	(347)
Interest due to parent undertaking	(20)	(31)
Interest due to fellow subsidiary undertakings	(785)	(555)
Other interest	(10)	–
	(2,039)	(933)
Net interest receivable	7,915	9,781

10. Tax

(a) Tax on profit on ordinary activities

	2015 £000	2014 £000
The taxation charge is made up as follows:		
Current tax:		
UK corporation tax	550	720
Non-UK tax	846	606
Capital gains tax – Mott MacDonald Employee Trust	583	–
	1,979	1,326
Adjustments in respect of previous years:		
UK corporation tax	5,342	5,292
Non-UK tax	(723)	4,210
Capital gains tax – Mott MacDonald Employee Trust	–	(153)
Total current tax	6,598	10,675
Deferred tax:		
Origination and reversal of timing differences	(229)	(984)
Effect of decreased tax rate on opening balance	1,125	–
Adjustments in respect of previous years	(40)	(1)
Total deferred tax charge/(credit) (note 10(c))	856	(985)
Tax on profit on ordinary activities (note 10(b))	7,454	9,690

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £3,362,000 credit (2014 – £4,928,000 credit).

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

10. Tax (continued)

(b) Factors affecting tax charge for year

The tax provided for the year is lower/higher than the amount computed at the average rate of corporation tax in the UK of 20.25% (2014 – 21.50%). The differences are explained below. The average rates reflect the reductions substantively enacted on 2 July 2013 from 23% to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015.

Further reductions in UK corporation tax rates, from 20% to 19% with effect from 1 April 2017, and from 19% to 18% with effect from 1 April 2020, were substantively enacted on 18 November 2015 and these reductions have been taken into account in calculating the deferred tax assets and liabilities included in the statement of financial position.

	2015	2014
	£000	£000
Profit on ordinary activities before taxation	40,720	36,735
Profit on ordinary activities before taxation multiplied by average rate of corporation tax in the UK of 20.25% (2014 – 21.50%)	8,246	7,898
Effects of:		
Net higher tax on non-UK earnings	846	606
Non-UK branch profits	(1,041)	(899)
Adjustments in respect of previous years	4,579	9,348
Non-taxable income (UK dividends received)	–	(129)
Expenses not deductible for tax purposes	912	854
Research and development relief	(877)	(825)
Pension contribution and other items	(2,734)	(2,408)
Effect of rate change	1,230	76
Tax attributable to Mott MacDonald Employee Trust	583	–
Effect of group relief	–	(122)
Other permanent differences	(4,290)	(4,709)
Tax on profit on ordinary activities (note 10(a))	7,454	9,690

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 consolidation adjustments, including goodwill amortisation as well as 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 (2014 – £nil) that are available indefinitely for offset against future taxable profits in those countries in which the losses arose.

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

10. Tax (continued)

(c) Deferred tax

	2015 £000	2014 £000
The deferred tax included in the statement of financial position is as follows:		
Included in debtors (note 15)	19,152	19,380
The elements of deferred taxation are as follows:		
Excess of book depreciation over tax allowances on fixed assets	2,567	2,115
Other timing differences	1,305	2,326
Pension liability (note 25)	15,280	14,939
	19,152	19,380
The movement in the year was:		
At 1 January	19,380	15,875
Deferred tax (charge)/credit recognised in income (note 10(a))	(856)	985
Deferred tax credit/(charge) recognised in other comprehensive loss		
– on actuarial loss in pension scheme (note 22)	3,834	4,760
– on additional pension contributions made during the year (note 22)	(2,430)	(2,240)
– due to effect of rate change on opening balance of pension scheme (note 22)	(776)	–
At 31 December	19,152	19,380
The amount of the net reversal of deferred tax expected to occur next year is £nil (2014 – £nil).		

11. Dividends

	2015 £000	2014 £000
The following dividends were paid during the year:		
Interim dividend paid	12,964	23,255

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

12. Intangible fixed assets

2015

	Goodwill £000	Software licences £000	Total £000
Cost:			
At 1 January	2,496	785	3,281
Additions	–	192	192
At 31 December	2,496	977	3,473
Amortisation:			
At 1 January	2,496	531	3,027
Provided during the year	–	304	304
At 31 December	2,496	835	3,331
Net book value:			
At 31 December	–	142	142
At 1 January	–	254	254

13. Tangible fixed assets

2015

	Motor vehicles £000	Fixtures, fittings & equipment £000	Total £000
Cost:			
At 1 January	1,193	42,506	43,699
Exchange adjustments	29	312	341
Additions	–	5,724	5,724
Disposals	(52)	(7,126)	(7,178)
At 31 December	1,170	41,416	42,586
Depreciation:			
At 1 January	1,050	34,679	35,729
Exchange adjustments	19	293	312
Provided during the year	67	4,501	4,568
Disposals	(52)	(6,998)	(7,050)
At 31 December	1,084	32,475	33,559
Net book value:			
At 31 December	86	8,941	9,027
At 1 January	143	7,827	7,970

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

14. Investments

2015	Investment in parent undertaking at fair value £000	Investment in subsidiary undertakings at cost £000	Total £000
At 1 January	22,987	71,728	94,715
Additions	8,064	–	8,064
Disposals	(21,898)	–	(21,898)
Fair value adjustments	935	–	935
At 31 December	10,088	71,728	81,816
Amounts provided:			
At 1 January	–	2,077	2,077
Provided during the year	–	1,785	1,785
At 31 December	–	3,862	3,862
Net book value:			
At 31 December	10,088	67,866	77,954
At 1 January	22,987	69,651	92,638

The profit on disposal of shares in the parent undertaking was £nil.

The historical cost of the investment in the parent undertaking was £8,158,000 (2014 – £17,576,000).

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

14. Investments (continued)

Subsidiary undertakings

A full list of subsidiary undertakings is given below:

Subsidiary undertaking	Controlling interest		Country of incorporation/registration
	2015 %	2014 %	
Bentley Holdings Limited	100	100	England and Wales
Cambridge Education Associates Limited	100	100	England and Wales
Cambridge Education Consultants Limited	100	100	England and Wales
CCMS Software Limited	100	100	England and Wales
Courtyard Group UK Limited	100	100	England and Wales
Franklin & Andrews International Limited	100	100	England and Wales
Franklin Osprey Services Limited	100	100	England and Wales
Fulcrum First Limited	100	100	England and Wales
HLSP Limited	100	100	England and Wales
JN Bentley Limited ¹	100	100	England and Wales
MMG Consulting Limited	100	100	England and Wales
Mott MacDonald Bentley Limited ¹	100	100	England and Wales
Mott MacDonald Gas Experts Limited	100	100	England and Wales
Multi Design Consultants Limited	100	100	England and Wales
Osprey PMI Limited	100	100	England and Wales
Power Ink Limited	100	100	England and Wales
Procyon Oil & Gas Limited	100	100	England and Wales
Project Management International Limited	100	100	England and Wales

¹Investment held through subsidiary undertaking

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

15. Debtors

	2015 £000	2014 £000
Trade debtors	85,483	93,158
Amounts recoverable on contracts	86,358	60,865
Amounts owed by parent undertaking	250,000	250,000
Amounts owed by fellow subsidiary undertakings	69,835	77,501
Amounts owed by other fixed asset investments	970	953
Deferred taxation (note 10(c))	19,152	19,380
Taxation recoverable	2,782	1,339
Other debtors	3,972	3,152
Prepayments and accrued income	12,686	14,271
	531,238	520,619

Deferred taxation is recoverable after more than one year. Amounts owed by parent undertaking and fellow subsidiary undertakings will not be called up at short notice.

16. Creditors: amounts falling due within one year

	2015 £000	2014 £000
Payments on account	85,438	83,161
Amounts due to parent undertaking	10,935	13,260
Amounts due to fellow subsidiary undertakings	26,885	25,927
Amounts due to other fixed asset investments	27	27
Trade creditors	11,170	9,065
Current UK corporation tax	583	1,458
Non-UK taxation	5,008	5,819
Other taxes	4,783	4,961
Social security	6,397	5,993
Other creditors	6,955	6,529
Accruals	71,114	60,812
	229,295	217,012

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

	2015 £000	2014 £000
Unsecured bank loans (note 18)	39,800	55,300

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

18. Loans

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

	2015 £000	2014 £000
Wholly repayable within five years (note 17)	39,800	55,300

The £39.8m loan relates to amounts drawn down on the committed secured revolving credit facility which is in place until June 2018 and bears 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	
	2015 £000	2014 £000	2015 £000	2014 £000
Amounts payable:				
Within one year	11,825	9,488	12	18
In two to five years	39,619	28,474	6	10
Over five years	53,169	21,471	–	–
	104,613	59,433	18	28

20. Provisions for liabilities

Provision for losses on contracts	2015 £000
At 1 January	440
Exchange adjustments	8
Arising during the year	884
Utilised	(285)
At 31 December	1,047

21. Share capital

	2015 No.	2014 No.	2015 £000	2014 £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

Mott MacDonald Limited

Notes to the financial statements

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22. Reserves

Profit and loss account

	Excluding pension deficit £000	2015 Pension deficit £000	Including pension deficit £000	2014 Including pension deficit £000
At 1 January	358,233	(58,978)	299,255	314,270
Profit on ordinary activities after taxation	33,266	–	33,266	27,045
Dividends (note 11)	(12,964)	–	(12,964)	(23,255)
Distributions to fellow subsidiary undertakings	(1,019)	–	(1,019)	(458)
Transfer in respect of additional pension contribution (net of deferred tax)	(11,070)	11,070	–	–
Deferred tax on additional pension contributions (note 10(c))	(2,430)	–	(2,430)	(2,240)
Actuarial loss on pension scheme (note 25)	–	(21,300)	(21,300)	(23,800)
Deferred tax on actuarial loss (note 10(c))	–	3,834	3,834	4,760
Deferred tax rate change (note 10(c))	–	(776)	(776)	–
Other finance cost (net of deferred tax)	2,686	(2,686)	–	–
Capital contribution on conversion of investment by fellow subsidiary undertaking to a branch of the company	–	–	–	2,933
At 31 December	366,702	(68,836)	297,866	299,255

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 £68,836,000 above differs from the pension liability in the statement of financial position of £84,894,000. This difference relates to the deferred tax asset of £15,280,000 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.

Mott MacDonald Limited

Notes to the financial statements

at 31 December 2015

24. Contingent liabilities

	2015 £000	2014 £000
Guarantee of bank loans and overdrafts in respect of other group companies	5,088	4,810

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.

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 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 ('the Stakeholder Scheme'), a contract based scheme. From 1 April 2011, all Stakeholder members were transferred to the Group Personal Pension Plan ('GPP') and new employees are now automatically enrolled into the GPP. The minimum GPP employee contribution level is 4.5%.

From 1 January 2012, all defined contribution members were transferred to the GPP. Contribution structures in MMPS have 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.

The company contributes to the GPP 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 are not in the GPP will be contractually enrolled in May 2016. Total pension costs for the GPP were £30.4m (2014 – £28.5m).

Costs to the remaining defined benefit section of MMPS were £14.7m (2014 – £12.4m). These costs include both administrative expenses relating to MMPS and an instalment of £13.5m to reduce the deficit. Members' pensions were increased during the year according to the rules of MMPS.

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

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25. Pensions and other retirement benefits (continued)

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

Date of valuation	1 January 2015
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 decreasing from 2.40% p.a. to 0.45% p.a. linearly over the period from 1 January 2015 to 1 January 2024, and an outperformance allowance of 0.45% p.a. thereafter.

At the last actuarial valuation on 1 January 2015, the market value of assets was £519m and the level of funding based on market value of assets was 81%. 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 2015 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 2015 minimum contributions of £13.5m were paid to MMPS. Under the current funding plan these will be £14.0m in 2016, £14.5m in 2017 and are then predicted to increase at 3.9% per annum.

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 2015 the level of security in place was £35m 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.

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25. Pensions and other retirement benefits (continued)

The assets and liabilities of MMPS as at 31 December are analysed below:

	2015 £m	2014 £m
Change in defined benefit obligation		
Defined benefit obligation at 1 January	(593.3)	(530.7)
Interest cost	(20.8)	(23.8)
Actuarial losses	(6.2)	(64.9)
Benefits paid	28.1	26.1
Defined benefit obligation at 31 December	(592.2)	(593.3)
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	(592.2)	(593.3)
Change in plan assets		
Fair value of plan assets at 1 January	518.6	471.1
Interest income on MMPS assets	18.4	21.3
Actuarial (losses)/gains on MMPS assets	(15.1)	41.1
Employer contributions	13.5	11.2
Benefits paid	(28.1)	(26.1)
Fair value of plan assets at 31 December	507.3	518.6
Pension liability (excluding deferred tax)	(84.9)	(74.7)
Deferred tax asset included within debtors (note 10(c))	15.3	14.9

Components of pension (cost)/income

Year to 31 December	2015 £m	2014 £m
Interest cost	(20.8)	(23.8)
Interest income on MMPS assets	18.4	21.3
Net interest cost recognised in other finance cost in the statement of comprehensive income	(2.4)	(2.5)
Actuarial losses on MMPS liabilities	(6.2)	(64.9)
Actuarial (losses)/gains on MMPS assets	(15.1)	41.1
Actuarial losses recognised in other comprehensive loss	(21.3)	(23.8)

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25. Pensions and other retirement benefits (continued)

Plan assets

The weighted average asset allocation at the year end was as follows:

	2015 %	2014 %
Asset category		
Diversified growth funds	40	39
Equities	29	29
Corporate bonds	20	21
Liability driven investment	10	10
Cash and other	1	1
	100	100

Actual return on plan assets

Year to 31 December	2015 £m	2014 £m
Interest income on MMPS assets	18.4	21.3
Actuarial (losses)/gains on MMPS assets	(15.1)	41.1
Actual return on plan assets	3.3	62.4

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

	2015 %	2014 %
Discount rate for scheme liabilities	3.8	3.6
RPI inflation	3.0	3.0
CPI inflation	1.9	1.9
Pension increases (inflationary increases with a maximum of 5% p.a.)	1.9	1.9
Salary increases	n/a	n/a

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

	2015		2014	
	Male Years	Female Years	Male Years	Female Years
Member age 60 (current life expectancy)	28.7	30.1	28.7	30.0
Member age 40 (life expectancy at age 60)	30.1	30.6	30.6	32.0

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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 £6,503,000 (2014 – £6,807,000) to non-wholly owned fellow subsidiary undertakings and purchases of £213,000 (2014 – £645,000) from non-wholly owned fellow subsidiary undertakings. The net balance due from non-wholly owned subsidiary undertakings at 31 December 2015 was £3,995,000 (2014 – £7,449,000).

27. Financial assets and liabilities

	2015 £000	2014 £000
Financial assets at fair value through profit or loss		
Investment in parent undertaking (note 14)	10,088	22,987
Financial assets that are equity instruments measured at cost less impairment		
Investments in subsidiary undertakings (note 14)	67,866	69,651
Financial assets that are debt instruments measured at amortised cost¹		
Trade debtors (note 15)	85,483	93,158
Amounts owed by parent undertaking (note 15)	250,000	250,000
Amounts owed by fellow subsidiary undertakings (note 15)	69,835	77,501
Amounts owed by other fixed asset investments (note 15)	970	953
Other debtors (note 15)	3,972	3,152
Financial liabilities measured at amortised cost¹		
Loans (note 18)	39,800	55,300
Trade creditors (note 16)	11,170	9,065
Amounts due to parent undertaking (note 16)	10,935	13,260
Amounts due to fellow subsidiary undertakings (note 16)	26,885	25,927
Amounts due to other fixed asset investments (note 16)	27	27
Other creditors (note 16)	6,955	6,529

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).

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28. Transition to FRS 102

The company transitioned to FRS 102 from previously extant UK GAAP as at 1 January 2014. The impact from the transition to FRS 102 is as follows:

(a) Reconciliation of equity

Reconciliation of equity at 1 January 2014

	£000
Equity shareholders' funds at 1 January 2014 under previous UK GAAP	327,016
Leave provision	(2,824)
Intercompany adjustments	(8,169)
Financial instruments	8,247
Shareholders' equity at 1 January 2014 under FRS 102	<u>324,270</u>

Reconciliation of equity at 31 December 2014

	£000
Equity shareholders' funds at 31 December 2014 under previous UK GAAP	313,971
Leave provision	(2,785)
Intercompany adjustments	(7,299)
Financial instruments	5,411
Lease incentives	(43)
Shareholders' equity at 31 December 2014 under FRS 102	<u>309,255</u>

The following were changes in accounting policies arising from the transition to FRS 102:

Leave accrual

Under previous UK GAAP, the company did not accrue for holiday pay that was earned but the holiday entitlement was expected to be taken in the subsequent financial year. Under FRS 102, the company is required to provide for all short-term compensated absences as holiday entitlement earned but not taken at the date of the statement of financial position. The impact is to increase accruals by £2,824,000 and £2,785,000 for the company at 1 January 2014 and 31 December 2014 respectively and reduce shareholders' equity by the same amounts.

Intercompany adjustments

Under FRS 102, the company is required to measure intercompany balances with other group entities at amortised cost, which is broadly equivalent to fair value. This has resulted in reductions to intercompany debtors of £8,169,000 and £7,299,000 at 1 January 2014 and 31 December 2014 respectively, with the corresponding reduction in shareholders' equity being recognised as a distribution.

Financial instruments

Under previous UK GAAP, the company accounted for the investment in shares in the parent undertaking at cost less impairment. FRS 102 requires that this investment be measured at fair value through profit or loss. As a result, the impact is to increase the value of investment by £8,247,000 and £5,411,000 at 1 January 2014 and 31 December 2014 respectively, with corresponding increases in reserves.

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Notes to the financial statements

at 31 December 2015

28. Transition to FRS 102 (continued)

(a) Reconciliation of equity (continued)

Lease incentives

Under previous UK GAAP, lease incentives were amortised over the period up until the first break clause of the lease. FRS 102 requires that lease incentives be amortised over the entire lease term. The impact of transition is to increase lease expense by £43,000 as a result of applying the change to leases entered into during 2014.

(b) Reconciliation of profit and loss for the year ended 31 December 2014

	£000
Profit for the year ended 31 December 2014 under previous UK GAAP	34,877
Decrease in leave accrual (net of tax)	39
Lease incentives	(43)
Defined benefit pension scheme (net of deferred tax)	(6,320)
Intercompany adjustments	1,328
Financial instruments	(2,836)
Profit for the year ended 31 December 2014 under FRS 102	27,045

The following were changes in accounting policies arising from the transition to FRS 102:

Leave accrual

As a result of the requirement to accrue for holiday that was earned but not taken at the date of the statement of financial position, there is a credit (net of tax) of £39,000 to the statement of comprehensive income for the year ended 31 December 2014, recognising the decrease in the holiday pay accrual during the year.

Lease incentives

Under previous UK GAAP, lease incentives were amortised over the period up until the first break clause of the lease. FRS 102 requires that lease incentives be amortised over the entire lease term. The impact of transition is to increase lease expense by £43,000 as a result of applying the change to leases entered into during 2014.

Defined benefit pension scheme

Under FRS 102, there is a presentation change whereby net interest on the net defined benefit pension liability is presented in the statement of comprehensive income using the liability discount rate. Under previous UK GAAP the interest on the expected return on net assets was calculated using an expected asset return discount rate. This had no impact on shareholders' equity on transition but affects the allocation of interest between income and other comprehensive income. Profit is reduced by £6,320,000, but other comprehensive income is increased by £6,320,000 (net of deferred tax).

Intercompany adjustments

Under FRS 102, the company is required to measure intercompany balances with other group entities at amortised cost, which is broadly equivalent to fair value. This has resulted in an increase in profit of £1,328,000 for the year ended 31 December 2014, due to reductions in balances outstanding with a number of fellow subsidiary undertakings during 2014.

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Notes to the financial statements

at 31 December 2015

28. Transition to FRS 102 (continued)

(b) Reconciliation of profit and loss for the year ended 31 December 2014 (continued)

Financial instruments

As a result of accounting for the investment in the parent undertaking at fair value, there is a reduction in profit of £4,018,000 relating to the profit on disposal of shares under the historical cost measurement. This is partly offset by an increase of £1,182,000, being the revaluation amount under the fair value measurement. This results in a net decrease in profit of £2,836,000.

(c) Transitional relief

On transition to FRS 102 from previous UK GAAP, the company has taken advantage of transitional relief as follows:

Investment in subsidiaries

The company has elected to treat the carrying amount of investments in subsidiaries under previous UK GAAP at the date of transition as deemed cost on transition to FRS 102.

Lease incentives

The company has not applied paragraphs 20.15A or 20.25A to lease incentives where the lease commenced before the date of transition to FRS 102. It has continued to recognise any residual benefit or cost associated with these lease incentives on the same basis that applied prior to transition to FRS 102.

Statement of cash flows

The company has applied the reduced disclosure framework permitted by Section 1.8 of FRS 102, and does not present a statement of cash flows.

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Five year summary

Years ended 31 December	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Gross revenue	642,610	579,295	547,402	526,942	531,425
Operating profit	36,020	28,029	12,433	18,395	9,396
Provision for impairment of investments	(1,785)	(392)	(521)	(1,525)	–
Income from other fixed asset investments	35	35	35	39	61
Profit from disposal of investments	–	–	7,010	10,769	–
Fair value adjustments	935	1,182	–	–	–
Dividends received from subsidiary undertakings	–	600	521	1,200	–
Profit on ordinary activities before interest	35,205	29,454	19,478	28,878	9,457
Net interest receivable	7,915	9,781	302	149	387
Other finance (cost)/income	(2,400)	(2,500)	2,800	3,000	2,900
Profit on ordinary activities before taxation	40,720	36,735	22,580	32,027	12,744
Tax on profit on ordinary activities	(7,454)	(9,690)	(5,831)	(5,481)	(2,888)
Profit on ordinary activities after taxation	33,266	27,045	16,749	26,546	9,856
Dividends	(12,964)	(23,255)	(12,686)	–	–
Distributions to fellow subsidiary undertakings	(1,019)	(458)	–	–	–
Retained profit	19,283	3,332	4,063	26,546	9,856

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Five year summary (continued)

Years ended 31 December	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Employment of capital					
Fixed assets	87,123	100,862	49,145	61,703	19,124
Net current assets less provisions	345,437	338,388	324,872	328,697	302,291
Excluding pension liability	432,560	439,250	374,017	390,400	321,415
Pension liability (excluding deferred tax)	(84,894)	(74,695)	(47,001)	(70,401)	(46,201)
Including pension liability	347,666	364,555	327,016	319,999	275,214
Capital employed					
Creditors falling due after more than one year	39,800	55,300	–	312	–
Capital and reserves excluding pension liability	392,760	383,950	374,017	390,088	321,415
Excluding pension liability	432,560	439,250	374,017	390,400	321,415
Pension liability (excluding deferred tax)	(84,894)	(74,695)	(47,001)	(70,401)	(46,201)
Including pension liability	347,666	364,555	327,016	319,999	275,214
Net funds/(debt)					
Cash at bank and in hand	44,541	35,221	27,681	28,584	30,551
Bank loans	(39,800)	(55,300)	(5,500)	(5,500)	–
	4,741	(20,079)	22,181	23,084	30,551

The years 2013 and earlier are stated under previously extant UK GAAP. However, pension liability has been shown gross of deferred tax for those years for comparability purposes with 2014 and 2015 which have been reported under FRS 102.

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